



**2016**  
ANNUAL  
REPORT

Full corporate name in the Russian language: Публичное акционерное общество «Транснефть».

Abbreviated corporate name in the Russian language: ПАО «Транснефть».

The former name in the Russian language is Открытое акционерное общество «Акционерная компания по транспорту нефти «Транснефть» (ОАО «АК «Транснефть»). The decision to change the name of the Company was adopted on June 30, 2016 in approving the new version of the Articles of Association (Order of the Federal Agency for State Property Management No. 520-r), the entry into the Unified State Register of Legal Entities was made on July 21, 2016.

Full corporate name of the Company in the English language: Public Joint Stock Company "Transneft".

Abbreviated corporate name of the Company in the English language: Transneft.

Transneft was registered by the Moscow Registration Chamber on August 26, 1993, under No. 026.800 (Certificate of state registration series LA No. 009851). Information on the state registration of Transneft was entered into the Unified State Register of Legal Entities by the Department of Russia's Ministry for Taxes and Levies for Moscow on July 24, 2002 under

primary state registration number (OGRN) 1027700049486 (certificate of entry into the Unified State Register of Legal Entities on the legal entity registered before July 1, 2002, Series 77 No. 007893052).

It is registered in the Russian Federation in the federal city of Moscow. Location: Moscow, Russia.

**Address:** 57 Bolshaya Polyanka, Moscow, 119180.

**Contact telephone:** (495) 950-81-78.  
**Fax:** (495) 950-89-00.

**Website:** <http://www.transneft.ru>.  
**Email:** [transneft@ak.transneft.ru](mailto:transneft@ak.transneft.ru).

As of December 31, 2016, the number of employees on the payroll of Transneft is 1,298.

In the present Annual report the terms Transneft, the Company refer to the Public Joint Stock Company "Transneft". The terms Transneft, Transneft Group, the Group refer to:

- Transneft and legal entities that comprise Transneft subsidiaries in accordance with the Articles of Association of Transneft in describing business activities and production results;
- Transneft and its subsidiaries defined in accordance with the International Financial Reporting Standards (IFRS) in describing the financial results.

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# GENERAL INFORMATION



Largest pipeline company in the world



Natural monopoly



Controlled by the state and is included in the List of Enterprises and Joint Stock Companies of Strategic Importance.

Main activity:

organizing and carrying out transportation of oil and petroleum products through the system of trunk pipelines in the Russian Federation.



About

**69** thousand km

of trunk pipelines

Over

**500**

of pump stations

About

**23** MCM

of storage tanks

Transportation

**85%**

of the oil produced in Russia

## COMPETITIVE ADVANTAGES

- Monopoly on the oil pipeline market.
- Low operating costs in relation to the total transported oil compared to rail and water transport.
- Tariffs for oil pumping are significantly lower than those in the CIS and European countries.

## DEVELOPMENT PROSPECTS

The Company's strategic objective is to develop and modernize the Russian trunk pipeline system in order to saturate both domestic and export markets with oil and petroleum products transported via pipelines.

In 2016, we completed the implementation of the following investment projects:

- Construction of the Zapolyarye–Purpe trunk oil pipeline;
- Construction of the Kuyumba–

Tayshet trunk oil pipeline;

- Development of the trunk pipeline system to increase the supply of petroleum products to the port of Primorsk to 15 million tons per year (the Sever (North) Project);
- Reconstruction of the approach dam of the specialized sea oil-loading port of Kozmino in order to ensure the approach of tankers with a deadweight of 150,000 tons.

## Investment in infrastructure

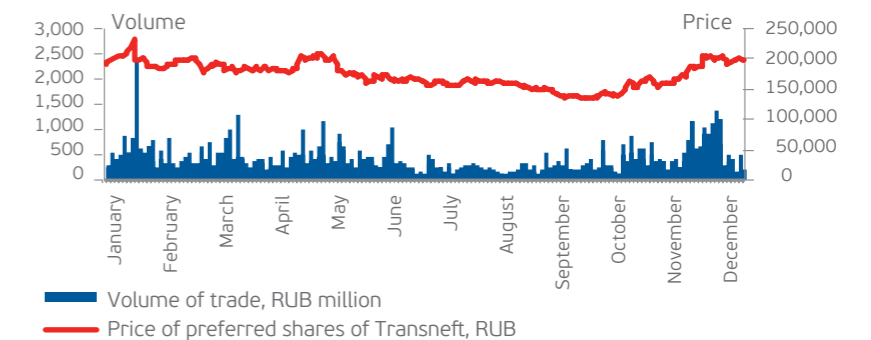
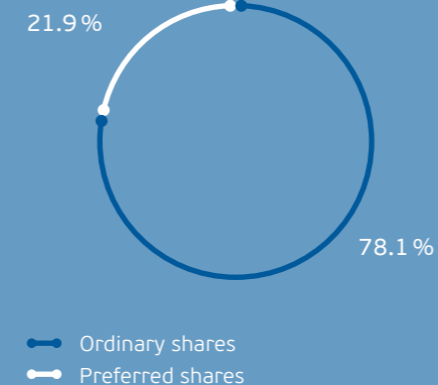
Period	Investment projects, RUB billion	Technical re-equipment and renovation, RUB billion
2016	154.4	183.1
2017–2021	297.8	861.8

## INFORMATION FOR SHAREHOLDERS

- The authorized capital is divided into ordinary and preferred shares.
- The Company's preferred shares (1,554,875) are listed on the Moscow Exchange.
- 100% of the Company's ordinary shares (5,546,847) are owned by the Russian Federation<sup>1</sup>.

Ticker	TRNFP
Price of the preferred shares as of December 31, 2016, RUB	197.950

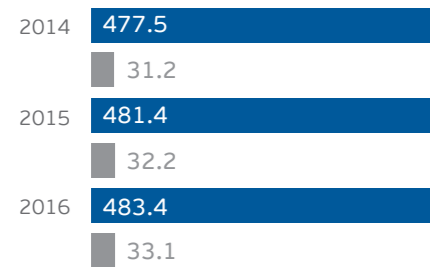
## Authorized capital, %



1. In February 2017, 21,901 additionally issued shares were placed.

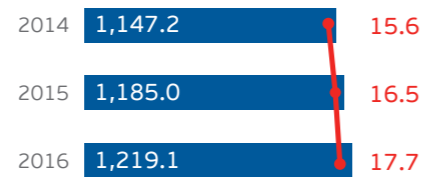
# KEY INDICATORS

## Transportation of oil and petroleum products



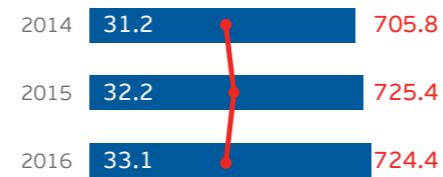
- Oil delivery to consignees, million tons
- Petroleum products delivery to consignees, million tons

## Oil freight turnover



- Oil freight turnover, billion tkm
- Per unit costs per 100 tkm, RUB

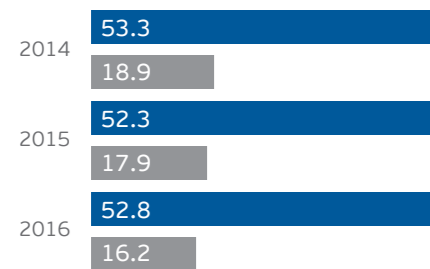
## Transportation of petroleum products



- Volume of petroleum products transported, million tons
- Per unit operating expenses for the transport of petroleum products\*, RUB/ton

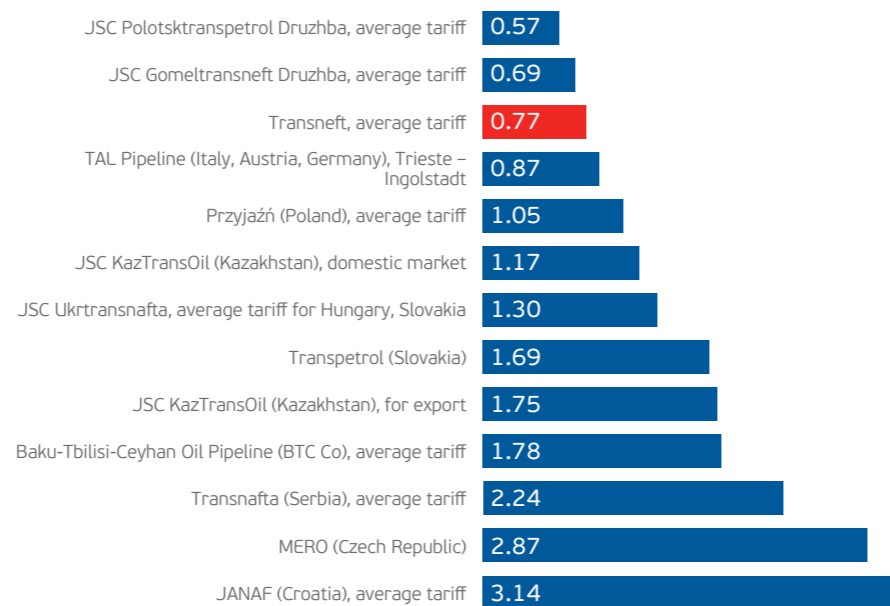
\* For the period of 2014–2015 the expenses are discounted to 2016 (inflation only)

## Core assets



- Length of trunk oil pipelines, thousand km
- Length of trunk petroleum products pipelines, thousand km

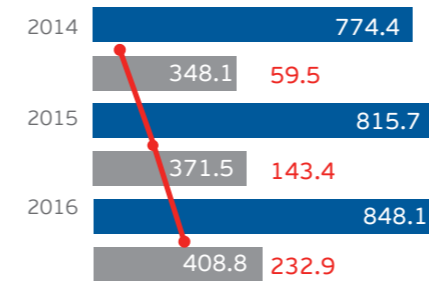
## Transneft tariff for oil pumping compared to similar tariffs in the CIS and Europe based on 2016, USD per 100 tkm



₽ 37.3 billion

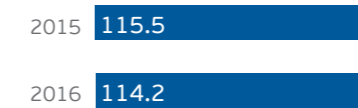
EBITDA growth in 2016

## Revenue, EBITDA and net profit under IFRS, RUB billion



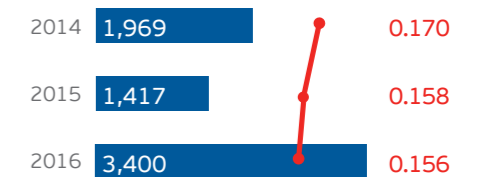
- Revenue
- EBITDA
- Net profit

## Number of employees



- Average number of employees on the payroll of Transneft subsidiaries, thousand people

## Environmental protection



- Investment in environmental protection, RUB million
- Specific emissions of pollutants into the atmosphere, kg/ton



# ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



**Alexander  
NOVAK**

Chairman of the Board of Directors  
of Transneft

## DEAR SHAREHOLDERS,

The most significant outcome of Transneft's activities in 2016 was the completion of large-scale investment projects and the sustained growth of the Company's main production and economic indicators.

## PROJECTS IMPLEMENTED

The construction of the Zapolyarye-Purpe and Kuyumba-Tayshet trunk oil pipelines (8.6 million tons per annum) was completed as scheduled. The activities were implemented to develop the trunk pipeline system in order to increase the supply of petroleum products to the port of Primorsk to 15 million tons per annum (the Sever Project), and the reconstruction of the facilities at the specialized sea oil-loading port of Kozmino was completed as scheduled.

The Company's work is of great strategic importance and is unique in technical terms. Due to the commissioning of new pipeline capacities, active development of prospective oil and gas fields in Western and Eastern Siberia has begun, and Russian producers have been given additional opportunities to diversify the transportation directions of raw materials. Advanced domestic technologies have facilitated the construction of thousands of kilometers of trunk pipelines, alongside with dozens of residential and power facilities in inaccessible and sparsely populated areas of the country. This has created new jobs and contributed to the dy-

namic development of the socio-economic infrastructure.

## RESULTS ACHIEVED

In 2016, the Company successfully achieved the production and financial goals set by the Board of Directors. The Group's revenues grew by 4.0% and the operating expenses decreased by 0.6%. As a result, the EBITDA increased by 10.0%. The labor productivity increased by 5.6%. The reliability of the piping system increased. The share of domestic equipment purchased by Transneft subsidiaries increased by 0.6% in 2016 as compared with 2015, amounting to 91.6%.

## SUSTAINABLE DEVELOPMENT

In the reporting year, Transneft consistently implemented the decrees of the President of the Russian Federation, as well as the instructions, recommendations and directives of the Russian Government. The Energy Saving Program and the Plan to reduce specific emissions have been fully implemented. The industrial injuries rate is lower than the rate specified in Transneft's Strategy.

The Board of Directors approved the Innovative Development Program for the period up to 2021, which enhances the role of innovation in achieving the Company's strategic objectives, and aims to increase production and eco-efficiency, reduce costs and increase labor productivity.

## CORPORATE GOVERNANCE

As part of improving of the corporate governance principles, the Company's Dividend Policy has been approved. This Policy ensures the transparency of the procedure for determining dividends, unconditional fulfilment of the Company's basic objectives, enhancing its investment attractiveness and financial sustainability. In accordance with the Action Plan (the "road map") approved by the Board of Directors, we continue to work on improving corporate governance in line with the rules of the Corporate Governance Code recommended by the Bank of Russia for joint stock companies.

## STRATEGIC DEVELOPMENT

The capacity of the trunk pipeline system will be increased over the next few years. The capacity of the Eastern Siberia – Pacific Ocean (ESPO) Pipeline System is being increased in all areas. This will enable Russian producers to increase oil exports to countries in the Asia-Pacific Region. The Sever (North) and Yug (South) projects are being implemented. They will open up additional export routes for the increasing volume of Russian oil refineries' light petroleum products through the ports of the Baltic Sea and Novorossiysk. The reconstruction of the trunk pipeline system in the Volga and Central Federal Districts will increase the supply of petroleum products, reduce the load on the transport hub and improve the environmental situation in the Moscow Region.

Dear shareholders,  
The achievements made in 2016 enabled Transneft to maintain and foster its stand as a Russian major pipeline company in the domestic and international fuel and energy industry. The proficiency and cohesion of the Company's team ensure its further effective development and achievement of goals, as well as safeguarding of the long-term strategic interests of the Russian Federation.

# ADDRESS OF THE PRESIDENT



**Nikolay  
TOKAREV**

Chairman of the Management Board,  
the President of Transneft

## DEAR SHAREHOLDERS,

The year 2016 is a significant year in the history of Transneft and the Russian oil industry as a whole. The Company completed the construction of two strategically important trunk pipelines, the Kuyumba-Tayshet and Zapolyarye-Purpe oil pipeline systems. The history of their creation has become a feat of labor, engineering and technological innovation.

The indicators achieved by Transneft in the commodity and transport sector show positive dynamics. Transneft fully implemented the plan for the transportation volumes of oil and petroleum products both to the domestic market and for exports.

Compared to 2015, the oil freight turnover increased by 2.9%, the volume of oil delivery to consignees increased by 0.4%, oil exports to Russia's neighboring countries and countries further afield increased by 3.6%. Successful solution of problems related to oil and petroleum products transportation, together with lower operating expenses, has had a positive impact on the financial position of the Company and its subsidiaries. The revenues of Transneft Group grew by 4.0% in 2016 and reached RUB 848.1 billion, and the EBITDA increased by 10.0% and amounted to a record RUB 408.8 billion.

Over the past year, the Company has worked consistently to achieve the goals for the development, recon-

struction and modernization of its transport facilities.

As part of the implementation of Transneft's Development Program, in 2016, 1,702 new construction facilities, technical re-equipment and reconstruction facilities, including 2,817 km of trunk pipelines, were put into operation (1,329 km – new construction, 1,488 km – technical re-equipment and reconstruction). 471 km of pipelines to be put into operation in 2017 were connected. 525 km of trunk oil pipelines were switched to pumping petroleum products. 8 new oil pumping stations, 14 facilities within the system for measuring the oil quantity and quality indicators and 19 items of technical security equipment were also put into operation.

The company has successfully implemented measures for developing Russian petroleum product pipeline transport. Transneft's employees, in strict accordance with the schedule, have been working to expand the capacity of the Sever Project to increase the export of diesel fuel through the port of Primorsk. New facilities of the Yug Project have been built. The objective of the project is to supply diesel fuel via pipelines to the domestic market of the Russian Federation and to export to the countries of Europe through the port of Novorossiysk.

In the past year, Transneft launched a project to increase the supply

of fuel by pipelines to the Moscow Region. The objective is to increase the transportation of light petroleum products and to expand the petrol mix for consumers in the region.

In 2016, all of the main goals set by the Board of Directors in the areas of reliability, environmental and industrial safety of the trunk pipeline system, efficiency of operating, investment and innovation activities were met. Emissions of pollutants into the atmosphere decreased by 295 tons, the specific consumption of electricity for oil transportation decreased by 1.73%, the labor productivity increased by 3.6%, and financing for innovation amounted to 1.4% of the revenues.

Significant progress has been made in the area of import substitution and localization of production in the Russian Federation. In cooperation with Italian partners, a plant for the production of pumping equipment has been built and put into operation in Chelyabinsk, and the construction of the motors factory is underway.

In 2017, the Company has the challenge of increasing its productive and financial efficiency, which, given the increased commodity transport work, should further increase the financial results. The Company's team should implement new plans in the areas of reliability, security and ecology, and innovative development.

I am confident that meeting the intended objectives of Transneft will

continue to have a significant impact on the Company for its shareholders. Our team of professionals will carry out all tasks entrusted to them, and ensure the reliability and the development of pipeline transport.

# KEY EVENTS

## 8.4%

share of imports



Transneft closed a transaction for the purchase of 50% of Novorossiysk Fuel Oil Terminal, LLC (NFT LLC) from Gunvor trader. The other 50% belongs to NCSP Group (Novorossiysk Commercial Sea Port), where Transneft Group owns 35.57%. Given the ownership structure and decision-making on key business issues, the investment is classified as a joint venture. NFT LLC is an oil terminal operating in Novorossiysk, with a maximum throughput capacity of 4 million tons/year.



The plant for production of pumping equipment was built in cooperation with Italian partners and became operational in Chelyabinsk. The plant creates a full cycle of production of trunk and booster oil pumps in Russia. The construction of the motors factory, which is an important link in the localization of technological equipment production in Russia, has also begun. In 2016, fundamental progress was made in the area of import substitution and localization of production in the Russian Federation. The share of imports decreased by 1.6 percentage points to 8.4% as compared to 2014.

## Transneft became a public joint stock company

Following the changes in the Civil Code of the Russian Federation, the Company's Annual General Meeting of Shareholders decided to amend the Articles of Association. The Company became a public joint stock company.

100 million tons of oil have been pumped since the beginning of the operation of the ESPO-II trunk oil pipeline. The trunk pipeline connects the fields in Eastern and Western Siberia with the specialized sea oil-loading port of Kozmino in Primorsky Krai. In 2020, the capacity of the system will reach 50 million tons/year.

The approach dam revamping accompanied by dredging work in the area of water of Berth No. 2 at the port of Kozmino was completed. The approach dam that has been put into operation ensures access for tankers with a deadweight of up to 150,000 tons. On February 5, 2017, Nordic Freedom tanker moored to the berth to load ESPO oil batches of 140,000 tons.



The sixth meeting of the International Association of Oil Transporters (IAOT) was held in Budapest. The final chord of the Prague Club meeting was the signing by the President of the Company Nikolay Tokarev and the managing director of JSC MOL Sándor Fasimon of a new cooperation agreement that covers both technical and organizational issues of accounting and documenting of oil transported to Hungary from the Russian Federation.

The facilities for the first phase of an investment project to increase the supply of petroleum products to the port of Primorsk to 15 million tons/year (the Sever Project) were put into operation. This will help to achieve two global public objectives: to increase the diesel-fuel exports by pipelines and to improve fuel supply for several regions of the country. The Company is currently implementing the second phase of the Sever Project to increase the supply of petroleum products to the port of Primorsk to 25 million tons/year.

## 15 million tons/year

expected supply of petroleum products to the port of Primorsk during the first phase of the Sever project

## 32 million tons/year

capacity of the Zapolyarye-Purpe pipeline system

The Zapolyarye-Purpe and Kuyumba-Tayshet trunk pipelines were put into operation. The objectives of the projects are to ensure that new oilfields in the Yamalo-Nenets Autonomous District and the Krasnoyarsky Krai are admitted to the trunk pipeline system. The Zapolyarye-Purpe pipeline system has a length of 485 km and throughput capacity of 32 million tons/year. The length of the Kuyumba-Tayshet trunk oil pipeline is 700 km, the throughput capacity is 8.6 million tons/year.



The Regulations on Dividend Policy were approved, according to which up to 25% of the Group's normalized profits under IFRS will be allocated for the dividends of all share categories. However, specific size of the share dividend will be determined by the Board of Directors in accordance with the directives of the Government of the Russian Federation. In 2016, Transneft allocated RUB 12.8 billion (100% of its net profit) for dividends for 2015. As of December 31, 2016, the Company has no dividend tax liabilities.

FEBRUARY

APRIL

JUNE

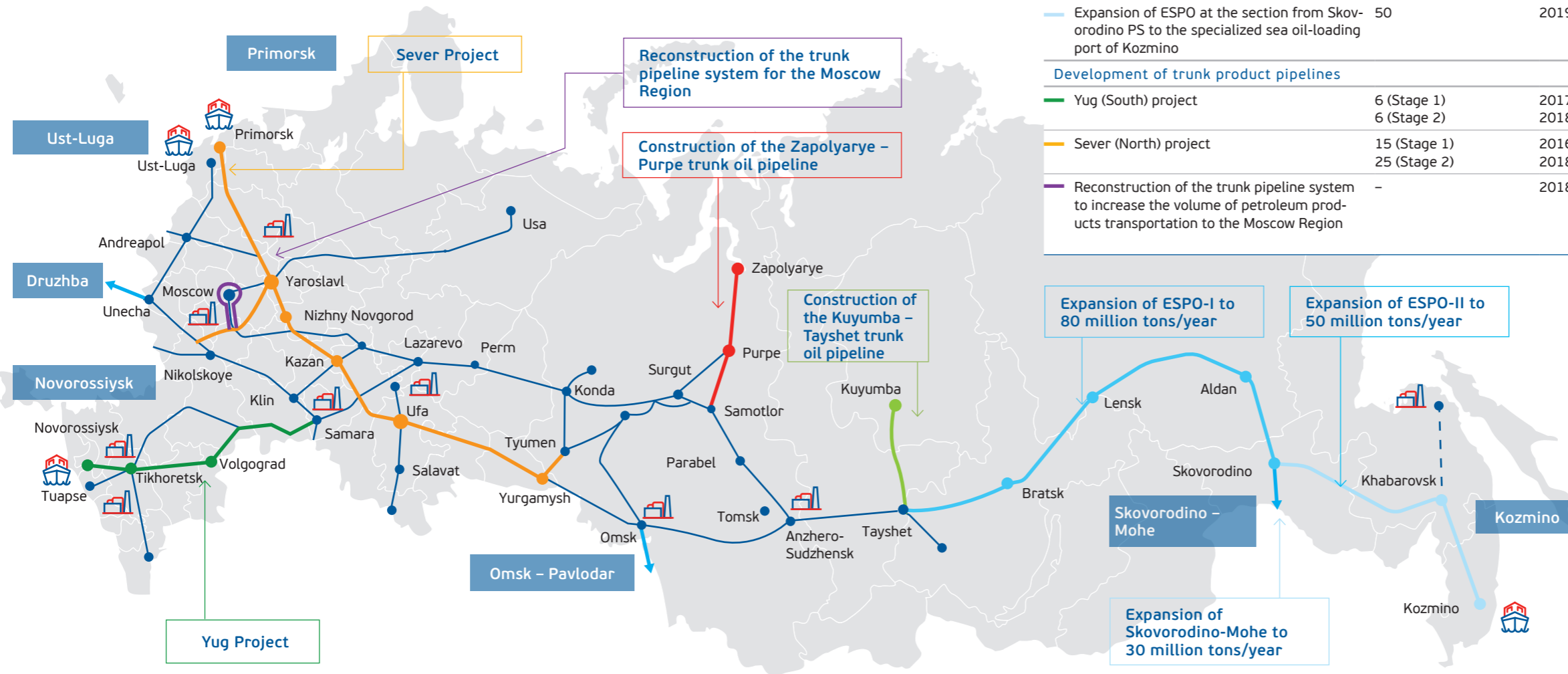
OCTOBER

NOVEMBER

DECEMBER

# GEOGRAPHICAL FOOTPRINT

Transneft operates 53,000 km of trunk oil pipelines and 16,000 km of trunk petroleum products pipelines. The Company transports 85% of oil and 26% of petroleum products produced in Russia and considerable volumes of hydrocarbons and petroleum products of the CIS countries. The Company's oil pipelines connect the largest Russian oilfields with refineries and export markets in Europe and Asia directly and through sea ports.



## Export routes

Directon	Transportation in 2016, million tons
Port of Primorsk	50.6
Port of Ust-Luga	30.1
Druzhba Oil Pipeline	69.0
Port of Novorossiysk	30.4
Port of Kozmino	31.8
Skovorodino - Mohe Oil Pipeline	16.5
Omsk - Pavlodar Oil Pipeline	7.6

## Major investment projects

	Throughput capacity, million tons per year	Project completion
<b>Development of trunk oil pipelines</b>		
Construction of the Zapolyarye - Purpe trunk oil pipeline	32 (suitable for increase to 45)	2016
Construction of the Kuyumba - Tayshet trunk oil pipeline	8.6 (Stage 1) 15 (Stage 2)	2016 2023
Expansion of throughput capacity of the Skovorodino - Mohe oil pipeline	30	2017
Expansion of ESPO at the section from Tayshet IPS to Skovorodino PS	80	2020
Expansion of ESPO at the section from Skovorodino PS to the specialized sea oil-loading port of Kozmino	50	2019
<b>Development of trunk product pipelines</b>		
Yug (South) project	6 (Stage 1) 6 (Stage 2)	2017 2018
Sever (North) project	15 (Stage 1) 25 (Stage 2)	2016 2018
Reconstruction of the trunk pipeline system to increase the volume of petroleum products transportation to the Moscow Region	-	2018

**53** thousand km

of trunk oil pipelines are operated by Transneft Group

**16** thousand km

of trunk petroleum product pipelines are operated by Transneft Group

**85%**

of oil produced in Russia are transported via the Transneft Group system

**26%**

of petroleum products produced in Russia are transported by Transneft Group



# HISTORY OF THE COMPANY

The Russian trunk oil pipeline network was initially created as a part of the United oil supply system. In accordance with the Decree of the Council of Ministers of the USSR No. 96 of February 5, 1970, the Main Production Department for Oil Transportation and Supply (Glavtransneft) of the Ministry of Oil Industry of the USSR was created. Its task was to receive oil from oilfields and deliver it to consumers including exporting it abroad.

The main production department Glavtransneft was closed down in 1991 together with the Ministry of the Oil Industry of the USSR. Oil transportation services in Russia were carried out under the terms of agreements between consignors and Transneft, from September 1993 – AK Transneft, from July 1998 – OJSC AK Transneft, and from July 2016 – Transneft.

Taking into account the legal succession of the organizations listed above, Transneft has been in operation since 1970.



## 1970

Establishment of the Main Production Department for Oil Transportation and Supply (Glavtransneft) based on the existing system of 37,400 km of trunk pipelines transporting over 300 million tons of hydrocarbons.

## 1971–1975

Construction of a record number of trunk pipelines – nearly 19,200 km. The largest of them was the Ust-Balyk–Kurgan–Ufa–Almetyevsk oil pipeline. Oil transportation from Tyumen to the European part of the country and its export from Novorossiysk through the built oil pipeline Kuybyshev–Tikhoretskaya–Novorossiysk.

## 1973

Construction of the Alexandrovskoye–Anzhero-Sudzhensk oil pipeline in order to transport oil from Western Siberia that became a leader in oil production volumes in the USSR.

## 1975–1980

A sharp increase of oil production in Western Siberia from 148 million tons to 312 million tons of liquid hydrocarbons. Two trunk pipelines were launched: Nizhnevartovsk–Kurgan–Kuybyshev and Kholmogory–Surgut. Launch of the so-called Northern Route in Western Siberia – the Surgut–Polotsk oil pipeline.



## 1980–1990

Glavtransneft transfers all the oil produced in the USSR (with an average transportation route length of 2,300 km) and renovates over 1,000 km of trunk pipelines yearly. The system employs 61,000 people.



## 1993

Establishment of the Transneft company on the basis of 16 oil pipeline enterprises.

## 2000

Launch of the first major oil pipeline in modern Russia with a length of 312 km bypassing the territory of the Chechen Republic. This resulted in an increase of oil transit reliability from Azerbaijan on the route Baku–Tikhoretsk–Novorossiysk.

## 2001

Completion of the Sukhodolnaya–Rodionovskaya oil pipeline. This route allowed the transport of “black gold” to Novorossiysk bypassing the territory of Ukraine.



## 2006–2009

Completion of the first stage of the ESPO project with a length of 2,694 km – at the time that was the largest construction project in Russia allowing it to enter the growing Asia-Pacific Region markets.

## 2007–2015

Integration of JSC Transnefteprodukt, a natural monopoly owning a trunk petroleum products pipeline system, into the Transneft Group subsidiaries.

## 2009–2012

Second stage of construction of the Baltic Pipeline System (BPS-2) exporting oil from the Russian port in the Baltics – Ust-Luga.

## 2010–2012

Construction of the ESPO-II pipeline transporting oil from oil-producing regions in Western and Eastern Siberia to the Far East and Asia-Pacific Region markets, 2,046 km of which pass through the Amur and the Jewish Autonomous Region, and the Khabarovsk and Primorsky Krai.

## 2011

Launch of the Purpe–Samotlor oil pipeline. This trunk pipeline allowed oil transfer from the Vankor Field and interlinked the western and eastern part of the Russian oil pipeline system.

## 2016

Completion of the first stage of the Sever Project providing for an increase in the diesel fuel export through the port in Primorsk up to 15 million tons per year.

Completion of the Kuyumba–Tayshet and the Zapolyarye–Purpe oil trunk pipelines which included new oilfields of the Yamalo-Nenets Autonomous District and Krasnoyarsky Krai into the oil transportation system.



## 2017

Expansion of the throughput capacity of the Skovorodino–Mohe pipeline up to 30 million tons per year, which is to increase the oil supply to China.

## 2018

Expansion of the throughput capacity of the Sever product pipeline up to 25 million tons per year for increasing the export of diesel fuel from the Primorsk port.

Trunk pipeline system reconstruction in order to increase the transportation volume of light petroleum products (motor gasoline, diesel fuel, jet fuel) to the Moscow Region up to 14 million tons per year.

## 2019

Expansion of the throughput capacity of the ESPO-II pipeline system (at the Skovorodino–Kozmino section) up to 50 million tons per year.



## 2020

Expansion of the throughput capacity of the ESPO-I pipeline system (at the Tayshet–Skovorodino section) up to 80 million tons per year.

the 1970s

the 1980–1990s

the 2000s

the 2010s

Future Development

# STRUCTURE OF THE TRANSNEFT GROUP

## Structure of the Transneft Group as of December 31, 2016

### Oil and petroleum product transportation

#### ESSENTIAL TRANSNEFT SUBSIDIARIES

Mostransnefteproduct, JSC  
 Transneft Upper Volga, JSC  
 Transneft Druzhba, JSC  
 Transneft Volga Region, JSC  
 Transneft Kama Region, JSC  
 Transneft Siberia, JSC  
 Transneft Urals, JSC  
 Chernomortransneft, JSC  
 Transneft Baltic, LLC  
 Transneft East, LLC  
 Transneft Far East, LLC

The list of essential Transneft subsidiaries is approved yearly by the Company's President on the basis of criteria established by the Board of Directors. On February 7, 2017, the President of Transneft approved the updated list of essential Transneft subsidiaries. Mostransnefteproduct, JSC was deleted from the updated list and Transneft Western Siberia, JSC was added.

#### OTHER TRANSNEFT SUBSIDIARIES

JSC "Srednevolga Transnefteproduct"  
 Transneft Western Siberia, JSC  
 Transnefteproduct, JSC  
 JSC "Transnefteproduct-Samara"  
 Transneft North, JSC  
 Transneft Central Siberia, JSC  
 LatRosTrans, LLC  
 Transneft Primorsk Port, LLC  
 Transneft Kozmino Port, LLC  
 Transneft Ust-Luga Port, LLC  
 Zapad-Transnefteproduct, Private Unitary

### Service and support activities

Engineering communications support of trunk oil pipelines  
 Svyaztransneft, JSC (engineering communications support of trunk oil pipelines)

In-house security service  
 Transneft security services, LLC (in-house security service)

Accounting, taxation and management records  
 Transneft Finance, LLC (accounting, taxation and management records)

Giprotruboprovod, JSC  
 JSC "NPF "TRANSNEFT"  
 The OMEGA Company  
 Telecomnefteproduct, JSC  
 JSC "TELECOM-OILPRODUCT"  
 TOMZEL, JSC  
 Transneft Diascan, JSC  
 Transneft UW Service, JSC  
 Transneft Metrology, JSC  
 Transneft Service, JSC  
 JSC "TNT"  
 Transneft Energyterminal, JSC  
 Transneft R&D, LLC  
 Transneft-Logistics, LLC  
 Transneft Media, LLC  
 Transneft Supervision, LLC  
 Transneft Service, LLC

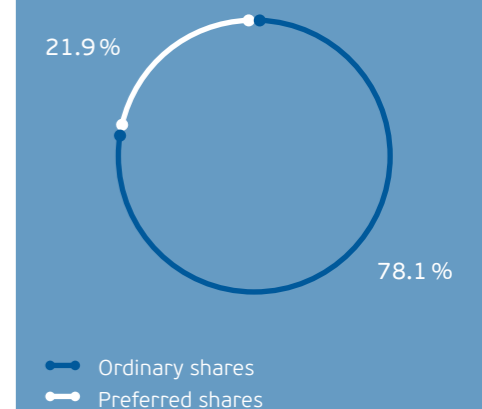
"Transneft Telecom", LLC  
 Transneft PCD, LLC  
 Transneftstroy, LLC  
 Transneft Energy, LLC  
 Transneft Electric Network Service, LLC  
 "Transneft Invest" Management Company, LLC  
 PMC ESPO, LLC  
 and others

The complete list of Transneft subsidiaries is presented in Annex 2.

# 84

profit-making organizations participated by Transneft as of December 31, 2016

#### Authorized capital, %



# Position in the industry



**85 %** of oil produced in Russia is transported by the Transneft Group system

**26 %** of petroleum products produced in Russia are transported by Transneft Group

**516.5** million tons is the volume of oil and petroleum products transported in 2016

**69** thousand km is the length of pipelines (oil and petroleum products) in 2016

**1,263** billion tkm is the freight turnover (oil and petroleum products) in 2016

Company's position in the industry	22
Economic forecast for 2017-2019	23
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International Association of Oil Transporters	34

# COMPANY'S POSITION IN THE INDUSTRY

The oil and petroleum product production volume within the Russian Federation defines the transportation volumes of Transneft's oil and petrole-

um product pipelines, and, therefore, the revenue of the Group from providing these services.

	2016	2015	Change, %
Oil production volume in the Russian Federation, million tons	547.3	533.6	2.6
Production of light petroleum products in the Russian Federation, million tons	125.9	124.9	0.8

For the reporting year, the oil production volume in the Russian Federation amounted to 547.3 million tons, and the transport of Russian oil in the Transneft Group's system amounted to 84.9% of this volum, defining the

Company's dominating position in the oil transportation industry.

Oil transportation by activity and changes of this indicator for the last three years.

Activity	2014	2015	2016
Oil transportation within Russia	87.6%	86.4%	84.9%

Apart from the Transneft Group's trunk oil pipeline system, the Caspian Pipeline Consortium (CPC) also operates in Russia, with an oil transportation volume of 44.3 million tons in 2016, and other systems and supply pipelines owned by oil production companies.

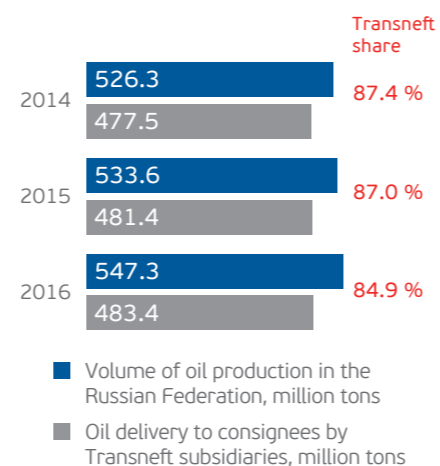
consumers in Kazakhstan and on oil of Russian consignors.

Transneft's main competitor in petroleum product transportation for export and to Russian regional markets is the railway sector. Currently, about 60% of light petroleum product transportation is carried out by it. The Company transports about 26% of all light petroleum products produced at Russian oil refineries.

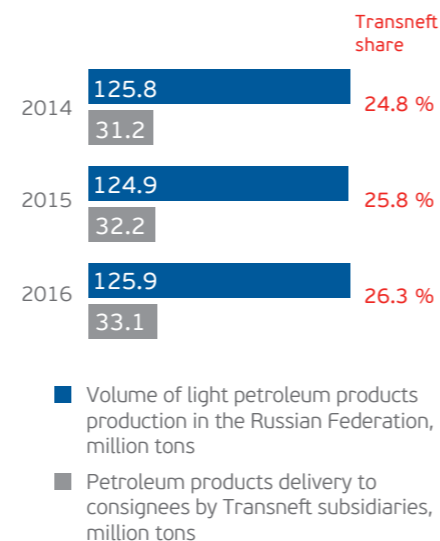
At the present time, Transneft's competitor in oil transportation in the direction of the Novorossiysk port is the Caspian Pipeline Consortium (CPC), i.e. CPC's Marine Terminal in Yuzhnaya Ozereyevka. The transportation services of JSC CPC-R are focused on oil of

The railway has several important advantages in petroleum product transportation on the domestic market, such as a branched railroad

Share of oil produced in the Russian Federation and transported in the Transneft system, yearly dynamics



Share of light petroleum products produced in the Russian Federation and transported in the Transneft system, yearly dynamics



network compared to the trunk pipeline system, the ability to transport small amounts of petroleum products with no loss of quality, and an almost unlimited range of petroleum products that can be transported taking into account the specifics of oil processing at oil refineries.

Another competitor of Transneft in petroleum product transportation over long distances is water transport. However, this type of transport is competitive within a limited navigation period of about 5-6 months.

These advantages allowed the railway sector to take over an essential part of light petroleum product transfers (in particular, of motor gasoline) on the Russian domestic market.

Transneft's competitor for short distances, mainly in intraregional transportation, are vehicles, since they allows door-to-door transportation of petroleum products, in particular, from oil refineries and oil storage facilities to local consumers.

## ECONOMIC FORECAST FOR 2017-2019<sup>1</sup>

At the end of 2016, the Russian economy experienced a transition from stagnation to economic recovery. The implementation of the agreement of OPEC countries and countries outside the cartel reinforced the fixation of oil prices in the range of USD 50-65 per barrel. At the end of January 2017, the consensus forecast of oil prices amounted to USD 55.6 per barrel in 2017, followed by an increase up to USD 61.2 and USD 63.3 per barrel in 2018 and 2019 accordingly.

According to Rosstat, Russia's total industrial output increased in 2016 by 1.1%. In 2017-2019 the production of investment goods is expected to recover gradually. A stable position will be maintained in the exporting sectors with more competitive products: the fuel and power sector, metallurgy, and chemical production. The implementation of state infrastructure projects will ensure demand for construction sector services.

According to the baseline forecast of the Ministry of Economic Development of Russia, in 2017, the GDP growth rate will become positive and will amount to 0.6%, in 2018, the GDP growth rate will increase to 1.7%, and in 2019 – to 2.1%.

In 2017, industrial production is expected to grow by 1.1%, followed by an increase to 2.1% in 2019.

85%

share of oil produced in the Russian Federation in 2016 and transported in the Transneft system

26%

share of light petroleum products produced in the Russian Federation in 2016 and transported in the Transneft system

1. The section has been prepared on the basis of the Forecast of social and economic development of the Russian Federation for 2017 and the planned period of 2018-2019 <http://economy.gov.ru/minec/activity/sections/macro/2016241101>, as well as the Monitoring of the results of social and economic development of the Russian Federation in 2016 <http://economy.gov.ru/minec/activity/sections/macro/2017070204> prepared by Russia's Ministry of Economic Development.

**Changes in macroeconomic indicators of the Russian Federation in 2016 and forecast for 2017-2019\***

	2016	2017	2018	2019
GDP growth rate, %	-0.2	0.6	1.7	2.1
Industrial production index, %	1.1	1.1	1.7	2.1
Investments in fixed capital, %	-1.4	-0.5	0.9	1.6
Consumer price index, by year-end, %	5.4	4.0	4.0	4.0

\* Baseline scenario of the Forecast of social and economic development of the Russian Federation for 2017-2019.

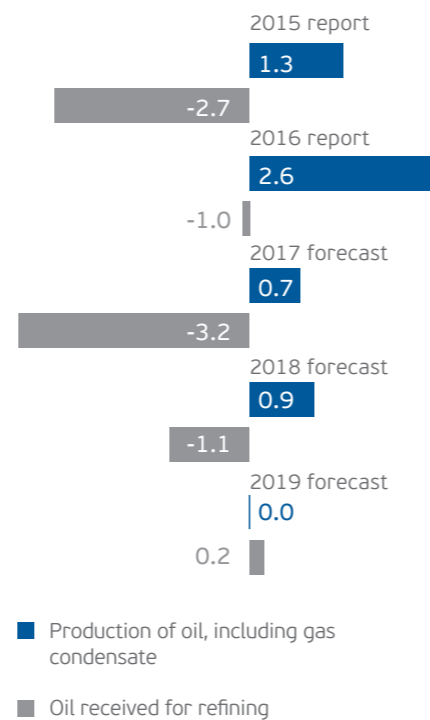
According to the Ministry of Economic Development of Russia, due to the current economic environment and the increased appeal of crude oil export compared to petroleum products export in the baseline version, oil production is expected to increase to 553 million tons by 2019. Due to the development of crude oil distillation, the gradual modernization of refinery plants and the growth of the refining depth, oil export will amount to 277.6 million tons by 2019. Oil export outside the CIS is expected to amount to 252.2 million tons by 2019, mainly due to the increased shipments to the Asia-Pacific countries. Export sales to the CIS countries will remain at the level of 24 million tons during the whole forecast period.

In terms of the development of pipeline oil transportation in the medium term the following actions are planned: gradual throughput capacity expansion of the Eastern Siberia-Pacific Ocean pipeline system (ESPO-I up to 80 million tons and ESPO-II up to 50 million tons), implementation of the project for

the compression safety of the ESPO-I pipeline system, development of a system of trunk oil pipelines to support the expansion of oil shipments to China up to 30 million tons per year. This will allow oil exports to be optimized by unloading less effective directions and transit risks to be lowered during transportation.

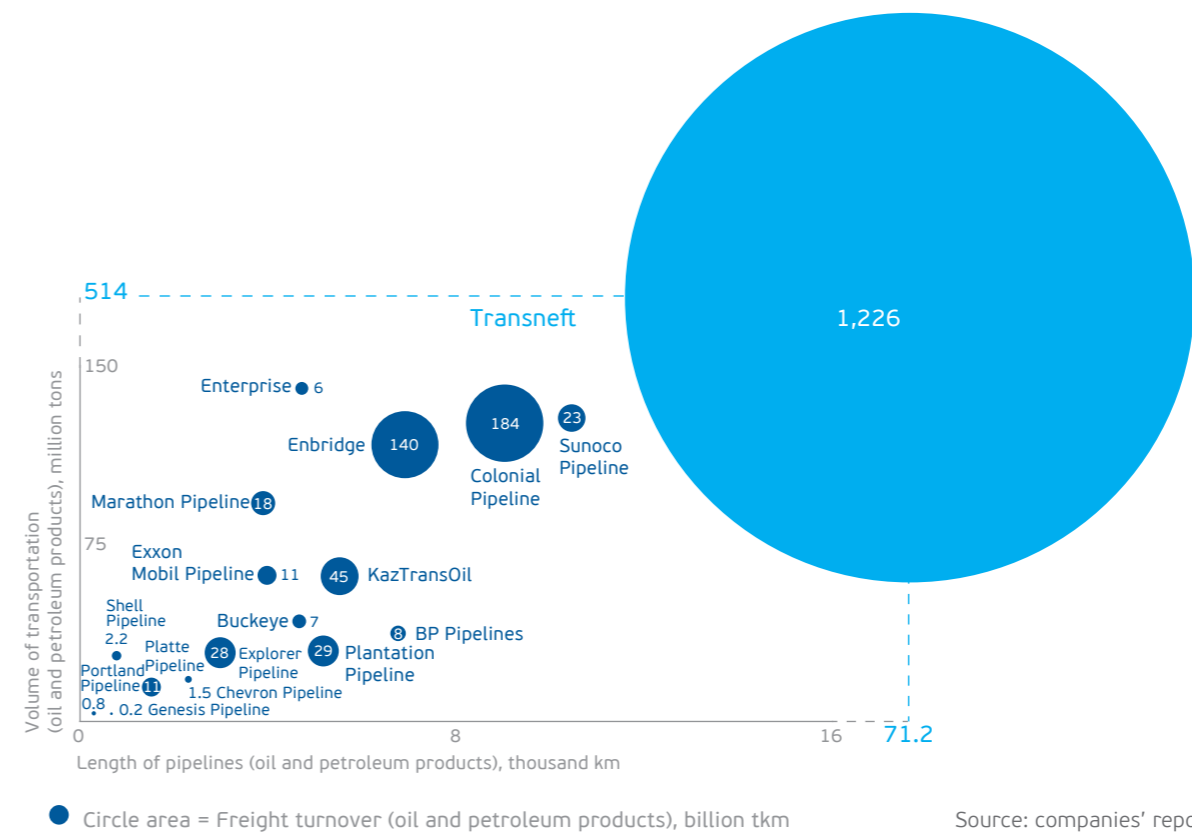
Taking into account the time frames stipulated in the agreements with oil companies for the modernization of oil refineries aimed at increasing the conversion rate, a moderate decrease in refining volume to 265.5 million tons is expected in 2019, and the conversion rate will increase to 79.8%. A moderate increase in the domestic demand for petroleum products and a decrease in the economic efficiency of the export of heavy petroleum products will lead to a gradual reduction in the export of petroleum products to 145.5 million tons by 2019 (by 8.1% vs 2016). Heavy petroleum products will be replaced by light petroleum products in the export structure.

**Mineral extraction growth (decrease), %**

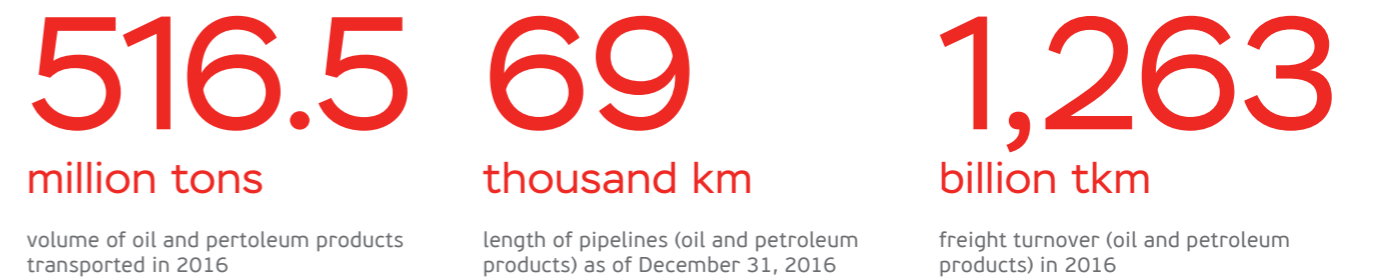


# COMPARISON WITH THE PEER GROUP

**Example of differences in range of activity as of 2015**



**Transneft indicators for 2016**



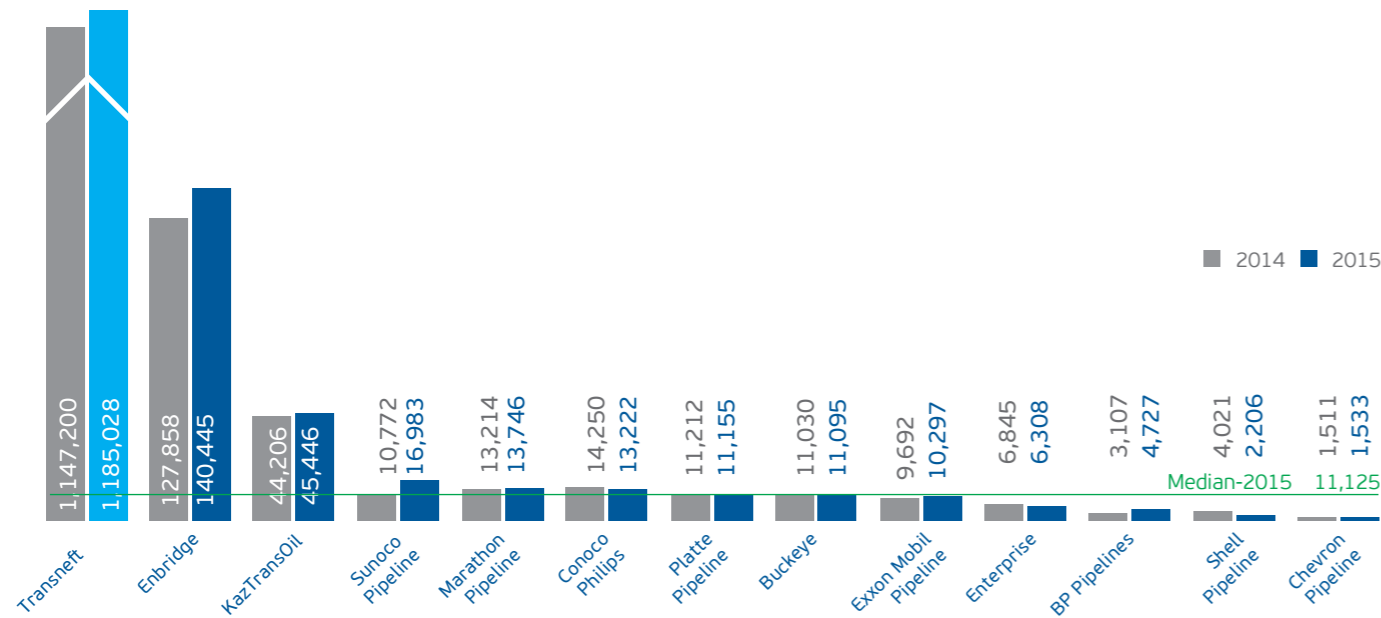
**Oil turnover, million tkm**

Transneft oil turnover indicators are significantly higher than those of foreign companies, exceeding the rates of the US leader in terms of freight turnover, Enbridge Energy Company, by more than a factor of

eight, and the combined turnover of all companies analyzed by more than a factor of four. In 2016, the oil turnover of Transneft Group amounted to 1,219,134 million tkm.

**1,219.1**  
billion tkm

oil turnover of Transneft Group in 2016



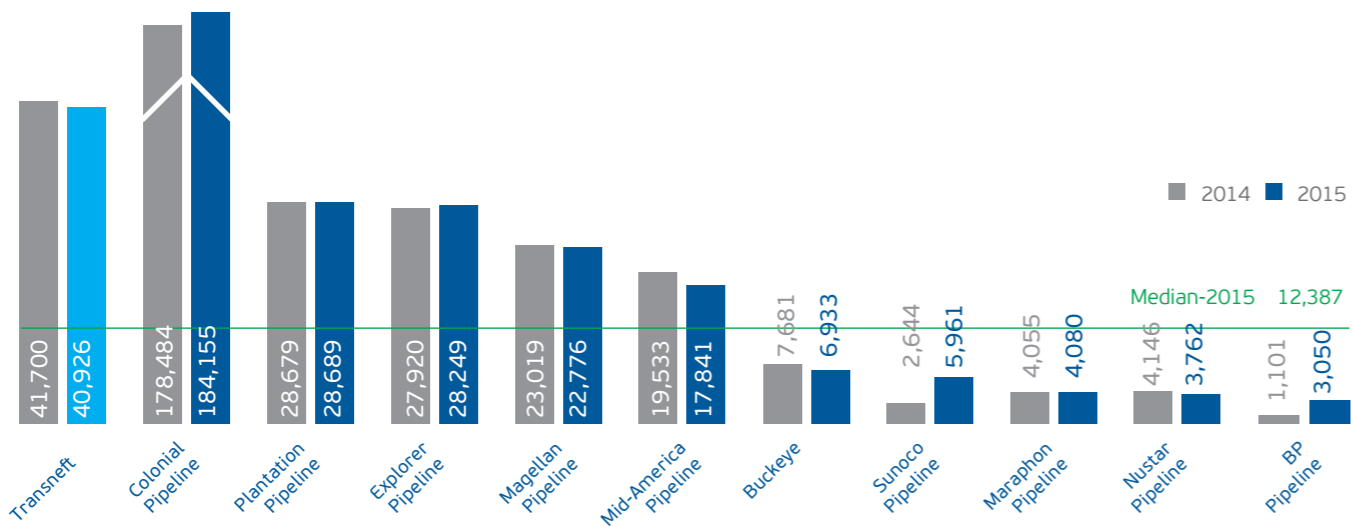
**Petroleum products turnover, million tkm**

In 2015, Transneft occupied the second place in terms of the petroleum products turnover after Colonial Pipeline, the American company that is the main petroleum products haulier in the north-east region

of the USA - 40,926 million tkm vs 184,155 million tkm (4.5 times less). In 2016, the petroleum products turnover of the Transneft Group amounted to 43.8 billion tkm.

**43.8**  
billion tkm

petroleum products turnover of Transneft Group in 2016



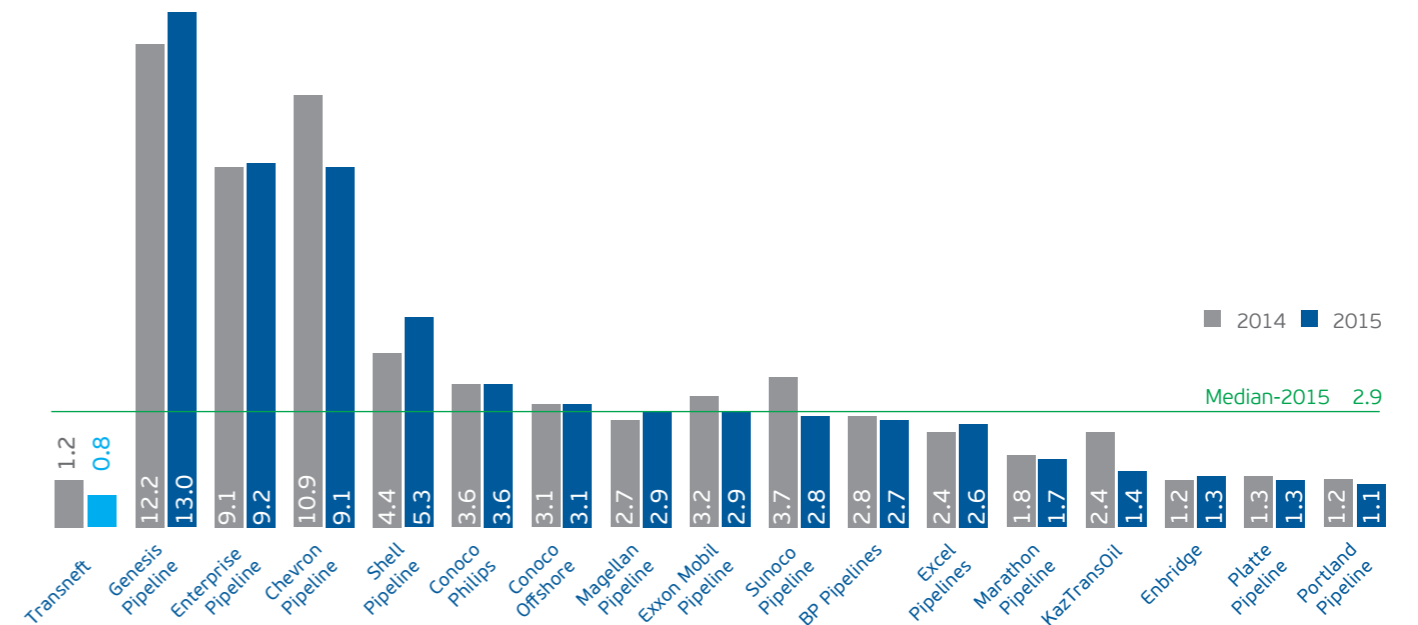
**Weighted average tariff for 100 tkm of oil, USD per 100 tkm**

The 2014-2015 Transneft weighted average tariff for 100 tkm of oil turnover is 3.5 times lower than the median for the companies of the peer group (USD 0.8 per 100 tkm vs the median of USD 2.9 per 100 tkm in 2015). This tariff rate is one of the lowest among

companies engaged in pipeline transportation of oil. In 2016, the Transneft Group weighted average tariff amounted to USD 0.77 per 100 tkm.

**\$ 0.77**  
per 100 tkm

Transneft Group weighted average tariff for 100 tkm of oil in 2016



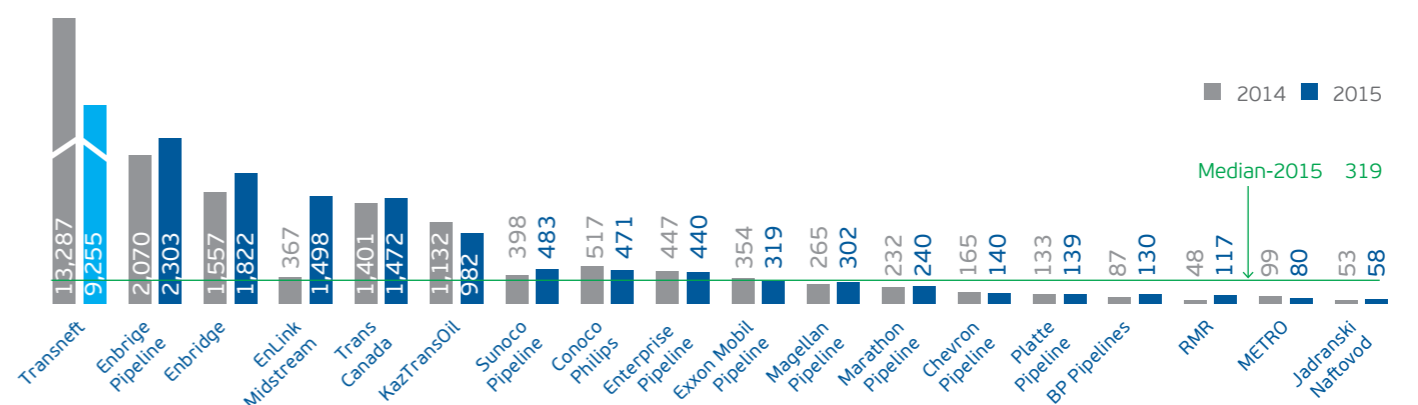
**Revenue from oil transportation, USD million**

In 2015, Transneft was ahead of other companies in terms of revenue from oil transportation. In 2016, revenue from the sale of oil transportation services amounted to USD 9,180.0 million.

The second one was Enbridge Partners with a revenue of USD 2,303 million, which is 4 times less than the Transneft Group indicator.

**\$ 9,180.0**  
million

revenue from the sale of oil transportation services in 2016



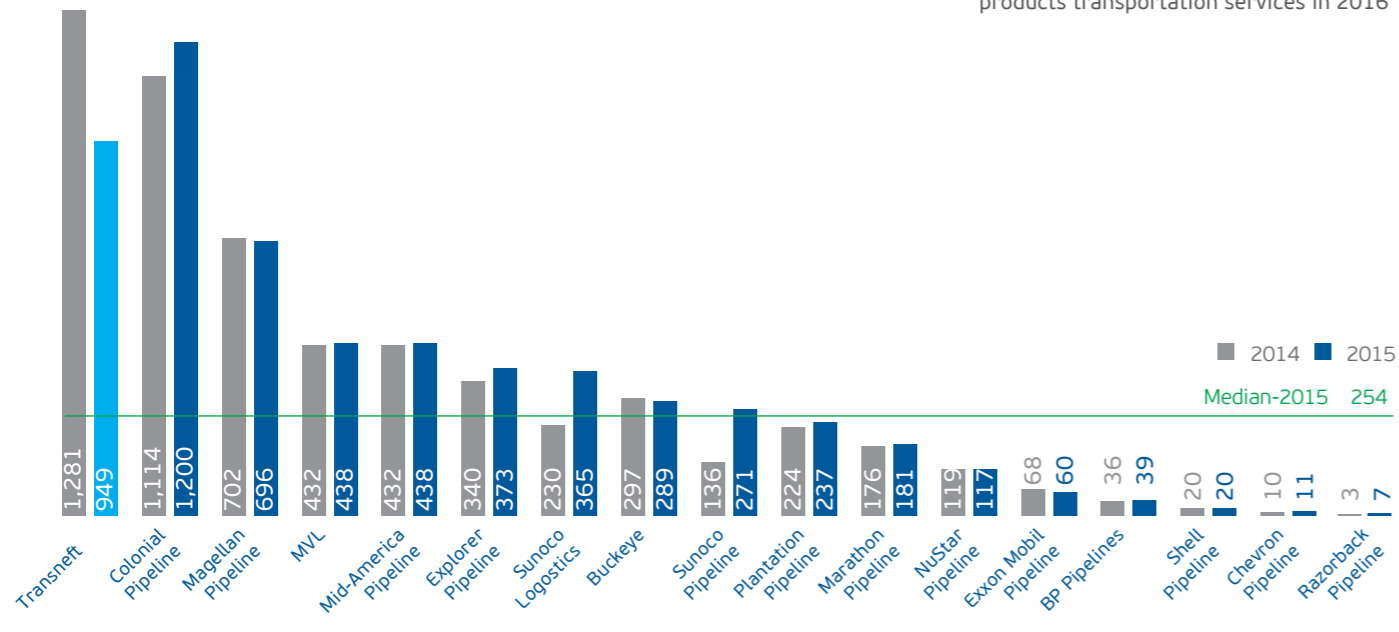
Revenue from petroleum products transportation, USD million

In terms of revenue from petroleum products transportation, Transneft was the second after Colonial Pipelines, as was the case with the petrole-

um products freight turnover. In 2016 revenue from the sale of petroleum products transportation services amounted to USD 963.9 million.

**\$ 963.9 million**

revenue from the sale of petroleum products transportation services in 2016



Net profit margin, %

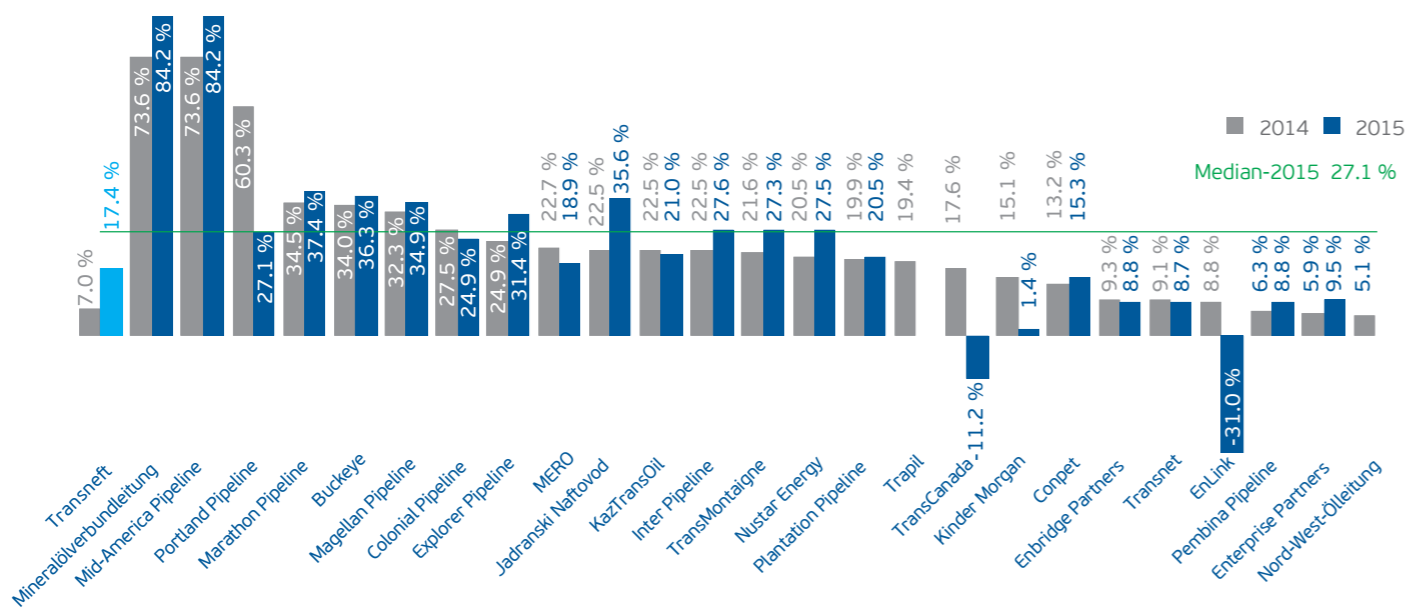
In 2015, the Transneft Group net profit margin indicator was 9.6% lower than the median. The adjusted Transneft net profit margin indicator was 5.5 percentage points higher than the unadjusted indicator. In 2015, the Transneft Group net profit margin amounted to 22.9%, excluding the results of PRC oil sales,

FEC revenue, exchange differences, and taking into account adjustments to property tax.

In 2016, the Transneft Group net profit margin amounted to 28.9%, excluding the influence of the investment component and exchange differences.

**28.9 %**

Transneft Group net profit margin (excluding the influence of the investment component and exchange differences) in 2016



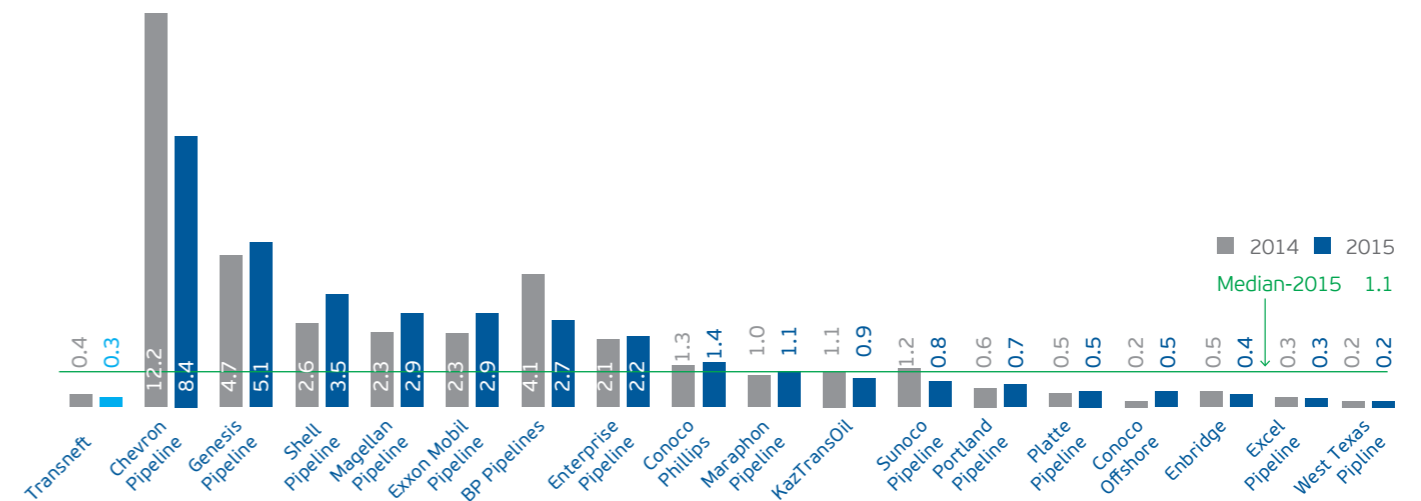
Per unit operating expenses for transportation of 100 tkm of oil, USD per 100 tkm

In 2015, the Transneft per unit operating expenses for oil transportation were 4 times lower than the median among other companies (USD 0.3 per 100 tkm vs the median of USD 1.1 per 100 tkm).

In 2015, Transneft per unit operating expenses in US dollars decreased by 35%, as opposed to the main trend of an increase of the indicator as compared to 2014. In 2016, Transneft per unit operating expenses amounted to USD 0.3 per 100 tkm.

**\$ 0.3 per 100 tkm**

Transneft Group unit operational cost in 2016

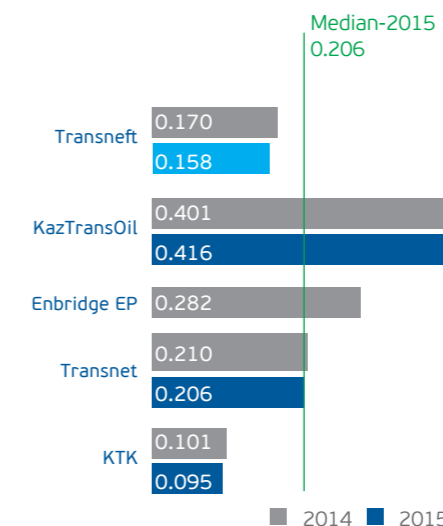


Specific emissions of pollutants into the atmosphere during transportation, kg per ton

In 2015, the indicator of specific emissions of pollutants into the atmosphere during oil and petroleum products transportation for the Transneft Group decreased by 6.95% as compared to 2014, which proves the efficiency of the environmental impact mitigation measures taken. In 2016, the indicator of specific emissions of pollutants into the atmosphere for the Transneft Group continued to decrease and amounted to 0.156 kg/ton.

**0.156 kg/ton**

Transneft Group indicator of specific emissions of pollutants into the atmosphere in 2016

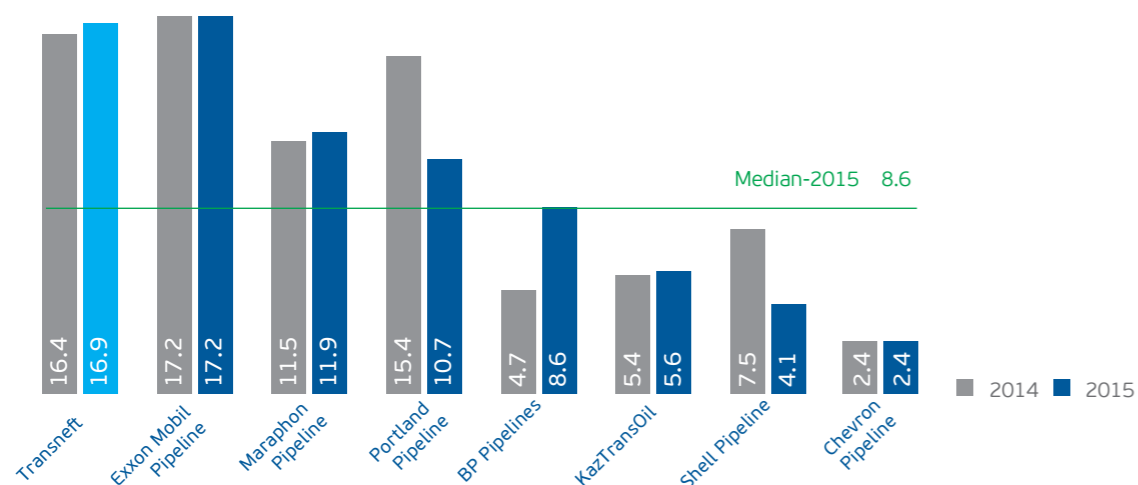


**In-kind labor productivity, million tkm per person**

In 2016, Transneft in-kind labor productivity amounted to 17.5 million tkm per person, which is 3.5% higher than the same indicator in 2015.

**17.5**  
million tkm per person

Transneft labor productivity in 2016



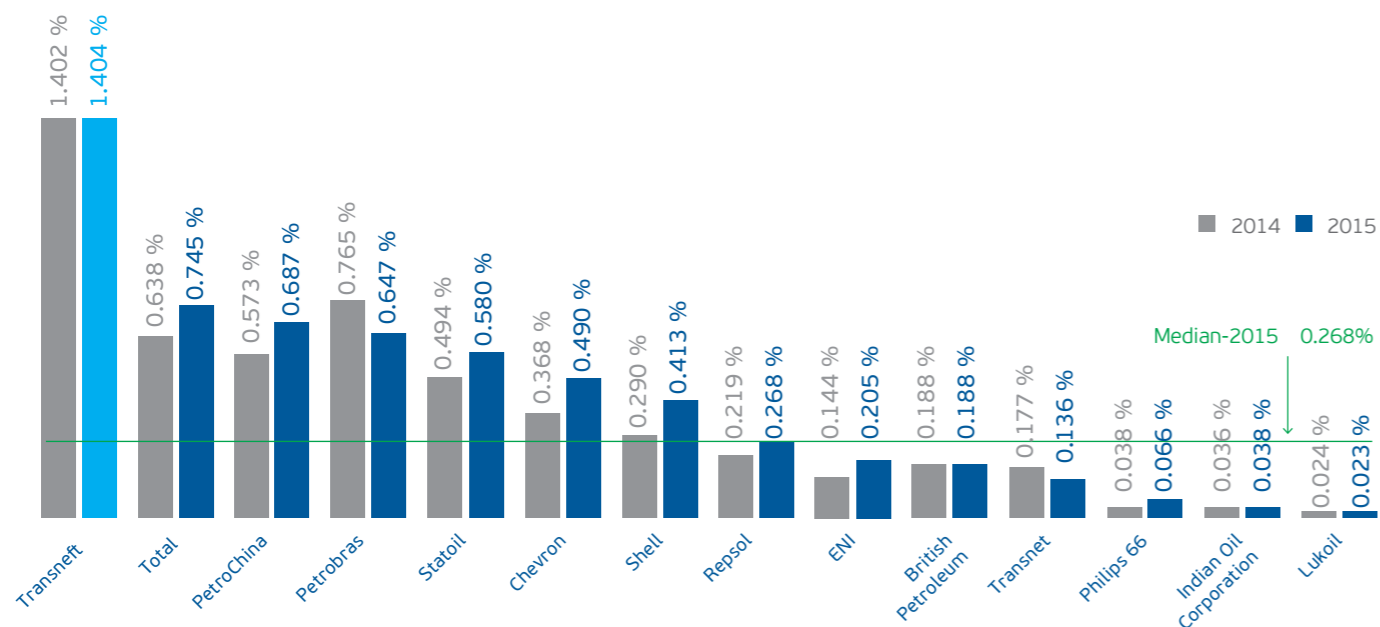
**Share of expenditures on R&D, % of revenue**

In 2015, the indicator of the share of expenditure on research and development to the Transneft transportation revenue under the Russian Accounting Standards amounted to 1.40%, which is 0.73 percentage points higher than the median and is the highest indicator among all compa-

nies. The maximum indicator among the foreign companies analyzed is almost two times lower – 0.745% of the revenue. In 2016 Transneft’s expenditures on innovative projects, including R&D, remained at the level of 2015 and amounted to 1.40% of the revenue.

**1.4 %**

of the revenue — Transneft’s financing for innovative projects, including R&D, in 2016



# OPERATING RESULTS

Transneft’s main activity is providing services related to transportation of oil through the system of trunk pipelines within and outside the Russian Federation.

The Company also provides services of oil storage in the system of trunk pipelines, compounding of oil, and oil sales.

In addition to the transportation of oil in the Russian Federation, Transneft provides planning and management of the transportation of oil to foreign countries and its delivery to the foreign oil delivery and acceptance points, and organizes the collection and consolidation of information.

Being the agent of Russian consignors for the transportation of oil to

the Republic of Belarus, Ukraine and the Republic of Kazakhstan, Transneft entered into agreements for the provision of oil transportation services with JSC Polotsktranspetrol Druzhba, JSC Gomeltransneft Druzhba, PJSC UkrTransNafta, and JSC KazTransOil (TON-2).

In 2016, the total oil intake into the trunk pipeline system of Transneft Group amounted to 483.5 million tons, which is 0.6% higher than in 2015. The intake of oil from Russian producers grew by 0.8% compared to the level of 2015 and amounted to 464.5 million tons. The oil freight turnover via routing cables executed in 2016 amounted to 1,219.1 billion tkm, which is 2.9% higher than the 2015 indicator.

**3** million tons

increase in the total oil acceptance into the trunk pipeline system in 2016

**Oil intake and delivery indicators for 2014-2016**

Indicator	2014	2015	2016	2016 vs 2015, %
	million tons			
Intake into Transneft Group’s system, total	479.00	480.50	483.49	100.6
including:				
Russian oil	461.12	461.07	464.53	100.8
counter deliveries (Kazakhstan oil)		2.20		
Kazakhstan oil	16.55	15.28	17.22	112.7
Azerbaijan oil	1.02	1.19	1.30	109.2
Turkmenistan oil	0.31	0.76	0.44	57.9
Oil delivery, total	477.53	481.40	483.40	100.4
including:				
to Russian oil refineries	262.11	250.18	245.22	98.0
Transshipment to the JSC CPC-R system	1.66	1.63	0.39	23.9
to the CIS countries, incl.:	21.50	22.05	18.65	84.6
to Belarusian oil refineries	21.50	22.00	18.00	81.8
to Kazakhstani oil refineries	-	0.05	0.65	13 times
to countries further afield, incl.:	192.26	207.54	219.14	105.6



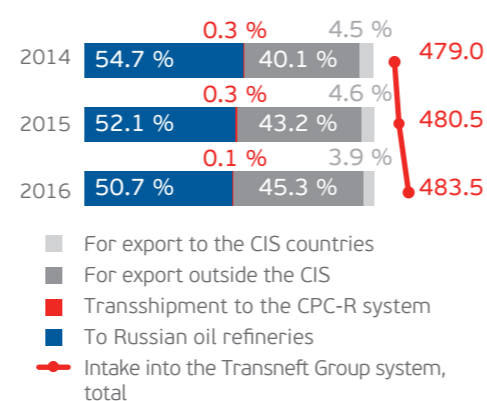
Indicator	2014	2015	2016	2016 vs 2015, %
	million tons			
Novorossiysk Port	30.37	30.01	30.38	101.2
Primorsk Port	42.28	45.07	50.62	112.3
Ust-Luga Port	23.22	26.77	30.09	112.4
Kozmino Port	24.90	30.44	31.84	104.6
through the Druzhba pipeline	48.89	52.25	52.69	100.8
through the pipelines to China	22.60	23.00	23.50	102.2
shipment via railway loading racks	-	0.02	0.02	100.0
Oil freight turnover via routing cables executed, billion tkm	1,147.2	1,185.0	1,219.1	2.9 %

In 2016, Transneft provided oil delivery at destination points determined by the agreements to the amount of 483.4 million tons, which is 0.4% higher than in 2015. Export to the CIS countries and outside the CIS amounted to 237.8 million tons in 2016, which is 3.6% higher than in 2015. Oil delivery to Russian oil refineries amounted to 245.2 million tons, which is 2.0% lower than in 2015. Transshipment of oil to the JSC CPC-R system for further export decreased significantly to 0.4 million tons, which is 76% lower than in 2015.

Transneft provides transportation services by transporting petroleum products to the domestic market and for export. The share of the Company in the light petroleum products export transportation market amounts to 47%, in particular, the share of the Company in the market of diesel fuel export from the oil refineries connected to the system of trunk petroleum products pipelines amounts to 81%.

In 2016, 69,080 km of trunk pipelines were used in the Transneft Group, including 52,840 km of oil pipelines and 513 trunk pump ones.

**Performance and structure of the delivery of oil to consignees**



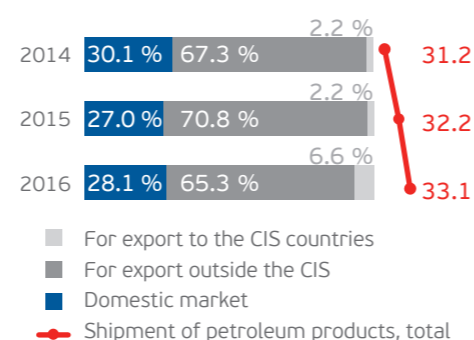
**Petroleum products transportation indicators for 2014-2016**

Indicators	2014	2015	2016	2016 vs 2015, %
	million tons			
Shipment of petroleum products, total	31.2	32.2	33.1	102.8
including:				
domestic market	9.4	8.7	9.3	107.0
for export. incl.:	21.7	23.5	23.8	101.2
to countries outside the CIS	21.0	22.8	21.6	94.5
to the CIS countries	0.7	0.7	2.2	321.2

Oil and petroleum products were exported through the marine terminals of the ports of Primorsk, Kozmino, Ust-Luga, and Novorossiysk Commercial Sea Port.

The utilization of the Transneft Group trunk pipelines system capacities amounted to 89.3% in 2016.

**Performance and structure of the delivery of petroleum products to consignees**



**CASPIAN PIPELINE CONSORTIUM**

Transneft is the trustee of 31% federally owned shares of JSC CPC-R and JSC CPC-K.

CPC (JSC CPC-R and JSC CPC-K) is one of the largest investment projects in the energy industry with participation of foreign capital on the CIS territory. The length of the Tengiz-Novorossiysk pipeline connecting the oilfields in Western Kazakhstan with the marine terminal near Novorossiysk is 1,511 km.

On December 15, 2010, the CPC governing bodies made the final decision on investments under the project of increasing the Tengiz-Novorossiysk pipeline throughput capacity and signed the agreement On Amending the Shareholders Agreement of 1996 (hereinafter referred to as the "Expansion Project"). According to the Expansion Project, the pipeline capacity will increase from 28.2 to 67 million tons per year. Over the past year, within the framework of the Expansion Project, works were finished in relation to the reconstruction and the increase of the total capacity of the oil storage tanks within the tank farm of the CPC marine

terminal from 700,000 to 1 million tons, one oil pumping station was put into operation, another oil pumping station was filled with crude oil and comprehensive tests were started, and three stations were prepared for filling with oil. In addition, the Operations Control Center was put into operation at the CPC Marine Terminal with a new SCADA, a system of control and data acquisition which tracks all stages of crude oil transportation from Tengiz to Novorossiysk online.

In 2016, CPC shipped 44.3 million tons of oil at the Novorossiysk Marine Terminal, of which 40.8 million tons were the oil of Kazakhstan consignors (including 0.8 million tons of oil from the Kashagan field); 3.5 million tons of oil belonged to Russian consignors. As compared to 2015, the amount of CPC's shipment at the Novorossiysk Marine Terminal grew by 1.6 million tons, or by 4%.

Taking into account the sufficiency of funds for the implementation of the Expansion Project, in 2016, CPC continued to make repayments to shareholders. The total amount of repayments made by CPC to the Russian Federation in 2016 is USD 258 million.

**\$258**  
million

total amount of repayments made by CPC to the Russian Federation in 2016

# INTERNATIONAL ASSOCIATION OF OIL TRANSPORTERS

In 2016, the International Association of Oil Transporters (hereinafter referred to as the "Association" or "IAOT") continued its work. The association was established in Prague

(Czech Republic) in 2013 in order to make collaboration closer and develop new activities related to pipeline transportation of oil and petroleum products.

## Association members as of December 31, 2016

Company	Registered address	Membership period
JSC MERO ČR	Czech Republic	Since December 2013
Transneft	Russian Federation	Since January 2015
JSC Transpetrol	Slovak Republic	Since April 2015
JSC Gomeltransneft Druzhba	Republic of Belarus	Since April 2015
JSC MOL	Hungary	Since April 2015
JSC KazTransOil	Republic of Kazakhstan	Since September 2015
China National Petroleum Corporation	People's Republic of China	Since May 2016

IAOT observer as of December 31, 2016 is CPC.

In 2016, the Governing Board of the Association held two meetings during which it discussed the operating results of three Permanent Expert Groups of the Association (for Energy Efficiency, Supplies, and Legal Issues).

In 2016, Association members:

- approved the IAOT Regulation of the Permanent Expert Group on Energy Efficiency;
- agreed on the first version of the "Method of Energy Efficiency Benchmarking for Transport

Facilities", as well as the "Benchmarking of Energy Efficiency of the Members of the International Association of Oil Transporters". "Organization and Implementation Procedur". These documents were developed by Transneft subsidiary, the Pipeline Transport Institute, LLC. The research will be conducted twice a year, starting in January 2017, and will be aimed at reducing the operating expenses of the benchmarking participants and increasing the energy efficiency of the oil and petroleum products transportation trunk pipelines;

- accepted the Forms of information

sharing on the planned loading of transport capacities of the IAOT members to be used for planning traffic in 2017 and instructed the members of the Permanent Expert Group of the Association on Legal Issues to develop the Forms fur-

ther, taking into account the guidelines, rules and principles of the current anti-monopoly legislation, and to develop the wording of the basic rights and duties that follow on from this information sharing.

## 2 meetings

of the Management Board of the International Association of Oil Transporters were held in 2016



# Development Strategy



**32** million tons/year – the capacity of the Zapolyarye-Purpe oil pipeline system commissioned in 2016

**8.6** million tons/year – the capacity of the Kuyumba-Tayshet oil pipeline system commissioned in 2016

**2%** the planned reduction in operating expenses in 2017

no less than **97%** the share of Russian products planned for use by 2020

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# MAIN AREAS OF DEVELOPMENT

## Development Strategy Long-Term Development Program

### INNOVATIONS

Application of modern advanced industry-specific technologies; use of equipment manufactured in Russia

### EFFICIENCY

Cost reduction when building and operating pipelines; effective use of energy resources; increase in labor productivity

### DEVELOPMENT AND UPGRADE OF the trunk pipeline system

2016	2017	2018	2019	2020
Zapolyarye–Purpe	Skovorodino–Mohe	Sever Project (2nd stage)	Skovorodino–Kozmino	Tayshet–Skovorodino
Kuyumba–Tayshet	Yug Project (1st stage)	Yug Project (2nd stage)		
Sever Project (1st stage)		Increase petroleum products transportation to the Moscow Region		

### TO FULLY MEET

oil and petroleum products transportation requirements in Russia and for exports

### RELIABILITY

Reduction in trunk pipeline accidents; maintaining sulfur content in oil; development of social guarantees for employees

### ENVIRONMENTAL PROTECTION

Reduction of specific emissions; environmental security; elimination of discharge of insufficiently treated wastewater

### DEVELOPMENT AND UPGRADE

Construction of the Zapolyarye–Purpe oil pipeline	Throughput capacity up to 32 million tons/year with commissioning in 2016 (completed)
Construction of the Kuyumba–Tayshet oil pipeline	Throughput capacity up to 8.6 million tons/year with commissioning in 2016 (completed)
Increase in the throughput capacity of the ESPO pipeline system at the Tayshet–Skovorodino section	To 80 million tons/year with commissioning in 2020
Increase in the throughput capacity of the ESPO pipeline system at the Skovorodino–Kozmino section	To 50 million tons/year in 2019
Expansion of the Skovorodino–Mohe TP	To 30 million tons/year in 2017
Construction of the Yug product pipeline	Throughput capacity of 6 million tons/year with staged completion in 2017 and 2018
Increase in the throughput capacity of the Sever product pipeline	The 1st stage – to 15 million tons/year in 2016 (completed); the 2nd stage – to 25 million tons/year in 2018
Reconstruction of the trunk pipeline system to increase the volumes of petroleum products transportation to the Moscow Region	It will allow an increase in the volume of light petroleum products transportation and expansion of the range of motor gasolines for consumers in the Moscow Region

## Particular key performance indicators\*

### INNOVATIONS

Scope of financing for innovation projects, including R&D, from own funds as a percentage of Transneft revenue from oil transportation services (in accordance with the Russian Accounting Standards)	No less than 1.41% in 2017
---	----------------------------

### EFFICIENCY

Reduction in specific electricity consumption	For oil transportation by 0.5% in 2017
Reduction in operating expenses	Reduction by 2% in 2017
Increase in labor productivity	0.88% in 2017
Return on invested capital (ROIC)	No less than 7% in 2017

### RELIABILITY

Reduction in trunk pipeline accidents	No more than 0.086 accidents/1,000 km in 2017
---------------------------------------	---

### ENVIRONMENTAL PROTECTION

Reduction in specific air pollutant emissions during oil and petroleum products transportation through trunk pipelines	By 1% in 2017
--	---------------

\* The list and values of key performance indicators are presented in the section Key Performance Indicators (KPI) System.

# DEVELOPMENT STRATEGY

The goal of the Strategy is to develop and upgrade the trunk pipeline system of the Russian Federation in order to fully meet the requirements for oil and petroleum products transportation on the domestic market and export destinations

The Transneft Strategy up to 2020 (hereinafter – Strategy) is approved by resolution of the Board of Directors of Transneft dated November 19, 2014 (Minutes No. 23).

The goal of the Strategy is to develop and upgrade the trunk pipeline system of the Russian Federation in order to fully meet the requirements for oil and petroleum products transportation on the domestic market and export destinations based on:

- the use of equipment manufactured in the Russian Federation;
- the application of modern advanced industry specific technologies ensuring high levels of reliability, industrial and environmental safety;
- ensuring revenues from oil and petroleum products transportation in the amount necessary and sufficient for implementing the Development, Technical Re-equipment and Renovation of Trunk Pipeline Facilities Program.

The Transneft Strategy up to 2020 envisages:

- an increase in the throughput capacity of the ESPO-I pipeline system to 80 million tons and that of the ESPO-II pipeline system to 50 million tons;
- the construction of oil pipelines to ensure oil intake from new fields in the Yamalo-Nenets Autonomous District and the Krasnoyarsky Krai;
- an increase in the throughput capacity of the Sever petroleum product pipeline to 25 million tons/year in order to redirect petroleum products from foreign ports;
- ensuring petroleum products supply diversification with the opening of a new direction in the South of Russia and with the construction of a trunk petroleum product pipeline at the Volgograd–Novorossiysk section;
- a reduction in the use of imported products to 3%;

- ensuring petroleum products transportation from newly connected refineries;
- a reduction in trunk pipeline accidents to 0.072 accidents per year per 1000 km of operated pipelines;
- complete elimination of discharge of insufficiently treated wastewater;
- maintaining sulfur content in oil piped through the Transneft system within the limits established by the scheme of normal cargo flows;
- cost reduction when building and operating pipelines, maintaining an optimum cost level for the consumers of services.

# LONG-TERM DEVELOPMENT PROGRAM

The Transneft Long-Term Development Program up to 2020 (hereinafter also “LDP”) was developed according to the Transneft Strategy and approved by resolution of the Board of Directors of Transneft dated November 19, 2014 (Minutes No. 23).

## LDP program measures

<b>Development and upgrade</b>	Increasing the capacity of the trunk oil pipelines and petroleum product pipelines system to ensure oil transportation in accordance with the planned oil extraction volumes from operated and new fields of oil companies and oil refinery volumes at existing and new refineries
<b>Innovations</b>	Innovative development of production activity
<b>Efficiency</b>	Increasing energy efficiency through the implementation of measures aimed at saving energy resources
	Cost reduction when building and operating pipelines
	Ensuring that labor productivity is on a par with the best foreign pipeline companies
<b>Reliability</b>	Ensuring the reliability of the operated trunk oil pipelines and petroleum product pipelines system by carrying out reconstruction based on the results of diagnostics and modernization of fixed assets
	Development of social guarantees for the Company's employees
<b>Environmental protection</b>	Enhancement of the environmental and industrial safety at the Company's facilities

# LONG-TERM DEVELOPMENT PROGRAM IMPLEMENTATION AUDIT

Joint Stock Company KPMG conducted the audit of the Transneft Long-Term Development Program implementation for 2016. Based on the results of the audit, an Opinion on the audit of the Transneft Long-Term Development Program implementation was received.

On the basis of the results of the procedures conducted, the auditor believes that the Report on the Transneft Long-Term Development Program implementation for 2016 has been prepared in

all material respects in compliance with the requirements of the applicable law, standards, internal regulations of Transneft and does not contain any significant deviations.

The auditor thinks that the evidence obtained is sufficient and appropriate to provide a basis for said conclusion.

The table provides information on the performance of a number of Transneft indicators in 2016, as well as their comparison with actual values in 2015.

No.	Indicator	Unit of measurement	2015	2016	
			actual	planned	actual
1.	Oil freight turnover	billion tkm	1,185.0	1,190.2	1,219.1
2.	Volume of petroleum products transportation through the trunk petroleum product pipeline system	million tons	32.2	32.3	33.1
3.	Value of specific electricity consumption, oil transportation	MWh/ million tkm	11.16	11.04	11.03
4.	Value of specific electricity consumption, petroleum products transportation	MWh/ million tkm	15.55	15.47	15.17
5.	Increase in labor productivity	%	10.2	1.7	5.6
6.	Per unit operating expenses on oil transportation per 100 tkm of freight turnover	RUB/100 tkm	16.46	17.92	17.68
7.	Total Debt/EBITDA ratio	-	2.3	No more than 2.5	1.7
8.	Net profit margin (excluding the influence of the investment component and exchange rate differences)	%	22.9	25.4	28.9
9.	Amount of capital expenditure reduction	RUB million	5,942.3	8,588	8,920.9
10.	Amount of operating expenses reduction	RUB million	4,113	4,604	9,167
11.	Scope of financing for innovation projects, including R&D, from own funds as a percentage of Transneft revenue from oil transportation services (in accordance with the Russian Accounting Standards)	%	1.4	1.4	1.4

# CHANGES IN THE STRATEGY AND THE LONG-TERM DEVELOPMENT PROGRAM

In 2016, the LDP was updated. The adjusted LDP is aligned with the Russian Ministry of Energy, the Russian Ministry of Economic Development, the Federal Agency for State Property Management, the Ministry for the Development of the Russian Far East, and the Expert Council of the Russian Government, and approved by resolution of the Board of Directors of Transneft dated December 30, 2016

In 2016, the LDP was updated. The adjusted LDP is aligned with the Russian Ministry of Energy, the Russian Ministry of Economic Development, the Federal Agency for State Property Management, the Ministry for the Development of the Russian Far East, and the Expert Council of the Russian Government, and approved by resolution of the Board of Directors of Transneft dated December 30, 2016 (Minutes No. 27).

The LDP adjustment was made for the following main reasons:

1. Extension of the LDP up to 2021 in accordance with the requirement of the Methodological Recommendations for the creation of long-term development programs for strategic joint stock companies and federal state unitary enterprises, as well as for open joint stock companies if the share of the Russian Federation in their authorized capital in total exceeds fifty percent.

2. Including in the LDP a section on the growth of the Far Eastern Federal District in accordance with subparagraph "b" of paragraph 6 of Mandate of the Russian Federation Government dated September 30, 2016 No. DM-P16-6658 (Directive of the Government of the Russian Federation dated June 28, 2016 No. 4531p-P13).

3. Adjustment of the Development, Technical Re-equipment and Renovation of Trunk Pipeline Facilities Program within the LDP framework.

4. Adjustment of the reduction in the specific air pollutant emissions ratio and the reduction in the polluted wastewater discharge ratio.

5. Accident rate adjustment.

6. Adjustment of the Program for Localization of Manufacture of Analogs of Imported Products for oil and petroleum products trunk pipeline transportation in the territory of the Russian Federation within the LDP framework.

# KEY PERFORMANCE INDICATORS (KPI) SYSTEM

While summing up Transneft's industrial and business performance results for 2016, the Key Performance Indicators (KPI) System is applied (hereinafter - KPI system), approved by the Transneft Board of Directors on December 23, 2015 (Minutes No. 32), including the following indicators with the set target values for 2016:

Overall performance of reliability, ecological and industrial safety of the trunk pipeline system – target 100%, including:

- Trunk pipeline accident rate – 0.087 accidents/1,000 km per year<sup>1</sup>;
- Reduction in specific air pollutant emissions during oil and petroleum product transportation via trunk pipelines – 1%;

Operations' overall efficiency indicator – target 100%, including:

- Percentage reduction in operating expenses – 2%;
- Reduction under comparable conditions in specific power consumption for oil transportation via trunk pipelines – 1%;
- Increase in labor productivity during oil and petroleum product transportation – 1.7%;

Overall performance of investment activity under the Development, Technical Re-Equipment and Renovation of Trunk Pipeline Facilities Program – target 100%, including:

- Execution of the financing plan for the Development Program – RUB 326,313 million (incl. VAT);
- Execution of the fixed capital formation plan under the Development Program – RUB 318,047 million (excl. VAT);
- Execution of the Action plan for capital expenditure reduction under the Development Program – RUB 8,588 million;
- Meeting implementation deadlines for Investment Projects – 4 pcs;
- Complex index of overall quantity of work as part of the TRR Program implementation – target 100%, including:
  - Execution of the plan for pipe replacement at line section – 1,482 km;
  - Execution of the plan for tank construction and reconstruction – 63 pcs;

Overall performance of innovation activity efficiency – target 100%, including:

- Scope of finance for innovation projects, including R&D, from own funds as a percentage of Transneft revenue from oil transportation services (in accordance with the Russian Accounting Standards) – 1.4%;
- Number of protection documents based on the intellectual activity results obtained during the accounting period and two precedent years – 90 pcs;

## 100%

key performance indicator accomplishment level in 2016, except for the indicator Execution of the plan for fixed capital formation under the Development Program

- Integrated impact from internal commercialization of innovation projects including R&D, during the accounting period and two precedent years as a percentage of Transneft revenue from oil transportation services (in accordance with the Russian Accounting Standards) – 1.45%;
- Quality performance of updated IDP (Innovation Development Program) (in the year of its update)/quality performance of IDP implementation (in subsequent years) – 70%;

Total Debt/EBITDA ratio – no more than 2.5;

Complex index of additional KPIs accomplishment, established by executive orders and instructions from the shareholder, President and Government of the Russian Federation – target is 100%, including:

- Return on invested capital index (ROIC) – 7%;
- Dividend amount – RUB 2,934 million;
- Share of direct purchases from small and medium-sized businesses – 10%.

Key performance indicator accomplishment level in 2016 scores 100% due to the achievement of higher results compared to the set targets. The indicator Execution of the plan for fixed capital formation under the Development Program is the exception; the deviation from it (- 1.3%)

was caused by the adjustment of construction and installation works (CIW) schedules for a number of investment projects without the change in their deadlines.

When the Board of Directors considered the issue on setting targets for key performance indicators for Transneft business activities for 2017, the KPI system was updated. Major changes introduced to the Transneft KPI System are related to the redistribution of key performance indicators' weights in compliance with the Federal Agency for State Property Management (Rosimushchestvo) requirement for increasing the weight of the key performance indicator Percentage reduction in operating expenses to 10% in the KPI system.

In addition, the KPI Share of direct purchases from small and medium-sized businesses is replaced by the indicator, similar by general content, Annual volume of purchases from small and medium-sized businesses; the change of the KPI name and calculation algorithm is conditioned by invalidating Executive Order of the Government of the Russian Federation dated May 29, 2013 No. 867-р.

The Improved Key Performance Indicators System for Transneft business activities was approved by resolution

## ₽ 328.1

billion

KPI Execution of the financing plan for the Development Program for 2017

1. An updated value of the accident rate index on the major pipelines of Transneft, determined by the actual accident rate for 2014-2015, is provided. The planned value of the accident rate index on the major oil pipelines and petroleum products pipelines for 2016, approved by resolution of the Board of Directors of Transneft as of October 28, 2015, amounted to 0.142 accidents/1,000 km per year.

of the Transneft Board of Directors dated November 30, 2016 (Minutes No. 23), relevant KPI targets for 2017 were approved by resolution of the Transneft Board of Directors dated December 12, 2016 (Minutes No. 25) for the following indicators:

Overall performance of reliability, ecological and industrial safety of the trunk pipeline system – target 100%, including:

- Trunk pipeline accident rate – 0.086 accidents /1,000 km per year;
- Reduction in specific air pollutant emissions during oil and petroleum product transportation via trunk pipelines – 1%;

Operations' overall efficiency indicator – target 100%, including:

- Percentage reduction in operating expenses – 2%;
- Reduction under comparable conditions in specific power consumption for oil transportation via trunk pipelines – 0.5%;
- Increase in labor productivity during oil and petroleum product transportation – 0.88%;

Overall performance of investment activity efficiency under the Development, Technical Re-Equipment and Renovation of the Trunk Pipeline Facilities Program – target 100%, including:

- Execution of the financing plan for the Development Program – RUB 328,062 million (incl. VAT);
- Execution of the fixed capital formation plan under the Development Program – RUB 278,666 million (excl. VAT);
- Execution of the Action plan for capital expenditure reduction under the Development Program – RUB 4,911 million;
- Meeting implementation deadlines for Investment Projects – 7 pcs;
- Complex index of overall quantity of work as part of the TRR

Program implementation – target 100%, including:

- Execution of the plan for pipe replacement at line section – 1,006 km;
- Execution of the plan for tank construction and reconstruction – 63 pcs;

Overall performance of innovation activity – target 100%, including:

- Scope of finance for innovation projects, including R&D, from own funds as a percentage of Transneft revenue from oil transportation services (in accordance with the Russian Accounting Standards) – 1.41%;
- Number of protection documents based on the intellectual activity results obtained during the accounting period and two precedent years – 91 pcs;
- Integrated impact from internal commercialization of innovation projects including R&D, during the accounting period and two precedent years as a percentage of Transneft revenue from oil transportation services (in accordance with the Russian Accounting Standards) – 1.46%;
- Quality performance of updated IDP (in the year of its update)/quality performance of IDP implementation (in subsequent years) – x;<sup>1</sup>

Total Debt/EBITDA ratio – no more than 2.5;

Complex index of additional KPIs accomplishment, established by executive orders and instructions from the shareholder, President and Government of the Russian Federation – target 100%, including:

- Return on invested capital index (ROIC) – at least 7%;
- Dividend amount – RUB 30,130 million;
- Annual purchase volume from small and medium-sized businesses – 18%.

# 2%

KPI Percentage reduction in operating expenses for 2017



1. The index for 2017 was not established, since in 2017, the Innovation Development Program would not be updated (the Innovation Development Program was updated in 2016 for the period of 2017-2021), assessment of the quality of performance of the Innovation Development Program for 2017 (the first year of implementation) was envisaged in 2018 (in accordance with the Guidelines for annual evaluation of implementation of innovation development programs) and the planned value of the index would be included in the KPI System for 2018.



# MAJOR INVESTMENT PROJECTS

## ZAPOLYARYE-PURPE-SAMOTLOR PIPELINE SYSTEM

### Project Goal

To ensure oil intake into the trunk pipeline system from new oilfields in the Yamalo-Nenets Autonomous District and the North of the Krasnoyarsk Region, the Urengoy-koye group of oilfields (Gazprom), Russkoye, Vostochno-Urengoy-koye oilfields (Rosneft), oilfields in the Bolshekhetskaya Depression (LUKOIL), Zapadno-Messoyakhskoye and Vostochno-Messoyakhskoye oilfields (Rosneft, Gazprom Neft) for subsequent delivery to refineries of the Russian Federation, and also for export.

### Grounds for implementation

Executive Order of the Government of the Russian Federation dated April 22, 2010 No. 635-r On the Design and Construction of the Zapolyarye-Purpe-Samotlor Trunk Pipeline, as revised by executive orders of the Government of the Russian Federation dated October 28, 2010 No. 1884-r, dated November 18, 2011 No. 2068-r, dated November 11, 2014 No. 2345-r, envisaging the

oil pipeline construction in sequence in two stages in the course of development and construction of new oilfield facilities.

### Stage I

Construction of the Purpe-Samotlor trunk pipeline with a throughput capacity of 25 million tons/year and a length of 429 km with the expansion of two oil pumping stations and the construction of a new oil pumping station.

### Status

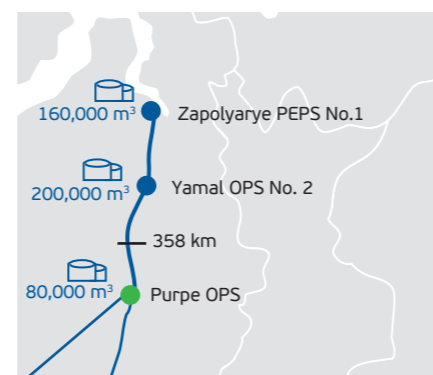
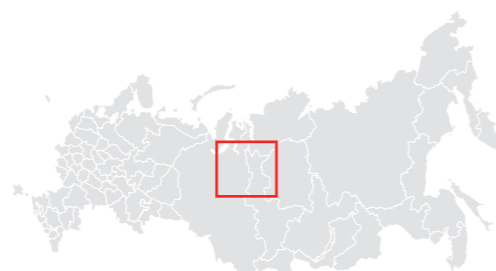
Stage I is complete. The facilities were commissioned in 2011.

### Stage II

Construction of the Zapolyarye-Purpe trunk pipeline with a throughput capacity of 32 million tons/year (with the possibility of increasing the capacity up to 45 million tons/year) and a length of 485 km, construction of two new oil pumping stations and expansion of the existing oil pumping station and the construction of auxiliary process facilities and infrastructure.

### Status

Stage II is complete. The facilities were commissioned in Q4 2016.



- Existing oil pipeline
- Built trunk oil pipeline Zapolyarye - Purpe
- Built OPS
- Reconstructed OPS
- ☒ Built tanks

## KUYUMBA-TAYSHET TRUNK PIPELINE

### Project Goal

To ensure oil intake into the Transneft Group trunk pipeline system from new oilfields in Krasnoyarsky Krai: Kuyumbinskoye (Rosneft, Gazprom Neft) and Yurubcheno-Tokhoms koye (Rosneft) for subsequent delivery to refineries in the Russian Federation and for export.

### Grounds for Implementation

Executive Order of the Government of the Russian Federation dated April 17, 2012 No. 532-r (as revised by Executive Order of the Government of the Russian Federation dated January 16, 2016 No. 31-r) On the Design and Construction of the Trunk Pipeline from the Kuyumbinskoye and Yurubcheno-Tokhoms koye oilfields along the route: Kuyumba settlement - pipe-end oil pumping station Tayshet ESPO Pipeline System.

The project envisages the construction of the Kuyumba-Tayshet trunk pipeline with a capacity of up to 15 million tons/year, the implementation of which is scheduled in two stages.

### Stage I

To ensure oil pipeline capacity in the volume of 8.6 million tons/year. Line section construction (about 700 km), construction of two new oil pumping stations and reconstruction of one oil pumping station with the tank farm.

### Status

Stage I is complete. The facilities were commissioned in Q4 2016.

### Stage II

To ensure oil pipeline capacity in the volume of up to 15 million tons/year. Construction of two oil pumping stations, construction of technical communication facilities and external power supply facilities for Oil Pumping Station No. 4.

### Status

Due to be commissioned in 2023.



- Existing oil pipeline
- Existing OPS
- Built trunk oil pipeline Kuyumba - Tayshet
- Built OPS
- OPS of the second construction stage
- Reconstructed OPS
- ☒ Built tanks

**EASTERN SIBERIA–PACIFIC OCEAN (ESPO) PIPELINE SYSTEM**

**Project Goal**

To ensure oil transportation from Eastern Siberia oilfields to Russian refineries and for export to APR countries through Kozmino Port and to the People’s Republic of China.

**Grounds for implementation**

Instruction of the Russian President dated August 10, 2007 No. Pr–1465, executive order of the Russian Government dated April 3, 2009 No. 455-r, a list of instructions of the Chairman of the Russian Government following the results of the meeting concerning Development perspectives of oil and petroleum products pipeline transportation, which took place on February 18, 2014, executive order of the Government of the Russian Federation dated December 31, 2004 No. 1737-r as revised by executive orders of the Government of the Russian Federation dated September 5, 2006 No. 1246-r, dated February 27, 2008 No. 231-r, Decree of the Government of the Russian Federation dated March 10, 2009 No. 219.

**ESPO-I Construction**

Construction of the Eastern Siberia–Pacific Ocean trunk pipeline at the section from the Tayshet pipe-end oil pumping station to the Skovorodino oil pumping station with a capacity of up to 30 million tons/year with a 2,694 km-long line section, and to the specialized sea oil-loading port in Kozmino Bay.

**Status**

Construction stage completed. Commissioned in 2009.

**ESPO-I Development**

Stage-by-stage capacity development up to 50 million tons/year, with the construction of five new oil pumping stations (Stage I) and up to 58 million tons/year with the construction of three new oil pumping stations (Stage II).

**Status**

Stage I was completed in 2012, Stage II – in 2014.

**ESPO-I Further Development**

As part of capacity increase to 80 million tons/year, the construction of six new oil pumping stations and reconstruction of the existing oil pumping stations is envisaged, as well as the construction of a 50 MCM tank.

**Status**

Construction completion is scheduled for 2020.

**ESPO-II Construction**

Construction of the Eastern Siberia–Pacific Ocean trunk pipeline at the section from the Skovorodino oil pumping station to the specialized sea oil-loading port of Kozmino with a capacity of up to 30 million tons/year and with a length of 2,046 km with the construction of eight oil pumping stations.

**Status**

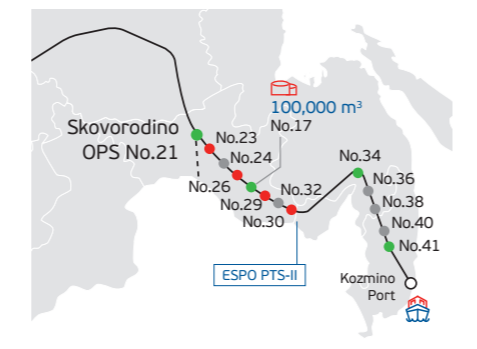
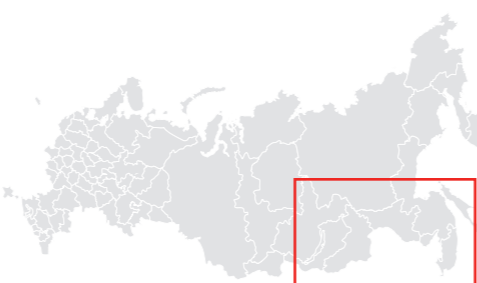
Commissioned in 2012.

**ESPO-II Further Development**

As part of capacity increase to 50 million tons/year, the construction of four new oil pumping stations and reconstruction of existing oil pumping stations is envisaged, as well as the construction of a 100 MCM tank.

**Status**

Construction completion is scheduled for 2019.



- Existing oil pipeline
- Existing OPS
- OPS under construction
- Reconstructed OPS
- 🏠 Tanks under construction
- 🚢 Sea terminal

**YUG (SOUTH) PROJECT**

**Project Goal**

To ensure diesel fuel delivery to the internal market in Krasnodarsky Krai and for export to European countries through Novorossiysk Port.

**Grounds for Implementation**

Russia’s energy strategy for the period up to 2030, approved by executive order of the Government of the Russian Federation dated November 13, 2009 No. 1715-r, General Development Plan for the Russian Oil Sector up to 2020, approved by Order of the Russian Ministry of Energy dated June 6, 2011 No. 212, and the Transneft Strategy for the period up to 2020.

**Stage I**

Reconstruction of the Tikhoretsk–Novorossiysk trunk pipelines to ensure diesel fuel delivery to the internal market in Krasnodarsky Krai and for export to European countries through Novorossiysk Port is to be carried out. The Tikhoretsk–Novorossiysk pipeline capacity for diesel fuel transfer will amount to up to 6 million tons/year. The project envisages connection of the existing Tikhoretsk–Novorossiysk-2 loop lines with the construction of a 90 km line section and reconstruction of existing stations.

**Status**

Commissioning is envisaged for 2017.

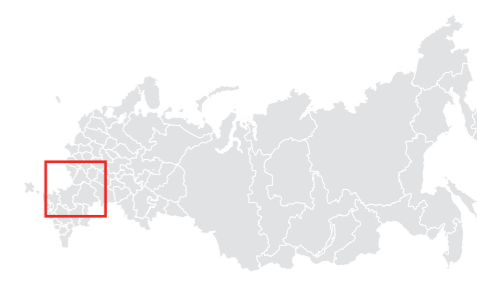
**Stage II**

Construction of trunk petroleum product pipelines to ensure diesel fuel delivery by pipeline transport at the Volgograd–Tikhoretsk section up

to 6 million tons/year to internal markets in the Volgograd and Rostov Regions and for export to European countries through Novorossiysk Port is to be carried out. The project envisages the construction of a railroad overpass, two new pumping stations, and a 495 km-long line section.

**Status**

Main facilities to ensure petroleum products transportation, process and infrastructure facilities are scheduled for completion in 2017. Completion of production loading railroad overpass construction is scheduled for 2018.



- Existing pipeline
- Petroleum products pipeline under construction
- Pipelines under reconstruction
- Existing PS
- PS under construction
- PS under reconstruction
- 🏠 Refinery
- 🏠 Delivery and acceptance point under construction
- 🚢 Loading railroad overpass under construction
- 🏠 Tanks under construction
- 🚢 Sea terminal

**DEVELOPMENT OF THE TRUNK PIPELINE SYSTEM TO INCREASE PETROLEUM PRODUCTS DELIVERY TO PRIMORSK PORT (SEVER (NORTH) PROJECT)**

**Project Goal**

To increase the throughput volume of diesel fuel to the destination of Primorsk Port.

**Grounds for Implementation**

Russia's energy strategy for the period up to 2030, approved by executive order of the Government of the Russian Federation dated November 13, 2009 No. 1715-r, General Development Plan for the Russian Oil Sector up to 2020, approved by Order of the Russian Ministry of Energy No. 212 dated June 6, 2011, and the Transneft Strategy for the period up to 2020.

**Stage I**

To increase diesel fuel export from 8.5 million tons/year to 15 million tons/year to the destination of Primorsk Port.

The stage envisages the construction of four new pumping stations and

reconstruction of existing pumping stations, construction of a 15 km loop line and six 10 MCM tanks, as well as changeover of Yaroslavl-Kirishi-2 and Kirishi-Primorsk trunk pipelines from oil pumping to diesel fuel pumping (805 km).

**Status**

Completed in Q4 2016.

**Stage II**

To increase diesel fuel export from 15 million tons/year to 25 million tons/year to the destination of Primorsk Port.

The stage envisages the construction of new petroleum product pipelines and reconstruction of existing petroleum product pipelines with a total length of 138 km, construction of three pumping stations and reconstruction of existing pumping stations, as well as the changeover of the Gorky-Yaroslavl trunk pipeline to petroleum products pumping (320 km).

**Status**

Commissioning is envisaged for 2018.



**RECONSTRUCTION OF THE TRUNK PIPELINE SYSTEM TO INCREASE THE VOLUMES OF PETROLEUM PRODUCTS TRANSPORTATION TO THE MOSCOW REGION**

**Project Goal**

To increase the volumes of light petroleum products (gasoline, diesel fuel, jet fuel) transportation and expand the range of motor gasolines for consumers in the Moscow Region. Project implementation will allow petroleum products deliveries to the Moscow Region in a volume exceeding 14 million tons/year.

**Grounds for Implementation**

General Development Plan for the Russian Oil Sector up to 2020, approved by Order of the Russian Ministry of Energy No. 212 dated June 6, 2011, Transneft Strategy for the period up to 2020,

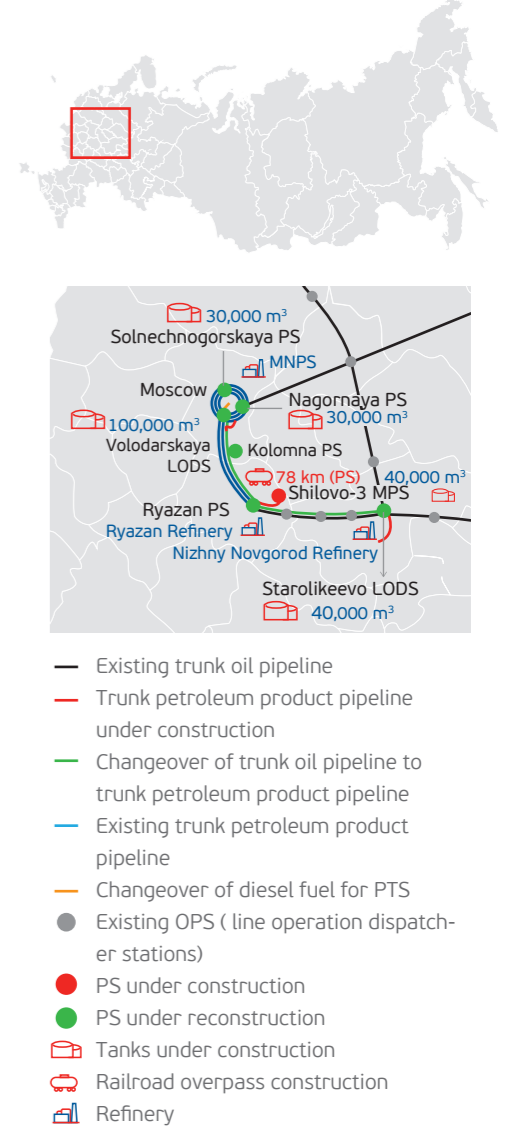
and the Agreement on cooperation on joint projects implementation between Transneft and Gazprom Neft.

**Description**

The project envisages a line section construction with an approximate length of 78 km, construction of one pumping station and reconstruction of existing pumping stations, construction of tanks with a total capacity of 240 MCM, and construction of a railroad overpass.

**Status**

Stage-by-stage commissioning is envisaged, with completion of the full range of works in 2018.



# DEVELOPMENT PROGRAM IMPLEMENTATION IN 2016

The Transneft Development Program is part of the Transneft Long-Term Development Program and includes investment projects for the development of the pipeline system and upgrade of its equipment.

The actual amount of the Transneft Development Program financing in 2016 stood at RUB 337,499.0 million (RUB 335,428.2 million, according to the plan, thus the implementation was 100.6%), of which RUB 90,281.2 million was paid from borrowed funds and RUB 247,217.8 million was paid from the Company's own funds.

The actual amount of the Transneft Investment Program financing in 2016 stood at RUB 154,435.9 million (RUB 154,234.5 million, according to the plan, thus the implementation was 100.1%), of which RUB 90,281.2 million was paid

from borrowed funds and RUB 64,154.7 million was paid from the Company's own funds.

Although the Transneft Investment Program targets were reached in general, the implementation of the financing plan of each investment project as part of the Investment Program had its own peculiarities. In a number of projects, the actual financing volumes exceeded the targets, which was primarily due to performance of works ahead of contractual schedules. In other investment projects, the actual financing volumes failed to reach the targets, which was due to some contractors needing to be replaced because of their insolvency and the long process of the execution of land parcels allocation for construction facilities, including the establishment of corresponding easements through legal proceedings.

₽ 337.5  
billion

actual amount of the Transneft Development Program financing in 2016

## Implementation of the main projects of the Transneft Development Program in 2016 (financing), RUB million, including VAT

No.	Project name	Planned	Actual	Implementation, %
<b>Total for the Development Program, including:</b>				
-	own funds	246,367.0	247,217.8	100.3 %
-	borrowed funds	89,061.2	90,281.2	101.4 %
<b>Total for investment projects, including:</b>				
-	own funds	65,173.3	64,154.7	98.4 %
-	borrowed funds	89,061.2	90,281.2	101.4 %
<b>Total for the Technical Re-equipment Program (TRP), including:</b>				
-	own funds	181,193.7	183,063.1	101.0 %
-	borrowed funds	0.0	0.0	100.0 %
<b>I</b>	<b>Investment projects for the development of the trunk oil pipeline system</b>	105,131.3	105,384.3	100.2 %

No.	Project name	Planned	Actual	Implementation, %
1	Construction of the Zapolyarye–Purpe trunk oil pipeline	30,754.3	32,279.0	105.0 %
2	Construction of the Kuyumba–Tayshet trunk oil pipeline	25,194.9	25,311.9	100.5 %
3	Expansion of the ESPO Pipeline System at the Skovorodino oil pumping station–Tayshet pipe-end oil pumping station section up to 80 million tons per year	15,000.3	14,366.1	95.8 %
4	Expansion of the ESPO PTS at the Skovorodino OPS–Kozmino specialized sea oil-loading port section up to 50 million tons per year	3,023.1	3,026.9	100.1 %
5	Reconstruction of the trunk oil pipelines in Western Siberia to increase the volume of oil transportation to Tayshet	19.6	19.7	100.5 %
6	Capacity increase of the Skovorodino–Mohe oil pipeline up to 30 million tons per year	1,938.8	1,853.7	95.6 %
7	ESPO Pipeline System. Tayshet pipe-end oil pumping station–Skovorodino oil pumping station section. Pressure safety system for trunk oil pipeline	3,073.0	2,786.5	90.7 %
8	ESPO Pipeline System–Komsomolsk Refinery pipeline branch	14,972.8	14,551.6	97.2 %
9	Reconstruction of trunk oil pipelines to transport oil to refineries in Krasnodarsky Krai	606.4	580.2	95.7 %
10	Reconstruction of trunk oil pipelines' facilities to decrease sulfur content in oil transported to refineries in the Central Region and Volga Region	1,125.9	1,104.3	98.1 %
11	Capacity increase of the Yaroslavl–Moscow trunk oil pipeline	1,155.4	1,087.1	94.1 %
12	Reconstruction of the Kuybyshev–Tikhoretsk trunk oil pipeline and the Zhirnovsk–Volgograd trunk oil pipeline to ensure supply of up to 14.5 million tons of oil per year to Volgograd Refinery	1,241.6	1,245.6	100.3 %
13	Development of the corporate data transfer network to build the Transneft Unified Information System (UIS) (UIS Program)	5,574.9	5,567.9	99.9 %
14	The Eastern Siberia–Pacific Ocean pipeline transportation system, the Skovorodino oil pumping station–Kozmino specialized sea oil-loading port section (ESPO PTS-II). Construction of auxiliary facilities	781.2	779.2	99.7 %
15	Expansion of pipeline transportation system to ensure transportation of up to 12 million tons of oil per year to RN-Tuapse Refinery LLC	50.3	27.2	54.1 %
16	Capacity increase of trunk oil pipeline to transport up to 14 million tons of oil per year to OJSC TANECO Refinery	367.1	545.7	148.7 %
17	Capacity increase of the Usa–Ukhta trunk oil pipeline and the Ukhta–Yaroslavl trunk oil pipeline	251.7	251.7	100.0 %
<b>II</b>	<b>Investment projects for the development of the trunk petroleum product pipeline system</b>	49,103.2	49,051.6	99.9 %
1	Yug Project The 1st stage. Reconstruction of the Tikhoretsk–Novorossiysk trunk pipelines	6,319.7	6,072.8	96.1 %
2	Yug Project The 2nd stage. Construction of the Volgograd–Tikhoretsk trunk petroleum product pipeline	10,366.7	10,631.5	102.6 %
3	Yug Project The 3rd stage.	1,065.8	1,099.6	103.2 %
4	Construction of the Volgograd Refinery–Tinguta MPS trunk petroleum product pipeline	1,602.6	1,598.2	99.7 %
5	Development of the trunk pipeline system to increase petroleum products delivery to Primorsk Port to 15 million tons per year (Sever Project)	7,296.4	7,198.7	98.7 %
6	Development of the trunk pipeline system to increase petroleum products delivery to Primorsk Port to 25 million tons per year (Sever Project)	11,611.8	11,438.0	98.5 %
7	Reconstruction of the trunk pipeline system to increase the volumes of petroleum products transportation to the Moscow Region	10,840.2	11,012.8	101.6 %
<b>III</b>	<b>EUP Program for trunk oil pipelines</b>	160,807.7	162,916.0	101.3 %
<b>IV</b>	<b>EUP Program for trunk petroleum product pipelines</b>	20,386.0	20,147.1	98.8 %

# OPERATING EFFICIENCY INCREASE

The Operating Efficiency Increase and Cost Reduction Program of Transneft till 2021 was approved by resolution of the Board of Directors of the Company dated December 12, 2016 (Minutes No. 25).

**THE PROGRAM'S MAIN OBJECTIVES ARE:**

- Increase in reliability and completeness of the oil (petroleum product) transportation services provided:
  - fixed assets upgrade;
  - import substitution and localization of manufacture of analogs of imported products;
  - provision of anti-terrorism security at Transneft facilities;

Increase in resource efficiency:

- increase in the property, plant and equipment management efficiency;
- increase in the efficiency of the process of management of the property, plant and equipment maintenance and repair;
- increase in the efficiency of the energy resources use;
- functional organization development;
- incentive program and staff remuneration optimization;
- increase in the working capital management efficiency;
- operating costs reduction;
- modern technology adoption and innovation utilization.

by **2021**  
the non-exceedance of the acceptable number of accidents per 1,000 km of line section is planned to be 0.072

**Main targets of the Program to reach by 2021**

Indicator	Target by 2021
Non-exceedance of the acceptable number of accidents per 1,000 km of line section	0.072
Suppression (prevention) of attempted illegal attacks on secured facilities	0.992
Labor productivity in physical terms	Min. 16.0 million tkm per person
Reserve life standard (according to the plan for Repair and Operational Needs)	Max. 6 months

**Main targets of the Program with an annual target standard**

Indicator	Target by 2021
Reduction under comparable conditions in specific power consumption for core activity	0.5% annually
Percentage reduction in operating expenses	Min. 2% annually
Staff turnover rate	Max. 5% annually Company-wide

# INNOVATIVE DEVELOPMENT

The Transneft Innovative Development Program till 2017 was approved by resolution of the Board of Directors of the Company dated April 1, 2011 (Minutes No. 7), endorsed by the Russian Ministry of Energy, the Russian Ministry of Education and Science, the Russian Ministry of Economic Development, and the working group for the development of the public-private partnership in the innovation sector affiliated to the Government Commission on High Technology and Innovation (Minutes No. 15-AK dated April 13, 2011).

The Program is based on projects for the development of breakthrough technologies in the pipeline transportation of oil and petroleum products, improvement of engineering and technology, organization of the release of innovative R&D designs, and on key performance indicators (KPIs). The Program aims to significantly improve key performance indicators of production processes.

The Transneft Innovative Development Program for 2017-2021 was developed by Transneft in 2016 pursuant to Order

No. DM-P36-7563 by the Government of the Russian Federation dated November 7, 2015, and to Directive No. 1471p-P13 of the Government of the Russian Federation dated March 3, 2016. The document was developed on the basis of the results of the independent technology audit, agreed upon by the Russian Ministry of Energy, the Russian Ministry of Education and Science, the Russian Ministry of Economic Development, and approved by resolution of the Board of Directors of Transneft dated November 11, 2016 (Minutes No. 21).

In the new Program, in order to ensure continuity, all the main measures and projects of the previous Program were retained. At the same time, the new Innovative Development Program was expanded and supplemented by measures to develop a system for managing the results of intellectual activity, and to ensure cooperation with universities, scientific organizations, the Russian Academy of Sciences' institutes, technology platforms, development institutions, innovative territorial clusters, etc.

**98.7%**

out of 100% is the evaluation of the Transneft Innovative Development Program by the interdepartmental group of independent experts

The Program was highly appreciated by the interdepartmental group of independent experts from the companies of the Russian fuel and power sector, which presented its assessments at the meeting of the Interdepartmental Commission for Technological Development of the Presidium of the Presidential Council for Economic Modernization and Innovative Development. The Transneft Program was evaluated by the interdepartmental group of independent experts at the level of 98.7% out of 100%, which is one of the highest ratings for companies partially owned by the government. The Commission approved the Program (Minutes No. 10-DO1 dated October 7, 2016).

# NON-CORE ASSET DIVESTMENT PROGRAM

On June 22, 2016, the Board of Directors of Transneft made a decision (Minutes No. 12) on terminating the Program for the divestment of non-core assets of the Transneft Group Companies approved on April 1, 2011.

In 2016, under this Program, two non-core assets were divested for a total of RUB 11,800,000 (Annex 1).

Pursuant to Directive No. 4863p-P13 of the Government of the Russian Federation dated July 7, 2016, by resolution of the Board of Directors of Transneft dated October 14, 2016 (Minutes No. 17), the Transneft Group Non-Core Asset Divestment Program and the Transneft Group Non-Core Asset Register (hereinafter – Register) were approved.

The Register includes 5 minority stakes in the companies scheduled for liquidation, in which Transneft participates indirectly, as well as the Transneft minority stake in OOO KHL, slated for sale.

# Financial Review



₽ +32.5 billion – the increase in revenue in 2016

₽ -2.5 billion – the reduction in operating expenses in 2016

₽ +37.3 billion – the increase in EBITDA in 2016

₽ 232.9 billion – the net profit in 2016

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# KEY FINANCIAL AND ECONOMIC INDICATORS OF THE GROUP UNDER IFRS

According to the results of 2016, Transneft Group improved its financial performance. Under the International Financial Reporting Standards (IFRS), the revenue of the Group increased by RUB 32.5 billion or 4.0% mainly due to the increase in revenue from the provision of oil and petroleum product transporta-

tion services. In 2016, the Group's EBITDA increased by RUB 37.3 billion or 10.0% mainly due to the increase in revenue from the provision of oil and petroleum product transportation services and operating expenses reduction. Net profit increased by RUB 89.5 billion or 62.4% and amounted to RUB 232.9 billion.

₽ **232.9**  
billion

the net profit of Transneft Group

## The Group's key performance indicators in 2016, RUB million

Indicator	2016	2015	Absolute change	Change, %
Revenue	848,134	815,652	32,482	4.0
Operating expenses excluding amortization and depreciation	-439,917	-442,370	2,453	-0.6
Operating profit net of amortization and depreciation	408,217	373,282	34,935	9.4
Amortization and depreciation	-128,523	-118,767	-9,756	8.2
Operating profit	279,694	254,515	25,179	9.9
Profit before income tax	301,422	165,553	135,869	82.1
Income tax expense	-68,515	-22,126	-46,389	3.1 times
Profit for the reporting period	232,907	143,427	89,480	62.4
Other comprehensive income / (loss), net of income tax	2,321	-5,488	7,809	X
Total comprehensive income, net of income tax	235,228	137,939	97,289	70.5
EBITDA*	408,780	371,459	37,321	10.0
Debt/EBITDA	1.7	2.4	-0.7	X

\* Excluding purchase and sale of crude oil under contracts with Rosneft and China National Petroleum Corporation.

## REVENUE

For the year ended December 31, 2016, the Group's revenue increased by RUB 32,482 million or by 4.0%, attributable mainly to an increase in revenue from crude oil transportation and petroleum products transportation services. Without taking into account revenue

from crude oil sales and petroleum products sales, revenue for the year ended December 31, 2016 increased by RUB 60,566 million or by 9.4% compared to the year ended December 31, 2015 and accounted for 82.9% of total revenue for the reporting period.

### RUB million

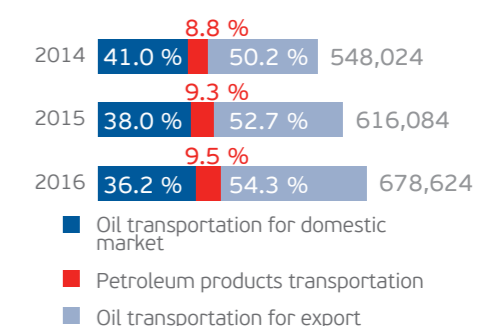
Indicator	Year ended December 31, 2016	Share of total revenue, %	Year ended December 31, 2015	Share of total revenue, %	Absolute change	Change, %
Revenue from crude oil transportation services	614,139	72.5	558,775	68.5	55,364	9.9
exports, except the CIS	351,834	41.5	309,788	38.0	42,046	13.6
exports in the CIS	16,743	2.0	14,627	1.8	2,116	14.5
domestic sale	245,562	29.0	234,360	28.7	11,202	4.8
Revenue from petroleum products transportation services	64,485	7.6	57,309	7.0	7,176	12.5
Revenue from oil compounding service	6,015	0.7	5,329	0.7	686	12.9
Other revenue	18,345	2.1	21,005	2.6	(2,660)	(12.7)
<b>Total revenue (without revenue from sales of crude oil and petroleum products)</b>	<b>702,984</b>	<b>82.9</b>	<b>642,418</b>	<b>78.8</b>	<b>60,566</b>	<b>9.4</b>
Revenue from export sales of crude oil	127,113	15.0	143,589	17.6	(16,476)	(11.5)
Revenue from sales of crude oil on the domestic market	15,186	1.8	27,923	3.4	(12,737)	(45.6)
Revenue from sales of petroleum products	2,851	0.3	1,722	0.2	1,129	65.6
<b>Total revenue</b>	<b>848,134</b>	<b>100.0</b>	<b>815,652</b>	<b>100.0</b>	<b>32,482</b>	<b>4.0</b>

### OIL AND PETROLEUM PRODUCT TRANSPORTATION SERVICES

The increase in revenue from oil transportation services amounted to RUB 55,364 million or 9.9% for the year ended December 31, 2016 compared to the same period of 2015 and was attributable to the change in tariffs and the change in oil transportation and turnover as well as the setting of new tariffs.

The increase in revenue from petroleum products transportation services by RUB 7,176 million or by 12.5% for the year ended December 31, 2016 compared to the same period of 2015 was driven by changes in petroleum products transportation tariffs as well as changes in petroleum products transportation and turnover.

### Changes and structure of revenue from oil and petroleum products transportation, RUB million



## REVENUE FROM SALES OF CRUDE OIL AND PETROLEUM PRODUCTS

Revenue from export sales of crude oil was driven by the start of oil supplies to the People's Republic of China under a 20-year contract to supply 6 million tons of crude oil annually effective from January 1, 2011. This contract was signed as collateral for a loan obtained from the China Development Bank. The respective oil volumes are being purchased from Rosneft.

The decrease in revenue from export sales of crude oil by RUB 16,476 million or by 11.5% for the year ended December 31, 2016 compared to the year ended December 31, 2015 was mainly a result of the decline in the average oil market price per barrel set in USD as well as the increase of the USD/RUB exchange rate during the reporting period to the same period of the previous year.

The decrease in revenue from domestic sales of crude oil for the year ended December 31, 2016 by RUB 12,737 million or by 45.6% compared to the relative period of the previous year was a result of the decline in sale volumes of crude oil by the Group's companies.

The increase in revenue from sales of petroleum products for the year ended December 31, 2016 amounted to RUB 1,129 million or 65.6%.

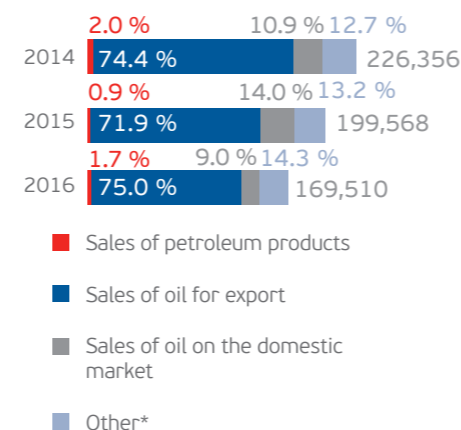
## OTHER REVENUE

The increase in revenue from the provision of oil compounding services for the year ended December 31, 2016, compared to the same period of the previous year, of RUB 686 million or 12.9%, was due to the increase in the volume of oil compounding by 12.7% (for the year ended December 31, 2016 – 42,684,900 tons, for the year ended December 31, 2015 – 37,883,800 tons).

Other revenue includes revenue from connection of companies to the trunk pipeline system and revenue from trunk pipeline expansion services, information services related to oil transportation, oil and petroleum products storage services, communication services, diagnostic services, construction services, rent services, organization of transporting services, as well as other services.

The decrease of other revenue for the year ended December 31, 2016 compared to the relative period of the previous year was mainly caused by the decrease of revenue from connection of facilities to the trunk pipeline system and revenue from trunk pipeline expansion services.

## Changes and structure of revenue from sales of oil and petroleum products and other income, RUB million



## OPERATING EXPENSES

Operating expenses net of amortization and depreciation for the year ended December 31, 2016, and the year ended December 31, 2015, are detailed in the table below:

### RUB million

Operating expense line items	Year ended December 31, 2016	Share of total expenses, %	Year ended December 31, 2015	Share of total expenses, %	Absolute change	Change, %
Salaries, social funds contributions and social expenses	144,639	32.9	132,202	29.9	12,437	9.4
Energy	38,438	8.7	34,471	7.8	3,967	11.5
Materials	29,505	6.7	24,592	5.6	4,913	20.0
Repair services and maintenance of the pipeline system	15,746	3.6	14,382	3.3	1,364	9.5
Insurance expenses	7,059	1.6	6,640	1.5	419	6.3
Taxes (other than income tax)	21,362	4.9	17,005	3.8	4,357	25.6
Pension expenses	4,392	1.0	5,878	1.3	(1,486)	(25.3)
Other operating expenses	33,901	7.6	36,922	8.3	(3,021)	(8.2)
Cost of export crude oil sales (including export custom duties)	127,676	29.0	141,766	32.0	(14,090)	(9.9)
Cost of crude oil sold on the domestic market	13,497	3.1	23,680	5.4	(10,183)	(43.0)
Cost of petroleum products sold	2,956	0.7	1,658	0.4	1,298	78.3
Cost of other goods sold	746	0.2	3,174	0.7	(2,428)	(76.5)
Operating expenses net of amortization and depreciation	439,917	100.0	442,370	100.0	(2,453)	(0.6)

For the year ended December 31, 2016, compared to the year ended December 31, 2015, operating expenses net of amortization and depreciation decreased by RUB 2,453 million or by 0.6%.

The small decrease in the operating expenses net of amortization and depreciation was driven by the following factors:

- decrease in the cost of export crude oil sales and cost of crude oil sold on the domestic market;
- growth of salaries, social funds contributions and social expenses;
- growth of material expenses.

After applying inflation rates\*, operating expenses net of amortization and depreciation for the year ended December 31, 2016, and for the year ended December 31, 2015, were as follows:

₽ -2.5  
billion

the reduction in operating expenses net of depreciation and amortization in 2016



## RUB million

Operating expense line items	Year ended December 31, 2016	Share of total expenses, %	Inflation rates (2016 to 2015), %*	Year ended December 31, 2015 (inflated to 2016)	Share of total expenses, %	Absolute change	Change, %
Salaries, social funds contributions and social expenses	144,639	32.9	7.1	141,588	31.2	3,051	2.2
Energy	38,438	8.7	8.2	37,298	8.2	1,140	3.1
Materials	29,505	6.7	3.2	25,379	5.6	4,126	16.3
Repairs services and maintenance of relevant technical condition of pipeline	15,746	3.6	8.1	15,547	3.4	199	1.3
Insurance expenses	7,059	1.6	3.2	6,852	1.5	207	3.0
Taxes (other than income tax)	21,362	4.9	3.2	17,549	3.9	3,813	21.7
Pension expenses	4,392	1.0	7.1	6,295	1.4	(1,903)	(30.2)
Other operating expenses	33,901	7.6	3.2	38,104	8.4	(4,203)	(11.0)
Cost of export crude oil sales (including export custom duties)	127,676	29.0	(2.8)	137,797	30.3	(10,121)	(7.3)
Cost of crude oil sold on the domestic market	13,497	3.1	(2.8)	23,017	5.1	(9,520)	(41.4)
Cost of petroleum products sold	2,956	0.7	(8.0)	1,525	0.3	1,431	93.8
Cost of other goods sold	746	0.2	3.2	3,276	0.7	(2,530)	(77.2)
Operating expenses net of amortization and depreciation	439,917	100.0	X	454,227	100.0	(14,310)	(3.2)

\* The inflation rates used are based on the forecast for social and economic development of the Russian Federation for 2017 and for the planned period of 2018 and 2019 prepared by the Ministry of Economic Development of the Russian Federation

#### PER UNIT COSTS ARE ANALYZED BY OIL TRANSPORTATION AND PETROLEUM PRODUCTS TRANSPORTATION ACTIVITIES BASED ON INDICATORS DEVELOPED UNDER THE RUSSIAN ACCOUNTING STANDARDS

Per unit costs are calculated using an operating expenses indicator based

on aggregated Russian Accounting Standards data which considers the previous year data adjusted for conditions of the reporting period. For calculation of inflated per unit costs the index of inflation is used which is based on the forecast for social and economic development of the Russian Federation for 2017

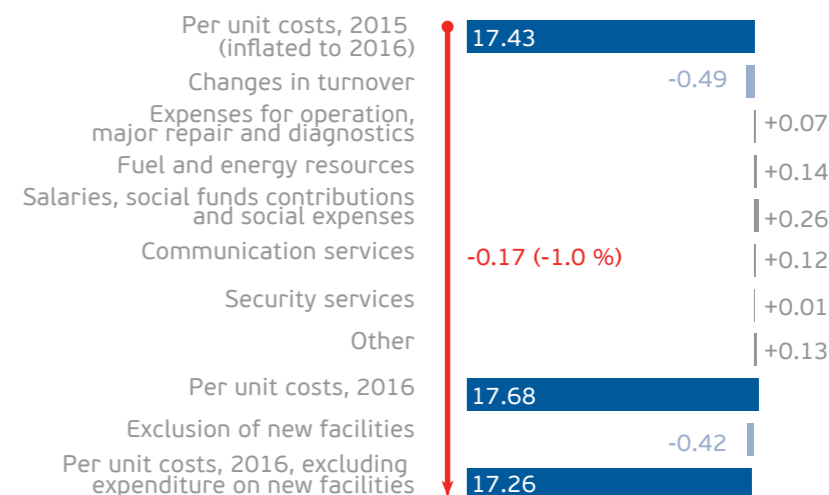
and for the planned period of 2018 and 2019 prepared by the Ministry of Economic Development of the Russian Federation.

Per unit costs for transportation of oil per 100 tkm for the year ended December 31, 2016 and for the year ended December 31, 2015 were as follows:

#### Oil transportation service

	Year ended December 31, 2016	Year ended December 31, 2015	Absolute change	Change, %
Freight turnover, million tkm	1,219,134	1,185,028	34,106	2.9
Per unit costs per 100 tkm (indicators of 2015 inflated to 2016), RUB	17.68	17.43	0.25	1.4
Per unit costs per 100 tkm, excluding expenditure on new facilities, RUB (2015 figures inflated to 2016)	17.26	17.43	(0.17)	(1.0)

#### Changes in per unit costs of oil transportation, RUB / 100 tkm



Per unit costs for transportation of petroleum products per ton for the year ended December 31, 2016 and for the year ended December 31, 2015 were as follows:

#### Petroleum products transportation services

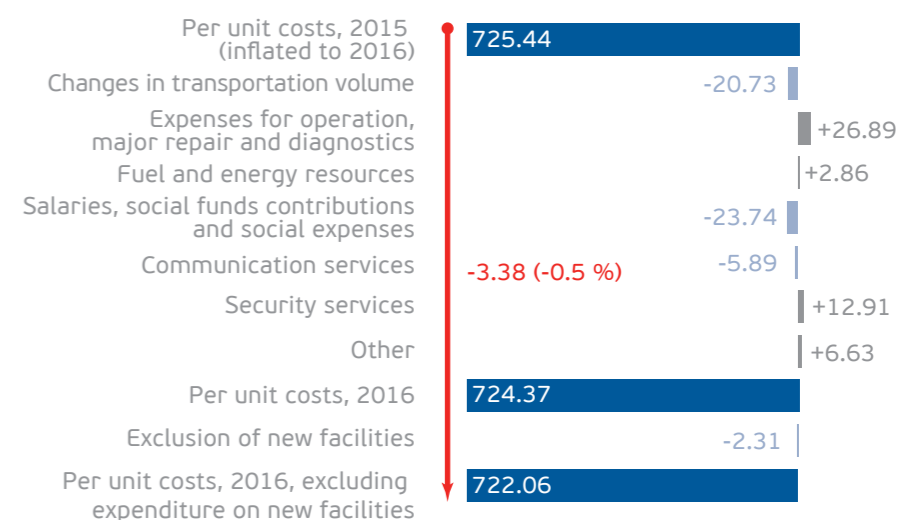
	Year ended December 31, 2016	Year ended December 31, 2015	Absolute change	Change, %
Transportation volume, million tons	33.1	32.2	0.9	2.8
Per unit costs per ton, RUB (2015 figures inflated to 2016)	724.37	725.44	(1.07)	(0.1)
Per unit costs per ton excluding expenditure on new facilities, RUB (2015 figures inflated to 2016)	722.06	725.44	(3.38)	(0.5)

# ₽ 722.06

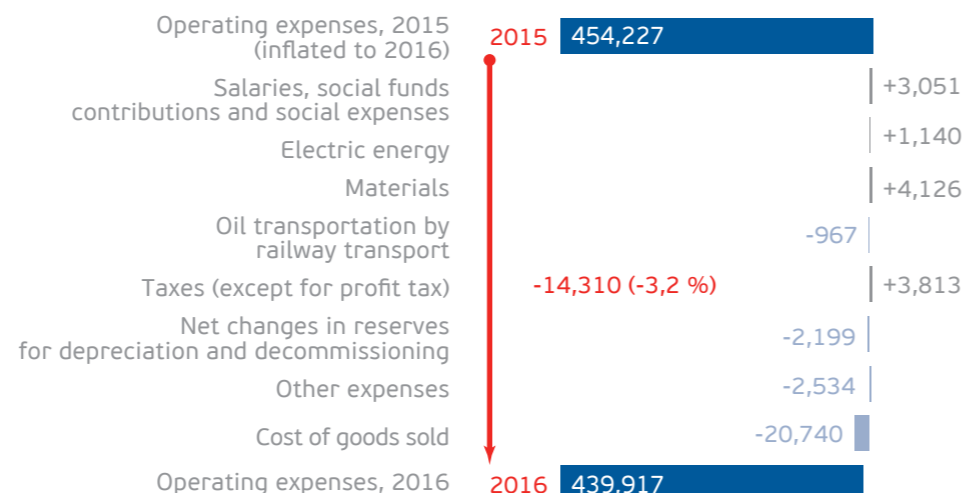
per ton

per unit costs in 2016 excluding expenditure on new facilities

#### Changes in per unit costs of petroleum products transportation, RUB / ton



### Factor analysis of changes in operating expenses, RUB million



#### REASONS FOR CHANGES IN OPERATING EXPENSE LINE ITEMS

The increase in salaries, social funds contributions and social expenses for the year ended December 31, 2016 compared to the year ended December 31, 2015 in the amount of RUB 12,437 million or 9.4% was mainly influenced by an increase of social funds contributions caused by an increase in the limit for their accrual, indexation of salaries held in 2016 and putting the Zapolyarye-Purpe and Kuyumba-Tayshet trunk pipelines into operation.

Pension expenses changed under the following factors which influence expenses:

- inclusion of pension liabilities of NPF Transneft, JSC in the consolidated financial statements of the Group;
- recognition of obligations of the Group under the defined benefit plan in accordance with IAS 19 Employee benefits and related expenses accrued.

Energy expenses for the year ended December 31, 2016 increased by RUB 3,967 million or by 11.5% compared to the same period of the previous year. The increase was caused by the growth of tariffs of natural monopolies for energy and the growth of energy

purchased because of the increase in freight turnover.

Expenses for materials for the year ended December 31, 2016 as compared to the same period of 2015, increased by RUB 4,913 million or by 20.0%. The increase expenses for materials was mainly caused by the increase of expenses for drag reducing agents, minor and major repairs, as well as preparation and putting into operation of new pipeline facilities.

The amount of expenses for repair services and maintenance of the relevant technical condition of pipelines increased in the reporting period by RUB 1,364 million or by 9.5% as compared to the relative period of the previous year because of planned major repair works.

The cost of export crude oil sales for the year ended December 31, 2016 in the amount of RUB 127,676 million includes the cost of sales (in the amount of RUB 97,669 million) of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 30,007 million. This figure is a result of oil supplies to the People's Republic of China.

The decrease in the cost of oil sold on the domestic market for the year

ended December 31, 2016 amounted to RUB 10,183 million or 43.0% as compared to the relative period of 2015 and was caused by the decrease in sale volumes of oil by the Group's subsidiaries.

The cost of petroleum products sold for the year ended December 31, 2016 increased by RUB 1,298 million or by 78.3% as compared to the relative period of 2015.

The amount of the Group's other taxes recognized in operating expenses primarily contains property tax, tax on land and transport tax. The increase of these items was mainly caused by the increase of the property tax expenses.

Other operating expenses include communication services, rent expenses, transportation services, the resulting gains and losses relating to disposal of property, plant and equipment and other assets, fines and penalties received and paid, as well as other income and expenses.

## EBITDA FORMATION

RUB million

	Year ended December 31, 2016	Year ended December 31, 2015	Change, %
Net profit for the period	232,907	143,427	62.4
Adjustments for:			
income tax expenses	68,515	22,126	3.1 times
amortization and depreciation	128,523	118,767	8.2
result of crude oil sales to China	563	(1,823)	x
net finance (income)/costs	(9,665)	67,212	x
share of (profit)/loss from associates and jointly controlled entities	(19,519)	4,119	x
other expenses	7,456	17,631	(57.7)
EBITDA*	408,780	371,459	10.0

\* Less crude oil sale and purchase operations under contracts with Rosneft and the China National Petroleum Corporation

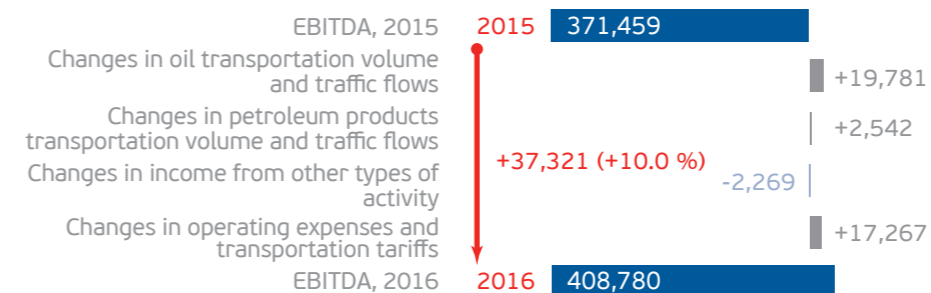
EBITDA is a useful indicator for investors, as it indicates the Group's operating performance, including its ability to finance capital expenditures, company acquisitions, and other investments, as well as its ability to raise and service borrowings and loans. Some investors, analysts, and rating agencies tend to use EBITDA as

a basis for estimating and projecting the efficiency and value of oil and gas companies. This indicator should not be considered separately, as an alternative to net income, operating income, or any other of Group's performance indicators reported in its condensed interim consolidated financial statements under IFRS.

₽408.8 billion

EBITDA in 2016

### Factor analysis of changes in EBITDA, million RUB



# CASH FLOW ANALYSIS

## RUB million

	Year ended December 31, 2016	Year, ended December 31, 2015	Absolute change	Change, %
Cash flows from operating activities	317,570	329,237	(11,667)	(3.5)
Cash flows used for purchase of property, plant and equipment (net)	(319,958)	(322,987)	3,029	(0.9)
Free cash (outflow)/inflow	(2,388)	6,250	(8,638)	x
Cash flows from other investment activities	69,250	112,213	(42,963)	(38.3)
Cash flows used in financing activities	(72,510)	(149,506)	76,996	(51.5)
Net cash outflow	(5,648)	(31,043)	25,395	(81.8)
Change in cash and cash equivalents due to deviation of currency exchange rate	(12,479)	29,895	(42,374)	x
Net decrease in cash and cash equivalents	(18,127)	(1,148)	(16,979)	15.8 times

Negative free cash flow excluding investments in securities and deposits for the year ended December 31, 2016 amounted to RUB 2,388 million (positive free cash flow as for the year ended December 31, 2015 amounted to RUB 6,250 million).

### OPERATING ACTIVITY

The main factors which influenced the decrease of cash generated from operating activities for the year ended December 31, 2016 as compared to the same period in 2015 were as follows:

- increase in cash receipts from customers by RUB 27,118 million;
- increase in cash paid to suppliers and contractors by RUB 19,655 million;
- decrease in cash received from the refund of VAT and other taxes from the budget by RUB 5,849 million;
- increase in income tax paid amounting to RUB 9,174 million;
- increase in amount of interest paid by RUB 1,500 million.

### INVESTMENT ACTIVITIES

The primary factors resulting in an increase in cash used in investment activities for the year ended December 31, 2016 were:

- decrease in net cash inflow for the year ended December 31, 2016 from purchase-and-sale transactions of debt securities and allocation/closure of deposits in the amount of RUB 14,875 million compared to the relative period of 2015;
- decrease in interest and dividends received by RUB 13,431 million;
- consideration paid for acquisition of 50% authorized capital of Novorosysk Fuel Oil Terminal LLC (NFT LLC) in the amount of USD 159 million (RUB 12,497 million at the exchange rate of the Bank of Russia on the date of payment).

### FINANCING ACTIVITIES

The main factors which influenced the decrease of cash flows used in financing activities for the year ended

December 31, 2016 as compared to the relative period of 2015 by RUB 76,996 million or by 51.5% were:

- net proceeds from issuance of non-convertible interest-bearing documentary exchange-traded bonds in the amount of RUB 79,176 million during the year ended December 31, 2016;
- increase of cash used for the repayment of bonds and loans and borrowings by RUB 56,611 million for the year ended December 31, 2016 as compared to the relative period of 2015:
  - for the year ended December 31, 2016 monthly repayments of the loan to China Development Bank in the total amount of USD 1,827 million (RUB 118,944 million at the rate of Central Bank of the Russian Federation on the dates of operations), RUB denominated bonds were redeemed (repurchased) in the amount of RUB 10,414 million;
  - during the year ended December 31, 2015 monthly repayments of the loan to China Development Bank were made in the amount of

USD 667 million (RUB 40,721 million at the rate of the Central Bank of the Russian Federation on the date of operation), RUB denominated bonds were redeemed in the amount of RUB 30,943 million and the loan from LatRosTrans was repaid in the amount of RUB 1,083 million;

- payments for the acquisition of non-controlling interests: 36% in Transneft Kama Region, JSC (formerly SZMN, JSC) and 25% in OOO Transneft-Terminal amounting to RUB 15,606 million during the year ended December 31, 2015;
- increase of dividends paid out by RUB 9,855 million during the year ended December 31, 2016 compared to the relative period of 2015;
- performance of obligations in relation to the derivatives, shown in the line "Other cash used in financing activities."

### CALCULATING OPERATING CASH FLOW USING THE INDIRECT METHOD

Cash flows received from operating activities using the indirect method are disclosed in the table below in addition to the consolidated statement of cash flows prepared using the direct method and disclosed in the consolidated financial statements prepared in accordance with IFRS for the year ended December 31, 2016.

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit before tax for the effects of:

- changes during the reporting period in inventories and operating receivables and payables;

- non-cash items such as amortization and depreciation, provisions, unrealized foreign currency gains and losses, interest income and expenses, share of profit/loss from associates and jointly controlled entities;

- all other items for which the cash effects are investing or financing cash flows.

## RUB million

	Year ended December 31, 2016	Year ended December 31, 2015
<b>OPERATING ACTIVITY</b>		
Profit before income tax	301,422	165,553
Adjustments for:		
Amortization and depreciation	128,523	118,767
Loss from disposal of property, plant and equipment	1,249	989
Finance income	(290,870)	(542,902)
Finance costs	281,205	610,114
Gain on disposal of subsidiaries	(998)	-
Share of (profit)/loss from associates and jointly controlled entities	(19,519)	4,119
Others	(5,611)	6,161
Operating profit before changes in working capital and reserves	395,401	362,801
Changes in operating assets and liabilities:		
Changes in inventories	2,939	646
Changes in trade and other receivables relating to operating activity and VAT assets	(1,652)	24,995
Changes in trade and other payables, and accruals relating to operating activity	15,609	24,178
Cash flows from operating activities before payment of income tax expenses and interest	412,297	412,620
Income tax paid	(49,078)	(39,904)
Income tax refund	597	1,267
Interest paid	(46,246)	(44,746)
Net cash flows received from operating activities	317,570	329,237

## LIQUIDITY ANALYSIS

### RUB million

	December 31, 2016	December 31, 2015	Change, %
Current assets	535,607	640,914	(16.4)
including:			
cash and cash equivalents	74,586	92,713	(19.6)
short-term bank promissory notes, deposits and bonds*	349,529	427,192	(18.2)
Current liabilities	293,849	240,451	22.2
Net working capital	241,758	400,463	(39.6)
Current ratio	1.8	2.7	x
Quick ratio**	1.6	2.3	x
Debt/EBITDA	1.7	2.4	x
Debt/equity	0.4	0.6	x

\* The main part of short-term bank promissory-notes, deposits and bonds consist of promissory notes, deposits and bonds issued by credit institutions and other companies with credit ratings at Ba1 – Ba3 on the Moody's adjusted scale. Thus, short-term bank promissory notes, deposits and bonds consist of financial instruments issued by highly reliable and reliable credit institutions and companies.

\*\* Quick ratio = (Cash and cash equivalents + Current financial assets + Short-term receivables) / Current liabilities.

The following are the contractual repayment periods of financial liabilities, including estimated interest payments at the rates as of December 31, 2016 and December 31, 2015 respectively, with amounts

denominated in foreign currency calculated using the Central Bank of the Russian Federation exchange rates as of December 31, 2016 and December 31, 2015 respectively.

### RUB million

#### December 31, 2016

	Book value	Total	Contractual cash flows					
			2017	2018	2019	2020	2021	More than 5 years
Loans and borrowings	701,552	895,916	155,594	140,634	143,184	54,811	68,786	332,907
Trade and other payables	85,823	85,823	85,823	-	-	-	-	-
	787,375	981,739	241,417	140,634	143,184	54,811	68,786	332,907

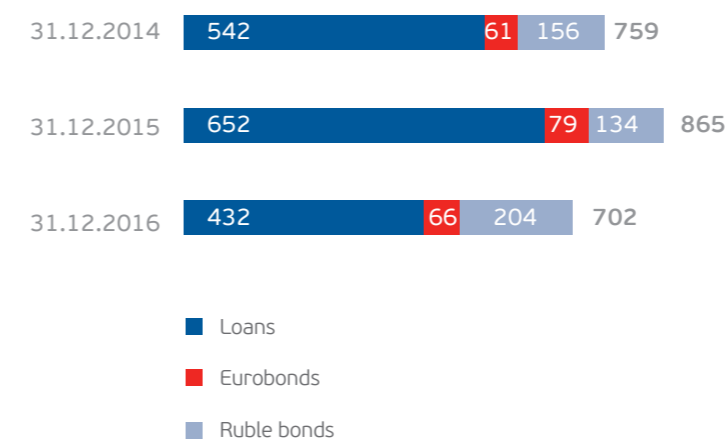
#### December 31, 2015

Loans and borrowings	865,003	1,094,932	129,337	133,827	157,312	133,623	65,302	475,531
Trade and other payables	76,592	76,592	76,592	-	-	-	-	-
	941,595	1,171,524	205,929	133,827	157,312	133,623	65,302	475,531

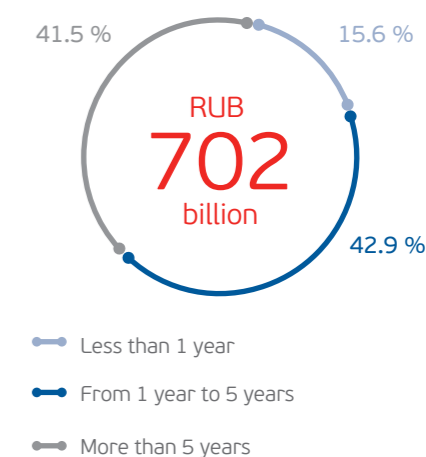
The debt structure as of December 31, 2016 assumes the possible redemption date for non-convertible interest-bearing documentary bonds in the amount of RUB 45,208 million at the offer date (2017).

The debt structure as of December 31, 2015 assumes the possible redemption date for non-convertible interest-bearing documentary bonds in the amount of RUB 25,427 million at the offer date (2016), RUB 45,000 million at the offer date (2017).

### Transneft debt structure by types of borrowings, RUB billion



### Debt structure by maturity



# KEY FINANCIAL AND ECONOMIC INDICATORS OF TRANSNEFT, UNDER THE RUSSIAN ACCOUNTING STANDARDS

Indicator	Amount, RUB thousand		Change, RUB thousand	Change, %
	2016	2015		
Revenue, total	803,083,944	756,936,378	46,147,566	6.1
including:				
Oil transportation services	611,929,692	555,764,721	56,164,971	10.1
Petroleum products transportation services	54,671,040	48,539,932	6,131,108	12.6
Oil sales for export	127,113,124	143,589,097	-16,475,973	-11.5
Oil compounding services	6,015,471	5,329,348	686,123	12.9
Property rental	1,201,113	787,417	413,696	52.5
Other	2,153,504	2,925,863	-772,359	-26.4
Costs of core activities, total	754,085,740	736,079,543	18,006,197	2.5
including:				
Oil transportation services	546,727,889	526,010,716	20,717,173	3.9
Petroleum products transportation services	54,268,087	48,280,585	5,987,502	12.4
Oil sales for export (including commercial expenses)	127,458,055	141,081,452	-13,623,397	-9.7
Oil compounding services	3,609,283	3,197,609	411,674	12.9
Property rental	1,209,237	763,824	445,413	58.3
Management expenses	20,601,555	16,551,734	4,049,821	24.5
Other	211,634	193,623	18,011	9.3
Net profit	30,606,531	12,801,410	17,805,121	2.4 times

# FINANCIAL INDICATORS UNDER THE RUSSIAN ACCOUNTING STANDARDS

## Financial indicators of Transneft, data on profitability, working capital turnover

No.	Indicator	December 31, 2016	December 31, 2015	Absolute deviation +/-
1.	Return on equity (excluding sales of crude oil to China), %	17.46	6.64	10.82
2.	Return on invested capital (based on operating profit (excluding sales of crude oil to China), adjusted for nominal tax rate), % (ROIC)	3.86	1.41	2.45
3.	Profitability of sales (products) excluding sales of crude oil to China, %	7.30	2.99	4.31
4.	Receivables turnover ratio	7.37	6.41	0.96
5.	Critical liquidity ratio (intermediate coverage)	0.80	1.26	-0.45
6.	Current ratio	0.80	1.26	-0.45

# SOURCES OF FUNDING CAPITAL INVESTMENTS

Capital investments of Transneft amounted to RUB 72,814.6 million in 2016.

## Sources of funding capital investments in 2016

Sources of funding capital investments.	Amount, RUB thousand
Depreciation, 2016	2,136,146
Other own sources, 2016	2,299,469
Other own sources of past years	31,668,832
Borrowed funds	30,719,385
Contribution to the authorized capital of Transneft	5,990,800
Total	72,814,632

# Sustainable development



In 2016

the Transneft Group's companies underwent recertification audits that proved their compliance with the ISO 14001:2004 standard

-1%

the reduction of specific emissions of air pollutants in 2016

-295

tons – the decrease of gross emissions of air pollutants

₽ 190

billion – current spending on environmental protection in 2016

₽ 340

billion – the investments in environmental protection in 2016

Sustainable development	76
Ecology and resources	77
Environmental safety and environmental protection	77
Use of energy resources and energy saving	79
Management and monitoring of environmental protection activities	79
Innovation in the field of environmental protection	81
Environmental protection expenses and investments	81
Personnel policy and social support of employees	82
Ensuring occupational safety	84
Charity and social responsibility	85

# SUSTAINABLE DEVELOPMENT



In accordance with the Transneft Strategy until 2020, the Company's main objective is to develop the trunk pipeline system of the Russian Federation to fully meet the oil and petroleum products transportation needs.

At the same time, the Company realizes its responsibility to the present and future generations and strives to constantly improve the level of reliability, industrial and environmental safety of its work, reduce the nega-

tive impact on the environment and provide social support for the population through regular charity events in the Company's regions of presence.

Staff is a key factor in the Company's effective operation and commercial success; we strive to attract the best employees in the industry, not only offering competitive employment conditions and opportunities for professional development, but we are also constantly improving the comfort and safety of workplaces.

# ECOLOGY AND RESOURCES

## ENVIRONMENTAL SAFETY AND ENVIRONMENTAL PROTECTION

Environmental protection and environmental safety of production facilities are the main priorities of Transneft.

In 2016 Transneft updated the environmental policy and it was put into effect by order of October 6, 2016 No. 198. In accordance with the order, the main principles of the Company's activities in the environmental field are:

- compliance with the requirements of Russian legislation, international treaties, standards and regulations in the field of nature management, environmental protection and environmental safety;
- continuous improvement of environmental activities and of the corporate environmental management system;
- compensation for damage caused to the environment by the Company;
- allowance for the remote ecological consequences during the design, construction and operation of oil and petroleum product pipeline facilities;
- compulsory assessment of the impact of planned activities on the environment when deciding on the construction of production facilities;
- prevention and reduction of the negative impact on the environment through implementing innovative technologies and improving the environmental safety of pipeline transport facilities, reducing specific emissions, pollutant and production waste discharges into the environment;

- rational use of natural resources at all stages of production activities, complying with legal acts; increase in energy efficiency of production processes at all stages;
- disclosure of significant information on environmental protection activities.

### SPECIFIC EMISSIONS OF AIR POLLUTANTS

Reduction of specific emissions of air pollutants is a key indicator characterizing the Company's efficiency in reducing the negative impact on the environment during oil and petroleum products transportation via trunk pipelines. "Reduction of specific emissions of air pollutants" is one of the key performance indicators (KPIs) defined under the Transneft Long-Term Development Program until 2021.

Specific emissions of air pollutants in 2016 decreased by 0.002 kg/ton (by 1%) compared to the previous year and amounted to 0.156 kg/ton. The annual reduction plan for this indicator was 100% fulfilled. This result was achieved due to the following measures taken:

- efficient operation of the oil vapor recovery unit at the specialized sea oil-loading terminal of Transneft Kozmino Port, LLC and the jet absorption unit at the Krotovka railway oil-loading platform of Transneft Volga Region, JSC (11,200 tons of pollutants were caught and rendered harmless);

in **2016**  
the Transneft Group's companies underwent recertification audits that proved their compliance with the ISO 14001:2004 standard

- reconstruction of tank farms;
- implementation of the Program for Energy Saving and Increasing Energy Efficiency.

In addition, in 2016 the gross emissions of air pollutants decreased by 295 tons (by 0.36%).

#### WATER USE AND WASTEWATER DISCHARGE

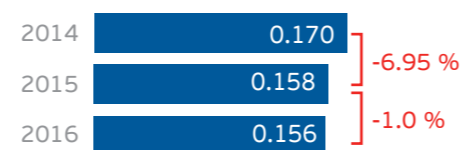
Discharge of insufficiently treated wastewater into water bodies decreased by 69,381 m<sup>3</sup> (by 37%) in 2016 compared to 2015, and amounted to 117,158 m<sup>3</sup>. The annual reduction plan for this indicator was only 3%. To a large extent, the reduction of the discharge of insufficiently treated wastewater ahead of the annual plan was achieved through the liquidation of tank farms and open technological

areas Sokur-3 (14.630 hectares) and Sokur-5 (10.268 hectares) and, as a result, the reduction of the discharge of industrial and storm wastewater from them into the industrial sewerage system.

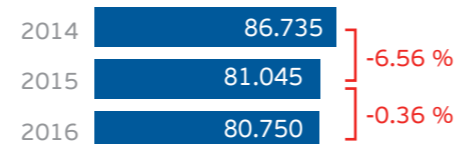
Within the framework of implementation of the Innovative Development Program in 2016, the Company built and put into operation 5 wastewater treatment facilities for industrial and storm wastewater with a total capacity of 1,520 m<sup>3</sup>/day and 5 wastewater treatment facilities for domestic wastewater with a capacity of 225 m<sup>3</sup>/day. It also carried out reconstruction, technical re-equipment and major repair of 6 treatment facilities with a total capacity of 505 m<sup>3</sup>/day, in particular, 4 sewage treatment plants are for domestic wastewater, 2 are for industrial and storm wastewater.

Water use and wastewater discharge, MCM	2016
Water intake, total	9,231.520
including from underground sources	3,457.425
Water use, total	7,696.065
including for production needs	5,252.694
Effluent discharge into surface water bodies, total	9,052.612
including those treated according to the standard	8,935.454
Effluent discharge to land surface, total	496.771
including those treated according to the standard	496.771

#### Specific emissions of air pollutants, kg/ton



#### Gross emissions of air pollutants, thousand tons



## USE OF ENERGY RESOURCES AND ENERGY SAVING

In 2016, Transneft carried out activities within the framework of the approved Program for Energy Saving and Energy Efficiency Improvement. Due to these activities, the Com-

pany achieved a reduction in the specific electricity consumption for oil transportation via trunk pipelines in comparable conditions by 1.73%.

Use of energy resources	2016 (actual)			
	Total		Including oil and petroleum products transportation	
	nat. value	RUB thousand	nat. value	RUB thousand
Electric energy (purchased) (taking into account the cost of power), MW*h	14,904,974	42,486,851 (without VAT)	14,843,419	42,070,514 (without VAT)
Thermal energy (purchased), Gcal	209,547	315,449	189,225	274,500
Fuel for internal consumption, tons of fuel oil equivalent, total	412,167	5,165,196	333,548	4,284,500
including oil for heat production, tons	89,608	1,058,651	76,094	897,474
including oil for power generation, tons	24,427	281,070	21,752	250,294
including natural gas for heat generation, MCM	74,519	344,450	60,526	287,045
including diesel fuel for heat generation, tons	4,939	140,280	4,678	133,588
including diesel fuel for power generation (at emergency DPPs), tons	156	5,114	156	5,107
including heavy fuel oil, tons	16,267	158,209	500	4,090
including motor fuel for automobile transport and special equipment, tons	93,084	3,077,840	80,449	2,653,417

## MANAGEMENT AND MONITORING OF ENVIRONMENTAL PROTECTION ACTIVITIES

The Transneft environmental policy is developed in accordance with the requirements of the international standard ISO 14001:2004. Certification of Transneft and other companies of the Group was carried out by the DQS Group which is a founding member of the IQNet International Certification Association. In 2016, the Transneft Group's companies underwent recertification audits that proved their compliance with the ISO 14001:2004 standard.

The Company developed an effective industrial environmental monitoring system for atmospheric air, water and land resources at all of its production facilities. 56 laboratories accredited by the Federal Accreditation Service serve this system. They are all staffed with specialists and equipped with modern analytical facilities. In 2016, three new ecological and analytical laboratories were additionally commissioned.



The Company exercises environmental and analytical control in accordance with the schedules approved by the regulatory authorities. In 2016, more than 290,000 analyses of environmental conditions took place. The Com-

pany submits all research records to the supervisory authorities in time, in accordance with the approved control schedules. Based on the results of analyses conducted in 2016, no excesses of established standards took place.

Transneft developed, implemented and is constantly improving an Environmental Management System (hereinafter referred to as "EMS") in accordance with which it distributes the responsibility for environmental issues as follows:



Subpanel for management of operation and provision of industrial and fire safety at Transneft facilities

- Construction and strategic development
- Supervisory control
- Operation of trunk oil pipelines and bulk plants
- Provision of industrial and fire safety

Subpanel for management of environmental protection, environmental management and environmental safety (including protection against natural and man-caused emergency situations)

- Organization of environmental management and environmental protection
- Organization of activities for emergency prevention and recovery
- Organization of legal regulation of environmental activity
- Organization of R&D support and information exchange

Subpanel for management of training and advanced training of specialists and public relations

- Organization of professional selection and advanced training of personnel
- Organization of interaction with mass media and public organizations

Updating and upgrading of EMS

Members of Coordination Board for Transneft lines of activity

Secretary of Coordination Board – specialist of Environmental Safety and Environmental Management Unit, Department for Health, Industrial, Fire and Environmental Safety

## INNOVATION IN THE FIELD OF ENVIRONMENTAL PROTECTION

In accordance with the Resolution of the Governmental Commission on High Technologies and Innovations of July 5, 2011 and the recommendations of the Ministry of Economic Development of Russia, Transneft decided to join the Technology Platform Environmental Development Technologies coordinated by the All-Russian Public Organization Russian Geographical Society. As part of the research program of the Technological

Platform Environmental Development Technologies in 2016, Transneft employees performed the technological work Development of reclamation technology for lands polluted by oil and petroleum products in summer and winter in hard-to-reach places using biosorbents.

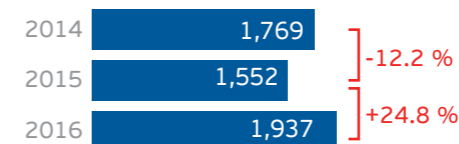
In addition, in 2016 the R&D work Investigation of existing technologies for on-line analysis of the oil products

content in water was completed. Recommendations for the implementation of on-line analyzers at the facilities of Transneft subsidiaries were also developed.

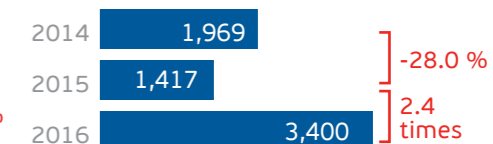
## ENVIRONMENTAL PROTECTION EXPENSES AND INVESTMENTS

Due to sufficient financing of programs in the field of environmental safety, construction and reconstruction of environmental facilities and environmental equipment, Transneft managed to ensure compliance with the most stringent Russian and international environmental standards and requirements.

Current expenses for environmental protection, RUB million



Investments for environmental protection, RUB million



# PERSONNEL POLICY AND SOCIAL SUPPORT OF EMPLOYEES

Transneft's policy in the field of personnel management is aimed at achieving the Company's strategic development goals. Implementation of projects to develop the trunk pipeline system of the Russian Federation should be taken into account. The main goal of the personnel policy is to ensure staffing of the Transneft system companies with highly qualified personnel focused on long-term labor relations.

In 2016 there were 114,200 employees of Transneft subsidiaries, which is 1% lower than in 2015. The decrease in the number is due to the reorganization of Transneft subsidiaries, outsourcing of certain activities and selling assets in Ukraine.

The main objectives of the Transneft personnel policy are:

- ensuring staffing of the Transneft system companies with highly qualified personnel and maintaining their stability level;
- increasing the elasticity of the

material and non-material incentive systems taking into account regional factors and the situation of certain professional and skill groups in the labor market, ensuring a competitive wage system;

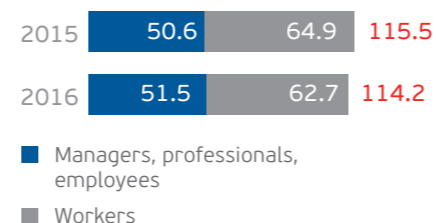
- improvement of the quality of training, retraining and advanced training of personnel in accordance with the directions of the Company's innovative development.

The turnover rate of personnel in 2016 was 3.8% for the Transneft Group which is 0.5% lower than in 2015.

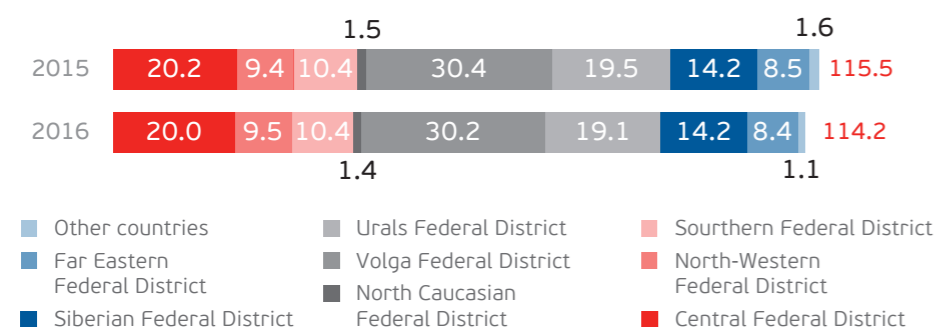
An important part of the Transneft personnel policy is the social policy implemented to attract, consolidate and motivate employees of Transneft subsidiaries.

As part of the social policy, a set of measures is implemented to improve the quality of life and the efficiency level of staff, support employees and their families and non-working pen-

Average number of employees on the payroll of Transneft subsidiaries, thousand people



Structure of the average number of employees on the payroll of Transneft subsidiaries by region, thousand people



sioners and to create conditions for the treatment, health and recreation of staff, and the promotion of healthy lifestyles.

In order to provide the employees with timely and high-quality medical care, a system of collective voluntary health insurance is applied which ensures reducing working time losses due to temporary incapacity to work.

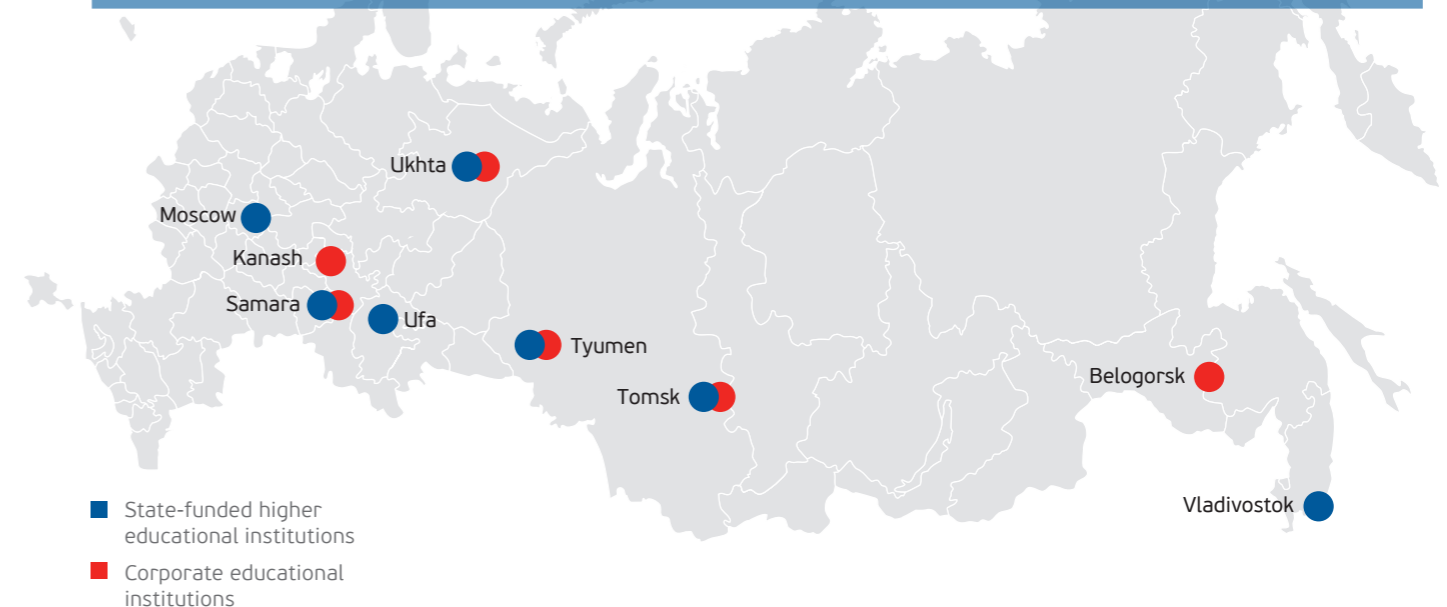
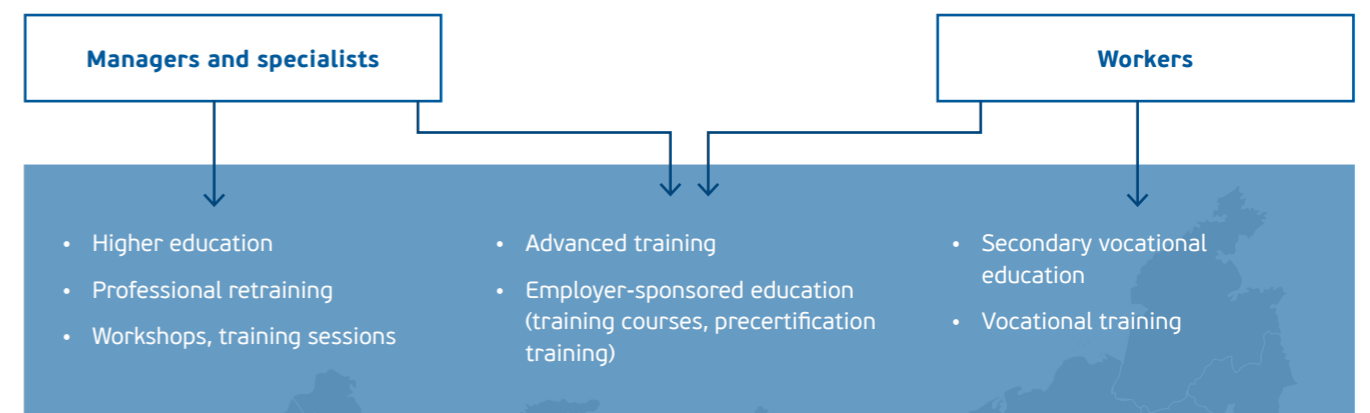
In addition, employees are insured against accidents and illnesses which ensures reliable protection of the employee and his or her family members from declining living standards associated with temporary or permanent disability resulting from an accident.

Considerable attention is paid to the training and professional development of personnel. Employees of Transneft subsidiaries regularly improve their professional skills in accordance with specially developed training programs taking into account modern trends in the leading specialized organizations of higher and secondary vocational education of the Russian Federation.

Training of the employees is carried out on the premises of a number of corporate and state educational institutions under contracts concluded with the Company. These institutions provide vocational training services and professional development programs for more than 50% of the total number of trainees.

In addition, production and technical competitions are held annually. Their aim is to develop a creative attitude towards work and foster pride in the profession.

## GEOGRAPHY OF THE CORPORATE TRAINING SYSTEM



# ENSURING OCCUPATIONAL SAFETY

Transneft defines the protection of employees' life and health and provision of safe working conditions among the key priorities of its activities. When forming and developing its corporate labor protection policy, Transneft is guided by the requirements of Russian legislation, treaties of the Russian Federation, occupational safety standards and strives for continuous improvement of working conditions, as well as minimizing the number of workplace injuries and occupational diseases of employees.

The Transneft labor protection policy updated and put into effect by order of October 6, 2016 No. 198 defines the basic principles of the Company's operation in this area:

- priority of employees' life and health in relation to the result of production activities;
- personal responsibility of each employee for his or her own safety, the right of each employee to stop work and the duty to refuse to carry out work performed with violations of safety requirements;
- involvement of all employees in activities to reduce workplace injuries and occupational diseases;
- leading role of managers at all levels in ensuring safe working conditions;

- openness of significant information on occupational safety and health activities.

Transneft developed and implemented an occupational safety and health management system based on the requirements of the international standard BS OHSAS 18001:2007. Transneft confirmed the conformity of its OSH management system to the international standard BS OHSAS 18001:2007 by a certificate issued in 2016 based on the results of the audit conducted by international auditors of the DQS certification system.

In order to take into account the employees' opinions in terms of improving working conditions and ensuring occupational safety and health at the Company's facilities, annual field meetings are held under the chairmanship of heads of Transneft subsidiaries.

The indices of the resulted workplace injuries do not exceed the level of the established values determined by the Transneft Strategy until 2020. The increase of the index of the resulted workplace injuries in 2016 is caused, inter alia, by a decrease in the average number of Transneft employees.

	2014	2015	2016
Workplace injuries in 2014-2016, persons (per year)/1,000 employees	0.19	0.19	0.21

# CHARITY AND SOCIAL RESPONSIBILITY



Social responsibility towards the society and its individual citizens is an essential part of Transneft's policy.

Charity and sponsorship activities, various actions in support of culture, science and education, physical culture and sports, promotion of a healthy lifestyle, and protection and restoration of historic monuments are of great importance to the Company.

The Company is actively involved in the construction of social infrastructure in the pipeline route areas and allocates significant funds for constructing houses, schools, nursery schools and outpatient clinics.

Transneft is committed to supporting World War II Veterans, internationalist soldiers, Chernobyl victims and other citizens who have fulfilled their military and patriotic duty.

Many years of cooperation with the Russian Orthodox Church and other confessions

are aimed at the revival of spiritual values and religious traditions in Russia. Transneft is actively involved in the restoration of historical and cultural monuments at monasteries, churches and metochions (ecclesiastical embassy churches).

Sponsorship and charity expenses (charitable donations) of Transneft and its subsidiaries amounted to RUB 14,9 billion in 2016. Sponsorship expenses amounted to RUB 359.0 million in 2016.

# Corporate Governance



89%

proportion of the Corporate Governance Code recommendations observed by the Company in full or in part

3

independent directors are members of the Board of Directors

24

meetings of the Board committees were held in 2016

55%

the proportion of independent directors in the Board committees in 2016

Governing and control bodies	88
General Meeting of Shareholders	90
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Information on transactions, participation in legal entities and court proceedings	130
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Credit ratings	135
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Shareholder and investor relations	139

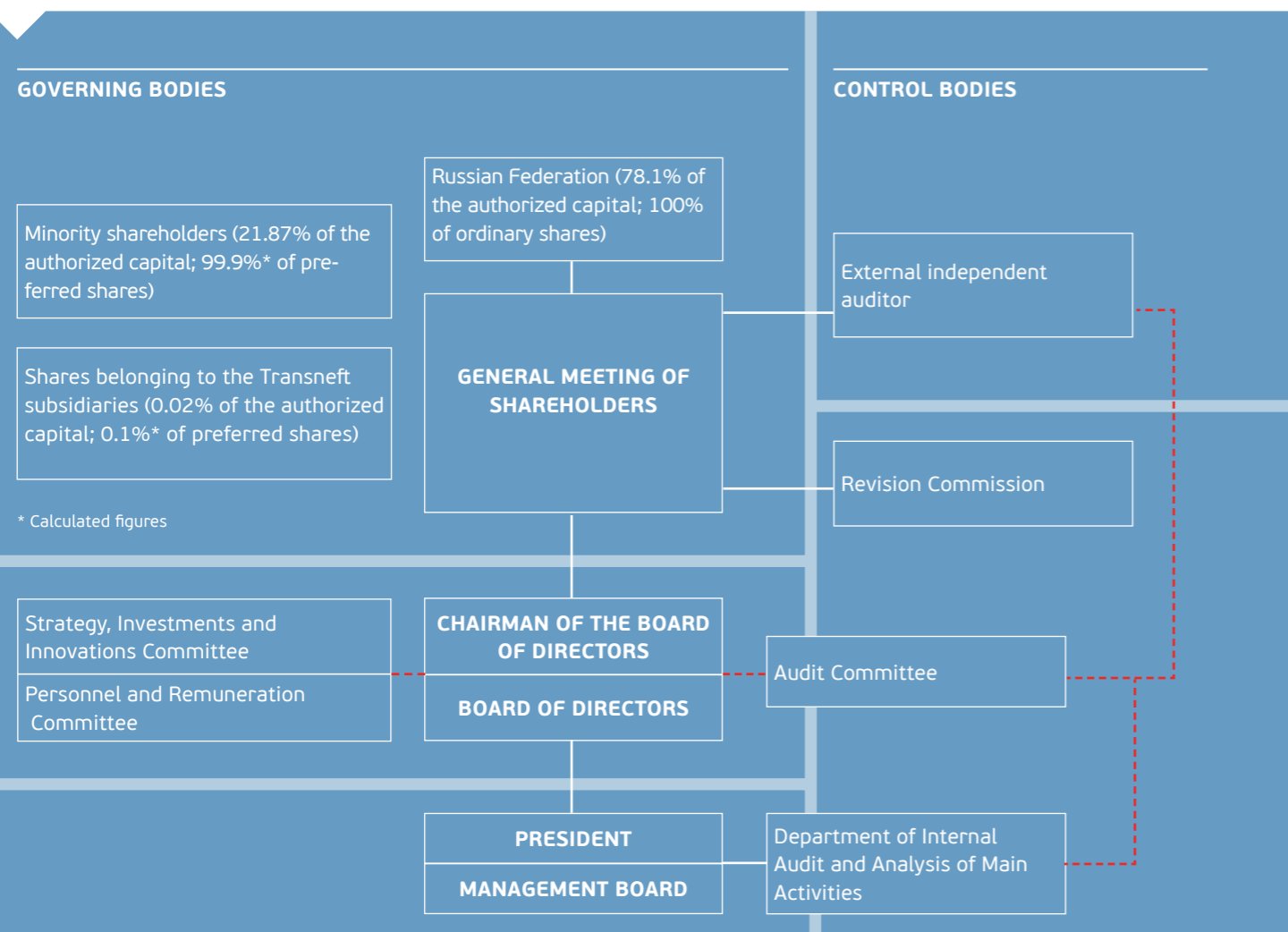
# GOVERNING AND CONTROL BODIES

The governing bodies of Transneft are the General Meeting of Shareholders, the Board of Directors, the Management Board and the President, and the control body is the Revision Commission.

Representatives of the state in the Company's governing bodies deter-

mine the strategic directions of its development and control its production, business and financial activities. The Company's Board of Directors includes independent directors; specialized committees were established under the Board of Directors.

## Structure of Governing and Control Bodies



Dotted lines represent functional connections, while solid lines represent administrative subordination.

General Meeting of Shareholders	Transneft's supreme governing body. The Regulations on the General Meeting of Shareholders (approved by resolutions of the General Meeting of Shareholders, Minutes No.1 of June 28, 2002, Minutes No. 1 of 2004) establish the procedure for preparing, convening, holding and announcing the outcome of the General Meeting of Shareholders of Transneft.
Board of Directors	The Board of Directors is responsible for the general management of Transneft's operations. It ensures protection and implementation of shareholders' rights. The Board of Directors oversees the development of and approves the Company's strategy, long-term plans and major programs of its activities, and considers the reports on their implementation. It also participates in the development of effective tools for internal control over the Company's financial and business operations and the Risk Management System, approves the Company's budget, defines the Company's key performance indicators, the President, the Management Board members. It ensures timely disclosure of complete and accurate information about the Company's activities, and makes decisions on key issues related to substantive Transneft subsidiaries' activities, key projects and significant transactions. The procedure for forming the Board of Directors, its status, membership, functions, aims and objectives, its powers, the procedure for its work and cooperation with other governing bodies of Transneft are stipulated in the Company's Articles of Association and the Regulations on the Board of Directors (approved by resolutions of the General Meeting of Shareholders, Minutes No. 1 of June 28, 2002, Minutes No. 1 of 2004).
Committees under the Board of Directors	Committees under the Board of Directors are an advisory body which provides preliminary examination of issues and prepares recommendations to the Board of Directors. The Regulation on the Strategy, Investments and Innovations Committee under the Transneft Board of Directors was approved by resolution of the Board of Directors of Transneft on January 19, 2017 (Minutes No. 1). The Regulation on the Audit Committee under the Transneft Board of Directors was approved by resolution of the Board of Directors of Transneft of January 19, 2017 (Minutes No. 1). The Regulation on the Personnel and Remuneration Committee under the Transneft Board of Directors was approved by resolution of the Transneft Board of Directors on January 19, 2017 (Minutes No. 1).
President	The President is sole executive body. The President manages the day-to-day activities. He/she is accountable to the Board of Directors and the General Meeting of Shareholders. The President is appointed by the General Meeting of Shareholders for a period of 5 years and is the Chairman of the Management Board. Since 2007, Nikolay Tokarev has been the President of Transneft.
Management Board	The collective executive body is responsible for the day-to-day management of Transneft and control of the Transneft subsidiaries in relation to the key issues of their operations. Meetings of the Management Board are held as required, but at least once a month, both in person and in absentia, according to the approved schedule. The Management Board is chaired by the President of Transneft. The Management Board is guided in its activity by the current legislation, the Articles of Association of Transneft and the Regulations on the collegial executive body (Management Board) (approved by resolution of the General Meeting of Shareholders, Minutes No. 1 of June 28, 2002).
Revision Commission	The Revision Commission is a permanent elective body that controls the financial and business operations of Transneft. Its activities are regulated by the Articles of Association and the Regulation on the Revision Commission of Transneft approved by resolution of the Extraordinary General Meeting of Shareholders of Transneft (order of the Federal Agency for State Property Management No. 734-r of October 6, 2015).

# GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme governing body. The Board of Directors, the Management Board, the President and the Revision Commission are accountable to the General Meeting of Shareholders. The competence of the General Meeting of Shareholders, as well as its timing, procedure for preparation and conduct are determined by the Federal Law "On Joint Stock Companies", the Articles of Association and Regulations on the General Meeting of Shareholders of Transneft.

Since all of the Company's voting shares belong to the Russian Federation, decisions on issues within the competence of the General Meeting of Shareholders are formalized by orders of the Federal Agency for State Property Management.

In 2016, two General Meetings of Shareholders were held: one annual and one extraordinary.

## Annual General Meeting of Shareholders of Transneft

June 30, 2016

Order of the Federal Agency for State Property Management dated June 30, 2016 No. 520-r

The Annual General Meeting of Shareholders approved the Annual Report for 2015 and the annual accounting (financial) statements, including the financial results for 2015, approved the distribution of profits for 2015, approved the redrafted Articles of Association of Transneft and the auditor for 2016. Decisions were also taken to elect the composition of the Board of Directors and the Revision Commission, to pay dividends on shares based on the results of 2015, and to pay remuneration to members of the Board of Directors and the Revision Commission.

## Extraordinary General Meeting of Shareholders of Transneft

October 18, 2016

Order of the Federal Agency for State Property Management dated October 18, 2016 No. 816-r

The Extraordinary General Meeting of Shareholders decided to increase the authorized capital of Transneft by RUB 21,901 by placing additional ordinary registered uncertificated shares on the following conditions:

- number of additional ordinary registered uncertificated shares: 21,901 pcs.;
- nominal value of placed additional ordinary registered uncertificated shares: RUB 1 each;
- way of placing additional ordinary registered uncertificated shares: private offering;
- form of payment for placed additional ordinary registered uncertificated shares: non-monetary assets in the form of property in federal ownership established as a result of implementation of the investment projects Trunk Pipeline Pumping Station "Pumping Station Kaleykino-Nizhnekamsk Refinery" and Reconstruction of the Nizhnekamsk-Almetyevsk-Kstovo Trunk Oil Pipeline (7 pieces of real estate and 625 land parcels) according to the list following the order of the Government of the Russian Federation of December 26, 2015 No. 2723-r;
- scope of persons among whom it is planned to place additional ordinary registered uncertificated shares: the Russian Federation represented by the Federal Agency for State Property Management;
- price of additional ordinary registered uncertificated shares: RUB 273,540 for one share.

# BOARD OF DIRECTORS

## MEMBERSHIP OF THE BOARD OF DIRECTORS

Strategic management of Transneft's activities is carried out by the Board of Directors which makes decisions on significant matters of the Company's activities in accordance with the competence defined by the Federal Law "On Joint Stock Companies" and the Articles of Association.

The activities of the Board of Directors are regulated by the Articles of Association and the Regulations on the Board of Directors.

The redrafted Articles of Association of Transneft approved by the Federal Agency for State Property Management Decree No. 520-r dated June 30, 2016 define the number of members of the Board of Directors – 8 persons. The Company considers the composition of the Board of Directors to be balanced and adequate to the scale of the Company's activities applicable to the requirements of the legislation of the Russian Federation and the Listing Rules of the Moscow Stock Exchange. The main shareholder of the Company elects candidates to the Board of Directors taking into account their personal and business qualities, as well as compliance with the independence criteria stipulated in the Listing Rules of the Moscow Stock Exchange. As of December 31, 2016, the Board of Directors had three independent directors (37.5% of the number of members of the Board of Directors).

### During the reporting period, the Board of Directors operated, which was elected:

1. by the annual General Meeting of Shareholders, executed by order

of the Federal Agency for State Property Management dated June 30, 2015 No. 541-r, consisting of:

- Matthias Warnig;
- Mikhail Ignatyevich Grishankov (independent director);
- Valery Sergeevich Katkalo;
- Ilya Iosifovich Klebanov (independent director);
- Alexander Valentinovich Novak (Chairman);
- Nikolay Petrovich Tokarev;
- Artur Nikolaevich Chilingarov (independent director);

2. by the annual General Meeting of Shareholders, executed by order of the Federal Agency for State Property Management dated June 30, 2016 No. 520-r, consisting of:

- Matthias Warnig;
- Darya Vladimirovna Vasilevskaya;
- Mikhail Ignatyevich Grishankov (independent director);
- Valery Sergeevich Katkalo;
- Ilya Iosifovich Klebanov (independent director);
- Alexander Valentinovich Novak (Chairman);
- Nikolay Petrovich Tokarev;
- Artur Nikolaevich Chilingarov (independent director).

Since September 23, 2016, Artur Chilingarov suspended his activities as a member of the Board of Directors in connection with his election as a deputy of the 7th State Duma of the Federal Assembly of the Russian Federation.

# 3

independent directors are members of the Board of Directors as of December 31, 2016

**Membership of the Board of Directors as of December 31, 2016**

Directors representing executive bodies (executive directors)	N.P. Tokarev
Directors who are not members of the executive bodies or other governing bodies (non-executive directors)	A.V. Novak, M. Warnig, D.V. Vasilevskaya, V.S. Katkalo
Independent directors	M.I. Grishankov, I.I. Klebanov, A.N. Chilingarov
Total	8 persons

**Duration of service on the Board**

Members of the Board of Directors	Status	Duration of service on the Board of Directors
A.V. Novak	Chairman of the Board of Directors Director who is not a member of the executive bodies or other governing bodies	1.5 years
M. Warnig	Director who is not a member of the executive bodies or other governing bodies	5.5 years
D.V. Vasilevskaya	Director who is not a member of the executive bodies or other governing bodies	0.5 years
M.I. Grishankov	Independent director	3.5 years
V.S. Katkalo	Director who is not a member of the executive bodies or other governing bodies	3.5 years
I.I. Klebanov	Independent director	1.5 years
N.P. Tokarev	Director representing executive bodies	8 years 9 months
A.N. Chilingarov	Independent director	1.5 years

**INDEPENDENT DIRECTORS**

Independent directors play an important role in the implementation of the Board of Directors' functions, especially in matters aimed at protecting the shareholders' interests. In this area, such directors have independent judgments and their constructive criticism at meetings of the Board of Directors contributes to the development of corporate governance in the Company.

The independence criteria of the members of the Company's Board of Directors are determined in accordance with the Listing Rules of PJSC Moscow Exchange (CJSC MICEX Stock Exchange) and the provisions of the Corporate Governance Code recommended for application by the Bank of Russia Letter No. 06-52/2463 dated April 10, 2014 "On the Corporate Governance Code".

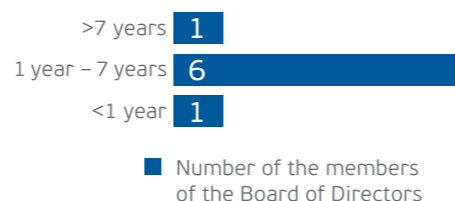
As of December 31, 2016, the Company's Board of Directors included three independent directors – a number sufficient to significantly influence the decision-making process.

The Audit Committee consisted entirely of independent directors.

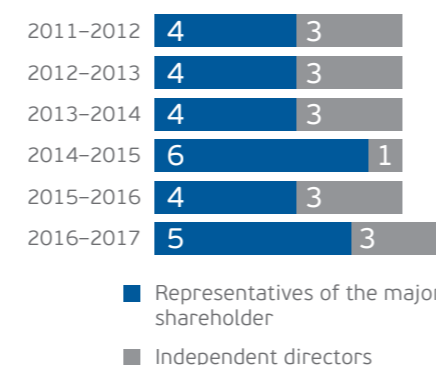
The Personnel and Remuneration Committee consisted mainly of independent directors (two independent directors out of three, including the Chairman of the Committee).

The Strategy, Investments and Innovations Committee included one independent director who headed the Committee.

**Length of work of the Board members as the members of the Board of Directors**



**Structure of the Board of Directors**



**INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS**

As of December 31, 2016:



**Novak Alexander Valentinovich**  
Chairman of the Board of Directors (Representative of the interests of the Russian Federation)



**Tokarev Nikolay Petrovich**  
Member of the Board of Directors (Representative of the interests of the Russian Federation) Member of the Strategy, Investments and Innovations Committee President, Chairman of the Board



**Warnig Matthias**  
Member of the Board of Directors (Representative of the interests of the Russian Federation) Member of the Strategy, Investments and Innovations Committee

Born in 1971. Graduated from Norilsk Industrial Institute in 1993, majoring in Economics and Management in Metallurgy and from Lomonosov Moscow State University in 2009, majoring in Management.

**Positions held in the last 5 years:**

- 2012 to the present day – Minister of Energy of the Russian Federation.

**Participation in governing bodies of other legal entities:**

- 2012 to the present day – member of the Supervisory Board of the state atomic energy corporation Rosatom;
- 2015 to the present day – member of the Board of Directors of Rosneft;
- 2015 to the present day – Chairman of the Board of Directors of PJSC Rosseti;
- 2015 to the present day – member of the Board of Directors of Gazprom.

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on June 30, 2015.

Born in 1950.

Graduated from Karaganda Polytechnic Institute in 1973, majoring in Electrification and Automation of Mining.

**Positions held in the last 5 years:**

- 2007 to the present day – President, Chairman of the Board of Transneft.

**Participation in governing bodies of other legal entities:**

- 2013 to the present day – member of the Board of the Russian Union of Industrialists and Entrepreneurs (RSPP);
- 2013 to the present day – member of the Management Board of the All-Russian Association of Employers RSPP;
- 2015 to the present day – member of the Governing Board of the International Association of Oil Transporters.

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on March 6, 2008.

Born in 1955.

Graduated from the Higher School of Economics named after Bruno Leischner, Berlin-Karlshorst, in 1981, majoring in National Economy.

**Positions held in the last 5 years:**

- 2008 to the present day – Director of Interatis AG (Switzerland);
- 2006-2016 - Managing Director of Nord Stream AG;
- 2015 to the present day – Executive Director of Nord Stream 2 AG (Switzerland).

**Participation in governing bodies of other legal entities:**

- 2007 to the present day – member of the Supervisory Board of VTB Bank (PJSC);
- 2011 to the present day – Chairman of the Administrative Council of GAZPROM Schweiz AG;
- 2011 to the present day – member of the Board of Directors of Rosneft;
- 2014 to the present day – Deputy Chairman of the Board of Directors of Rosneft;
- 2012 to the present day – Chairman of the Board of Directors of JSC RUSAL;
- 2013 to the present day – Chairman of the Supervisory Board of Gas Project Development Central Asia AG (G.P.D.) (Switzerland);
- 2013 to the present day – Chairman of the Administrative Council of Interatis Engineering AG (Switzerland);
- 2013 to the present day – Chairman of the Administrative Council of Interatis Consulting AG (Switzerland).

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on June 30, 2011.



**Vasilevskaya Darya Vladimirovna**  
Member of the Board of Directors (Representative of the interests of the Russian Federation) Member of the Strategy, Investments and Innovations Committee



**Grishankov Mikhail Ignatyevich**  
Member of the Board of Directors (independent director) Chairman of the Strategy, Investments and Innovations Committee



**Katkalo Valery Sergeevich**  
Member of the Board of Directors (Representative of the interests of the Russian Federation)  
Member of the Personnel and Remuneration Committee



**Klebanov Ilya Iosifovich**  
Member of the Board of Directors (independent director)  
Chairman of the Audit Committee  
Chairman of the Personnel and Remuneration Committee



**Chilingarov Artur Nikolaevich**  
Member of the Board of Directors (independent director)  
Member of the Audit Committee  
Member of the Personnel and Remuneration Committee

Born in 1977.

Graduated from Gubkin Russian State University of Oil and Gas (National Research University) in 2000, majoring in Jurisprudence, in 2009 – from the Russian Academy of National Economy and Public Administration under the President of the Russian Federation, Ph.D., Dr. hab. of Law.

**Positions held in the last 5 years:**

- 2012 to the present day - Assistant to the Deputy Prime Minister of the Russian Federation Arkady Dvorkovich.

Participation in the governing bodies of other legal entities: none.

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on June 30, 2016.

Born in 1965.

Graduated from Chelyabinsk Polytechnic Institute in 1988, majoring in Radio Engineering, in 1998 – from Chelyabinsk State University, majoring in Economics.

**Positions held in the last 5 years:**

- 2011-2016 – First Vice-President of Gazprombank (Joint Stock Company);
- 2016 to the present day – Deputy General Director for Relations with the Government of the Russian Federation of JSC CPC-R.

Participation in the governing bodies of other legal entities: none.

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on June 28, 2013.

Born in 1964.

Graduated from Leningrad State University in 1986, majoring in Political Economy, in 1989 – postgraduate studies at Leningrad State University, PhD in Economics, Dr. hab. of Economics, Professor.

**Positions held in the last 5 years:**

- 2012-2014 – Director of ANO Corporate University of Sberbank;
- 2014 to the present day – President of ANO Corporate University of Sberbank;
- 2015 to the present day – Vice-President of the European Foundation for Management Development (EFMD).

**Participation in the governing bodies of other legal entities:**

- 2008 to the present day – member of the Board of the European Foundation for Management Development (EFMD);
- 2015 to the present day – member of the Board of Trustees of the Autonomous Non-Profit Organization for Higher Education "Skolkovo Institute of Science and Technology";
- 2015 to the present day – member of the Supervisory Board of the Global Council of Corporate Universities (Global CCU).

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on June 28, 2013.

Born in 1951.

Graduated from Leningrad Polytechnic Institute named after M. I. Kalinin in 1974, majoring in Electrophysics.

**Positions held in the last 5 years and participation in governing bodies of other legal entities:**

- 2011 to the present day – Chairman of the Board of Directors of PJSC Sovcomflot;
- 2012 to the present day – Chairman of the Board of Directors of Neftegaz Industry-Invest LLC;
- 2013 to the present day – Chairman of the Board of Directors of JSC Schwabe.

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.

First elected to the Board of Directors on June 30, 2015.

Born in 1939.

Graduated from Admiral S.O. Makarov Leningrad Higher Naval Engineering School in 1963, majoring in Oceanology (Sea Hydrology).

**Positions held in the last 5 years:**

- 1990 to the present day – President of the Interregional Public Organization Association of Polar Explorers;
- 2008 to the present day – Special Representative of the President of the Russian Federation for International Cooperation in the Arctic and Antarctic;
- 2010 to the present day – First Vice-President of the All-Russian Public Organization Russian Geographical Society;
- 2011-2014 – member of the Council of Federation of the Federal Assembly of the Russian Federation;
- 2016 to the present day – Deputy of the 7th State Duma of the Federal Assembly of the Russian Federation.

**Participation in governing bodies of other legal entities:**

- 2015 to the present day – member of the Board of Directors of JSC Zapsibgazprom.

Shareholding in the Company's authorized capital: none.

Ordinary shares of the Company held: none.  
First elected to the Board of Directors on June 30, 2015.

**TRANSACTIONS WITH SHARES AND ISSUE OF LOANS AND CREDITS TO MEMBERS OF THE BOARD OF DIRECTORS**

No transactions were made by members of the Board of Directors with Transneft shares in 2016.

No loans (credits) were issued to members of the Company's Board of Directors in 2016.

**CONFLICT OF INTEREST**

According to the information available in the Company, there is no conflict of interest among the members of the Board of Directors, including those related to the participation of these persons in the governing bodies of Transneft's competitors.

**MEMBERSHIP IN CORPORATE DIRECTOR ASSOCIATIONS**

Members of the Board of Directors are not members of professional associations of corporate directors (managers).

**CORPORATE SECRETARY**

The functions of Transneft's corporate secretary are carried out by a special structural unit – the Corporate Governance Department.

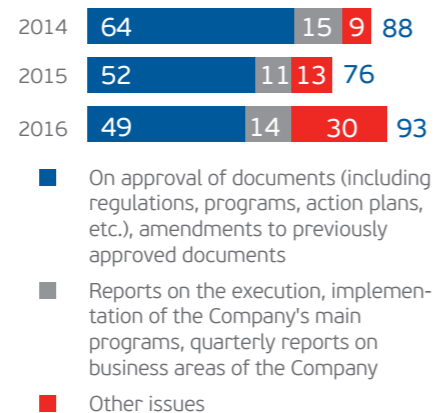
The Board of Directors approved the Regulations on the Corporate Governance Department and agreed on the head of this special structural unit which acts as the Company's corporate secretary on January 19, 2017 (Minutes No. 1).



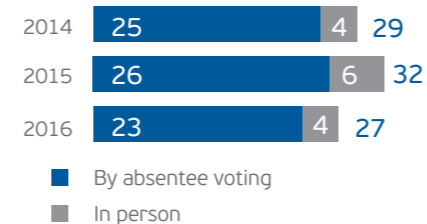
## RESULTS OF THE BOARD OF DIRECTORS' ACTIVITIES

In 2016, 27 meetings were held, 4 of them in person and 23 in absentia<sup>1</sup>. The total number of issues considered is 93, of which 30 are related to the approval of documents, and 14 issues are about reports on the execution and implementation of the Company's main programs of activities.

### Distribution of consideration of issues by type



### Total number of meetings of the Board of Directors in 2014-2016



### Participation of members of the Board of Directors in meetings in 2016.

Member of the Board of Directors	Total number of meetings attended by the member of the Board of Directors	In person participation		Remote participation
		Personal participation	Written opinion	
Novak Alexander Valentinovich	27	4	0	23
Warnig Matthias	23	1	3	19
Vasilevskaya Darya Vladimirovna*	14	2	0	12
Grishankov Mikhail Ignatyevich	27	4	0	23
Katkalo Valery Sergeevich	27	3	1	23
Klebanov Ilya Iosifovich	27	3	1	23
Tokarev Nikolay Petrovich	27	4	0	23
Chilingarov Artur Nikolaevich**	16	2	0	14

\* Vasilevskaya D.V. has been a member of the Board of Directors since July 1, 2016.

\*\* On September 23, 2016, Chilingarov A.N. suspended his activities as a member of the Board of Directors due to his election as a deputy of the 7th State Duma of the Federal Assembly of the Russian Federation.

1. Dates of meetings, number of minutes of the Board of Directors: January 15, 2016 No. 1; March 1, 2016 No. 2; March 14, 2016 No. 3; March 15, 2016 No. 4; March 22, 2016 No. 5; March 31, 2016 No. 6; April 20, 2016 No. 7; April 26, 2016 No. 8; April 29, 2016 No. 9; June 9, 2016 No. 10; June 21, 2016 No. 11; June 22, 2016 No. 12; June 29, 2016 No. 13; July 28, 2016 No. 14; August 9, 2016 No. 15; September 14, 2016 No. 16; October 14, 2016 No. 17; October 25, 2016 No. 18; October 28, 2016 No. 19; November 9, 2016 No. 20; November 11, 2016 No. 21; November 29, 2016 No. 22; November 30, 2016 No. 23; December 8, 2016 No. 24; December 12, 2016 No. 25; December 20, 2016 No. 26; December 30, 2016 No. 27.

### MINORITY REPORT OF THE MEMBERS OF THE BOARD OF DIRECTORS

In 2016, members of the Board of Directors did not send any minority reports.

### REPORT ON THE BOARD OF DIRECTORS' PERFORMANCE IN 2016

In 2016, the Board of Directors gave close attention to the financial and business operations and corporate governance development strategy.

### STRATEGY

Implementation results considered:

- Long-term development program until 2020 for 2015 and for the first half of 2016;
- Program for the development, technical re-equipment and reconstruction of trunk pipelines for 2014-2020 for 2015 and development prospects until 2021;
- Innovative Development Program until 2017 for 2015.

The statements of work for auditing the implementation of the Long-Term Development Program for 2015 and for 2016 were approved.

Taking into account the results of implementation of the Innovative Development Program, the Company approved a new Innovative Development Program for 2017-2021. Transneft approved the adjusted Long-Term Development Program.

### FINANCIAL AND BUSINESS OPERATIONS

Reports and issues considered:

- quarterly reports on procurement results;
- quarterly reports of the executive body on the financial and economic performance of Transneft and the Transneft Group;
- execution of directives of the Government of the Russian Federation;
- on the Company's charitable activities;
- on the approval of transactions.

Considered and approved:

- Operational Efficiency Increase and Cost Reduction Program until 2021;
- Methodology for calculating the operating expenses reduction index;
- Budget of Transneft for 2017; Consolidated budget of revenues and expenses of the Transneft Group for 2017; Consolidated cash flow budget of the Transneft Group for 2017;
- Redrafted system of key performance indicators of business operations;
- Change to the Methodology for assessing achievement of key performance indicators of business operations;
- Planned values of key performance indicators of business operations for 2017;
- Plan for introducing professional standards in Transneft and Transneft subsidiaries for 2016-2020;
- Transneft Group's non-core assets alienation program;
- Register of the Transneft Group's non-core assets;
- Plan for the implementation of the Transneft Group's non-core assets alienation program;
- Regulations on the sale of Transneft and Transneft subsidiaries' non-core assets;
- Program for the sale of Transneft subsidiaries' non-core assets.

### CORPORATE GOVERNANCE

The Dividend Policy was approved, which provides for allocation of 25% of the Group's normalized net profit under IFRS to dividends.

Documents in the field of policy and determining the amount of governing bodies' remuneration were considered and approved:

- Changes in the Remuneration System on the basis of performance for the year of the managers and employees of Transneft and Transneft subsidiaries;
- Redrafted regulation on remuneration of the sole executive body of Transneft.

# 27

meetings of the Board of Directors were held in 2016

Documents in the field of risk management were considered and approved:

- Currency and interest rate risk management policy;
- Currency and interest rate risk management strategy;
- Key parameters of the Risk Management System;
- List of critical risks;
- Action plan (“road map”) on risk management and internal control processes in the field of corruption prevention and management.

Documents in the field of internal control were considered and approved:

- Corporate standard for conducting public technological and price audit of major investment projects;
- Redrafted regulations on the procurement of goods, works and services;
- Norms of the procurement of certain types of goods, works and services;

Approved:

- Exchange bonds program;
- Decision on additional issue of securities;
- Prospectus;

In addition, in the reporting year, procedural issues related to the organization of the activities of the Company’s Board of Directors and Board committees, and other issues related to the Board of Directors’ competence were considered.

Information on decisions on the most significant issues is disclosed in the form of statements of material facts in accordance with the legislation of the Russian Federation on the securities market.

**INSURANCE OF THE BOARD MEMBERS’ LIABILITY**

The Company provides insurance of civil liability of the Board of Directors members, the President and members of the Management Board aimed at recovering the possible harm (losses) caused to shareholders, creditors and other persons as a result of errors and unintentional actions (inaction) when performing their management activities.

In the reporting year, liability insurance was carried out on the basis of the 5-year contract concluded by the

Company in 2012, approved as a related-party transaction, by the General Meeting of Shareholders (Order of the Federal Agency for State Property Management No. 1017-r of June 29, 2012).

The amount of insurance premium under the insurance contract was USD 685,000 for the entire period of the insurance contract; Total insurance amount (total limit of liability) – USD 25 million for each year.

## EVALUATION OF THE BOARD OF DIRECTORS’ PERFORMANCE

In October 2016 Transneft carried out an unbiased evaluation of the members of its Board of Directors who held their positions from June 30, 2015 through June 30, 2016, and who continued to exercise their powers in the current corporate year, as part of organizing the effective work of the Board. This evaluation characterizes the individual work of each member of the Board of Directors in terms of participation/non-participation in corporate events, as well as voting/non-voting on the agenda of corporate events.

Analysis of the individual evaluations carried out showed that all members

of the Company’s Board of Directors participated in meetings in the form of joint presence and held by absentee voting, and in cases where it was not possible to participate in meetings in the form of joint presence they provided written opinions on voting on the agenda items. In addition, all proposals of the Board of Directors members are included both in the Board of Directors’ work plan and in the plans of the specialized Board committees.

The results of the objective evaluation were considered by the Personnel and Remuneration Committee (Minutes No. 6 of October 7, 2016).

24

meetings of the Board Committees were held in 2016

## BOARD COMMITTEES

In order to increase the efficiency of decisions made by the Board of Directors and to enable a more detailed preliminary consideration of key issues and preparation of relevant recommendations, there were three Board Committees in the reporting year:

- Strategy, Investments and Innovations Committee;
- Audit Committee;
- Personnel and Remuneration Committee.

The key task of each Committee is to ensure preliminary consideration of the most important issues within the

Board of Directors’ competence and to produce recommendations for the Board of Directors.

Both Company employees and third parties may attend meetings of the committees at the Committee Chairman’s invitation. However, they do not have voting rights on the agenda items.

The Committees under the Board of Directors held 24 meetings in 2016. During these meetings the Committees considered issues and prepared detailed recommendations and proposals for the Board of Directors.

**Issues considered by the committees in 2016**



**Participation in meetings of the Board of Directors committees in 2016**

Member of the Board of Directors	Audit Committee (9 meetings)	Strategy, Investments and Innovations Committee (8 meetings)	Personnel and Remuneration Committee (7 meetings)
Novak Alexander Valentinovich			
Warnig Matthias		6/8	
Vasilevskaya Darya Vladimirovna		5/5	
Grishankov Mikhail Ignatyevich	9/9	8/8	
Katkalo Valery Sergeevich		3/3	7/7
Klebanov Ilya Iosifovich	9/9		7/7
Tokarev Nikolay Petrovich		8/8	
Chilingarov Artur Nikolaevich	5/5		5/5

Note: The first figure shows the number of meetings attended by a member of the Board of Directors, while the second figure shows the total number of meetings in which he/she was entitled to participate in 2016.

**AUDIT COMMITTEE**

The Audit Committee under the Board of Directors (hereinafter referred to as the Committee) is a consultative and advisory body that provides a preliminary study of issues and preparation of recommendations to the Board of Directors on matters within its competence in terms of supervising the Company's financial and business operations of Transneft and on other matters delegated to the Committee by the Board of Directors.

The Committee's activities are regulated by the Regulations on the Audit Committee under the Board of Directors.

Key issues on which recommendations were developed in 2016:

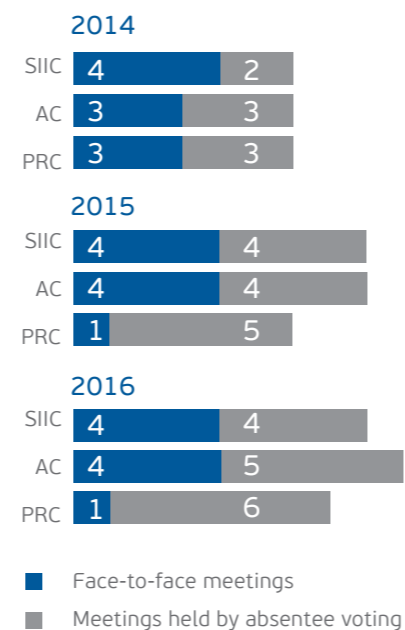
- on consideration of the opinion of Transneft's auditor on the results of the audit of Transneft's financial and business operations for 2015 and evaluation of the auditor's report due to persons entitled to participate in the Annual General Meeting of Shareholders of Transneft;
- on consideration of the Transneft Annual Report, annual accounting (financial) statements, including the profit and loss account, as well as distribution of profits for 2015;
- on the expected execution of Transneft's budget and the consolidated

budget of the Transneft Group for 2016 and on the Transneft's budget and the consolidated budget of the Transneft Group for 2017;

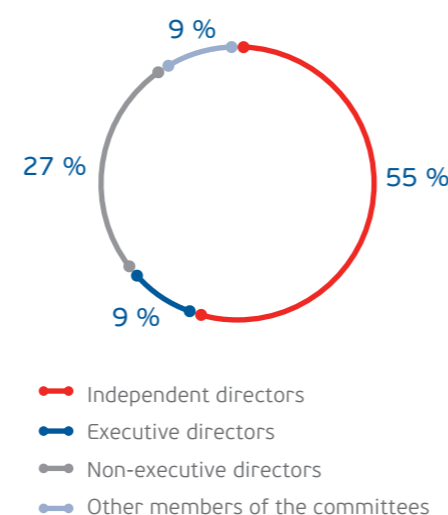
- on consideration of the report of the executive body of Transneft on the financial and economic performance of Transneft and the Transneft Group (quarterly);
- on consideration of the report on currency and interest rate risk management of Transneft for 2015;
- on the Currency and Interest Rate Risk Management Policy of Transneft;
- on key parameters of the Risk Management System;
- on approval of the appointment of the head of the internal audit department;
- on consideration of the general areas of implementation of Transneft's internal audit for 2017;
- on consideration of Transneft's critical risks list;
- on Transneft's Currency and Interest Rate Risk Management Strategy;
- on the proposal of an initial (maximum) contract price for an open tender to select an audit organization to perform a statutory audit of Transneft for 2017 and review of the interim consolidated financial statements for Q1 of 2018.

The most important issues discussed concerning external and internal audit:

**Statistics on Operations of the Committees under the Board of Directors**



**Personal composition of the Board of Directors committees in 2016**



**External audit**

- Regulations on holding an open tender to select an audit organization to perform the statutory annual audit of Transneft for 2016 and review of the interim consolidated financial statements for Q1 of 2017;
- Regulations on the tender commission to select an audit organization to perform the statutory annual audit of Transneft;
- composition of the tender commission to select an audit organization to perform the statutory annual audit of Transneft;
- scope and plans for the audit of the annual accounts for 2016 by the external auditor;
- Report of Transneft on the remarks discovered by the auditor for 9 months of 2015, and measures for their elimination.
- Evaluation of the opinion issued by the auditor for compliance with the requirements of the Federal Law No. 307-FZ dated December 30, 2008 "On Auditing Activity" and Federal Auditing Standards (FSAD 1/2010) "Auditor's report on accounting (financial) reporting and formation of opinion on its reliability"; the audit report on financial statements of Transneft for 2015 compiled by KPMG on March 16, 2016 was recognized by the Audit Committee as meeting the requirements established by the federal standards for auditing activities approved by the Ministry of Finance of the Russian Federation. In 2017, the auditor's report of Transneft's financial statements for 2016 was considered.

**INTERNAL AUDIT**

- Annual evaluation of the effectiveness of the internal audit function. Based on the performance for 2016, the effectiveness of the internal audit function will be assessed in June 2017 in accordance with the Board Audit Committee work plan.

Dates of Audit Committee meetings, numbers of the minutes: January 28, 2016 No. 1; March 15, 2016 No. 2; April 7, 2016 No. 3; June 9, 2016 No. 4; September 15, 2016 No. 5; November 18, 2016 No. 6; November 22,

2016 No. 7; December 5, 2016 No. 8; December 8, 2016 No. 9.

During reporting period, the Committee operated elected:

- by resolution of the Board of Directors of September 18, 2015 (Minutes No. 23):
  - Chairman of the Committee (independent director) – I.I. Klebanov;
  - Independent director – M.I. Grishankov;
  - Independent director – A.N. Chilingarov;
- by resolution of the Board of Directors of September 14, 2016 (Minutes No. 16 of September 16, 2016):
  - Chairman of the Committee (independent director) – I.I. Klebanov;
  - Independent director – M.I. Grishankov;
  - Independent director – A.N. Chilingarov.

**PERSONNEL AND REMUNERATION COMMITTEE**

The Personnel and Remuneration Committee under the Board of Directors (hereinafter referred to as the Committee) is a consultative and advisory body that provides a preliminary study of issues and preparation of recommendations to the Board of Directors on issues of personnel and social policies and remuneration policy.

The Committee's activities are regulated by the Regulations on the Personnel and Remuneration Committee under the Board of Directors.

Key issues considered in 2016 on which recommendations were developed:

- on the payment of remuneration to Transneft managers and employees and Transneft subsidiaries on the basis of performance for 2015;
- on the combination of positions in governing bodies of other organizations by the Transneft sole executive body and members of the Transneft Management Board;

**55%**

proportion of independent directors in the Board committees in 2016

The Audit Committee consisted entirely of independent directors.

The Personnel and Remuneration Committee consisted mainly of independent directors (two independent directors out of three, including the Chairman of the Committee).

The Strategy, Investments and Innovations Committee included one independent director who headed the said Committee.

- on the payment of remuneration to the members of the Transneft Board of Directors;
- on the payment of remuneration to the members of the Transneft Revision Commission;
- on the composition of the Transneft Management Board;
- on conducting an objective assessment of the Transneft Board of Directors members' activities;
- on the preliminary approval of the terms of the new liability insurance agreement for the members of the Board of Directors, members of the Management Board, the sole executive body (President of Transneft) and on selecting the insurer;
- on the introduction of professional standards in 2016-2020.

Dates of Personnel and Remuneration Committee meetings, numbers of the minutes: February 4, 2016 No. 1; March 4, 2016 No. 2; April 7, 2016 No. 3; June 9, 2016 No. 4; September 15, 2016 No. 5; October 7, 2016 No. 6, November 18, 2016 No. 7.

During the reporting period, the Committee operated elected:

1. by resolution of the Board of Directors of September 18, 2015 (Minutes No. 23):
  - Chairman of the Committee (independent director) – A.N. Chilingarov;
  - Non-executive director – V.S. Katkalo;
  - Independent director – I.I. Klebanov;
2. by resolution of the Board of Directors dated September 14, 2016 (Minutes No. 16), taking into account the decision of the Board of Directors of October 28, 2016 (Minutes No. 19):
  - Chairman of the Committee (independent director) – I.I. Klebanov;
  - Non-executive director – V.S. Katkalo;
  - Independent director – A.N. Chilingarov.

#### STRATEGY, INVESTMENTS AND INNOVATIONS COMMITTEE

The Strategy, Investments and Innovations Committee (hereinafter referred to as the Committee) is a consultative and advisory body providing a preliminary study of issues and preparation of recommendations to the Board of Directors on issues aimed at the development of the Transneft strategy for the long term, forming investment, innovation and dividend policy, and improving Transneft's performance.

The Committee's activities are regulated by the Regulation on the Strategy, Investments and Innovations Committee under the Board of Directors.

Key issues considered in 2016 on which recommendations were developed:

- on the implementation of key performance indicators of Transneft's financial operations for 2015;
- on the implementation of the Transneft Long-Term Development Program until 2020 for 2015;
- on the conclusion of the audit of implementation of the Transneft Long-Term Development Program until 2020 for 2015;

- on the implementation of the Program for the sale of Transneft's subsidiaries' non-core assets;
- on the implementation of the work plan for Transneft's participation in the Technology Platform Environmental Development Technologies in 2015;
- on the implementation of the Transneft Program for the development, technical re-equipment and reconstruction of trunk pipelines for 2014-2020 for 2015;
- on the implementation of the Transneft Innovative Development Program until 2017;
- on the implementation of the Transneft Long-Term Development Program for the first half of 2016;
- on the implementation of measures to reduce operating expenses for Q3 of 2016;
- on the Transneft Innovative Development Program for 2017-2020;
- on the Transneft Innovative Development Program for 2017-2021;
- on the Methodology for calculating the operating costs reduction index of Transneft;
- on the redrafted System of Key Performance Indicators of Transneft;
- on the approval of Amendment No. 1 to the Methodology for assessing the achievement of key performance indicators of business operations of Transneft;
- on the Transneft Long-Term Development Program;
- on the Transneft Dividend Policy;
- on the statement of work for auditing the implementation of the Transneft Long-Term Development Program until 2020 for 2016;
- on the Transneft Operational Efficiency Increase and Cost Reduction Program until 2021.

Dates of the Strategy, Investments and Innovations Committee meetings, numbers of the minutes: April 6, 2016 No. 1; May 10, 2016 No. 2; June 9, 2016 No. 3; September 15, 2016 No. 4; October 20, 2016 No. 5; October 28, 2016 No. 6; November 24, 2016 No. 7; December 8, 2016 No. 8.

During the reporting period, the Committee operated elected:

1. by resolution of the Board of Directors of September 18, 2015 (Minutes No. 23):
  - Chairman of the Committee (independent director) – M.I. Grishankov;
  - Non-executive director – M. Warnig;
  - Non-executive director – V.S. Katkalo;
  - Executive director – N.P. Tokarev;
  - Representative of the Transneft Consumer Council – G.I. Shmal;
2. by resolution of the Board of Directors of September 14, 2016 (Minutes No. 16):
  - Chairman of the Committee (independent director) – M.I. Grishankov;
  - Non-executive director – D.V. Vasilevskaya;
  - Non-executive director – M. Warnig;
  - Executive director – N.P. Tokarev;
  - Representative of the Transneft Consumer Council – G.I. Shmal.

## EXECUTIVE GOVERNING BODIES

The current activities of the Company shall be guided by the collegial and sole executive bodies, the President and the Management Board of Transneft, which ensure that the Company's objectives and development strategy are effectively implemented. The area

of competence of the executive bodies includes resolution of all issues related to the day-to-day operations of Transneft, except for issues falling within the competence of the General Meeting of Shareholders and the Board of Directors.

## PRESIDENT

The sole executive body, the President of Transneft, is responsible for the day-to-day management of the Company and is the Chairman of the Management Board.

Nikolay Tokarev was elected as the President of Transneft by resolution of the Extraordinary General Meeting of Shareholders (fixed in Order of the Federal Agency for State Property Management dated October 12, 2007 No. 3264-r) for a period of five years.

The employment agreement with the President Nikolay Tokarev has been

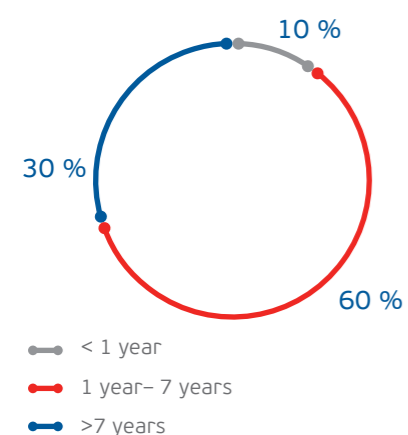
extended by resolution of the Extraordinary General Meeting of Shareholders of Transneft (fixed in Order of the Federal Agency for State Property Management dated May 5, 2012 No. 679-r) for three years.

Nikolay Tokarev was elected as the sole executive body, the President of Transneft, for a new period of five years by resolution of the Extraordinary General Meeting of Shareholders (fixed in Order of the Federal Agency for State Property Management dated April 24, 2015 No. 264-r).

# MANAGEMENT BOARD

As of December 31, 2016, the Management Board of Transneft consisted of 10 members.

Number of years on the Management Board



**Nikolay Tokarev**  
President, Chairman of the Management Board of Transneft  
Member of the Board of Directors



**Sergey Andronov**  
Member of the Management Board, Vice-President



**Mikhail Barkov**  
Member of the Management Board, Vice-President



**Maxim Grishanin**  
Member of the Management Board, First Vice-President



**Boris Korol**  
Member of the Management Board, Vice-President

## Members of the Management Board as of December 31, 2016

Nikolay Tokarev	President, Chairman of the Management Board
Maxim Grishanin	First Vice-President
Sergey Andronov	Vice-President
Mikhail Barkov	Vice-President
Boris Korol	Vice-President
Mikhail Margelov	Vice-President
Pavel Revel-Muroz	Vice-President
Vladimir Rushaylo	Vice-President
Alexey Sapsay	Vice-President
Rashid Sharipov	Vice-President

Born in 1950.  
In 1973 he graduated from Karaganda Polytechnic Institute majoring in Electrification and Automation of Mining.  
**Positions held in the last 5 years:** 2007 to the present day – President, Chairman of the Management Board of Transneft;  
**Participation in governing bodies of other legal entities:** 2013 to the present day – member of the Board of the Russian Union of Industrialists and Entrepreneurs (RSPP); 2013 to the present day – member of the Management Board of the All-Russian Association of Employers RSPP; 2015 to the present day – member of the Governing Board of the International Association of Oil Transporters.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1969.  
In 1991 he graduated from Lesgaft National State University of Physical Education, Sport and Health, qualified as a coach-instructor. In 1997 he graduated from Lobachevsky State University of Nizhny Novgorod, qualified as an economist-manager.  
**Positions held in the last 5 years:** 2012-2014 – Assistant to the President of Rosneft; 2014 to the present day – Vice-President of Transneft.  
**Participation in governing bodies of other legal entities:** 2010-2012 – member of the Board of Directors of JSC CPC-R; 2011 to the present day – member of the Supervisory Board of Trans-Balkan Pipeline B.V.; 2015 to the present day – member of the Board of Directors of NCSP Group; 2016 to the present day – member of the Board of Directors of JSC CPC-R.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1951.  
In 1978 he graduated from Moscow State University, majoring in Law. In 1990 he graduated from the All-Union Foreign Trade Academy, majoring as an Economist with Foreign Language Skills.  
**Positions held in the last 5 years:** 2007-2016 – Vice-President of Transneft.  
**Participation in governing bodies of other legal entities:** 2014-2016 – member of the Board of Directors of JSC CPC-R; 2014-2016 – member of the Board of Directors of JSC CPC-K; 2016-2016 – member of the Board of Directors of NCSP Group.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1968.  
In 1995 he graduated from Christian Albert University (Germany), majoring in Political Economics. In 1989 he graduated from Moscow Finance Institute.  
**Positions held in the last 5 years:** 2011 to the present day – Vice-President of Transneft.  
**Participation in governing bodies of other legal entities:** 2011 to the present day – member of the Supervisory Board of Trans-Balkan Pipeline B.V.; 2012 to the present day – Chairman of the Board of Directors of NCSP Group; 2014 to the present day – Chairman of the Board of Directors of JSC IC Transneft.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1955.  
In 1981 he graduated from the Military Institute of Foreign Languages, majoring in Law.  
**Positions held in the last 5 years:** 2010 to the present day – Vice-President of Transneft.  
**Participation in governing bodies of other legal entities:** 2011 to the present day – member of the Board of Directors of LLC KHL; 2014 to the present day – member of the Board of Directors of JSC IC Transneft.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.



**Mikhail Margelov**  
Member of the Management Board,  
Vice-President



**Pavel Revel-Muroz**  
Member of the Management Board,  
Vice-President



**Vladimir Rushaylo**  
Member of the Management Board,  
Vice-President



**Alexey Sapsay**  
Member of the Management Board,  
Vice-President



**Rashid Sharipov**  
Member of the Management Board,  
Vice-President

Born in 1964.

In 1986 he graduated from Lomonosov Moscow State University (Institute of Asian and African countries), majoring in History, and was awarded the qualification of historian-orientalist, Arabic language interpreter. In 2005 he graduated from St. Petersburg State University with a PhD in Political Science.

**Positions held in the last 5 years:**

2000-2014 – member of the Federation Council of the Federal Assembly of the Russian Federation from the Pskov Region – representative at the Federation Council of the Federal Assembly of the Russian Federation from the administration of the Pskov Region;  
2014 to the present day – Vice-President of Transneft.

**Participation in governing bodies of other legal entities:**

2015 to the present day – member of the Board of Directors of JSC CPC-R;  
2015 to the present day – Chairman of the Board of Directors of LLC TK-BA;  
2015 to the present day – member of the Supervisory Board of Trans-Balkan Pipeline B.V.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1974.

In 1996 he graduated from Chelyabinsk State University of Agroengineering, majoring in Mechanization of Agriculture. In 2000 he graduated from Ufa State Petroleum Technological University, majoring in The Design, Construction and Operation of Gas and Oil Pipelines and Oil and Gas Storage Facilities.

**Positions held in the last 5 years:**

2008 to the present day – Vice-President of Transneft.

**Participation in governing bodies of other legal entities:**

2012 to the present day – Chairman of the Board of Directors of Nevskaya Pipe Company LLC.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1953.

In 1976 he graduated from Omsk Higher School of Police, USSR Ministry of Internal Affairs, majoring in Law.

**Positions held in the last 5 years:**

2008-2013 – First Deputy Chairman of the Council of the Federation Committee on Constitutional Legislation, Legal and Judicial Affairs and Civil Society Development;  
2013 to the present day – Vice-President of Transneft.

**Participation in governing bodies of other legal entities:**

2008 to the present day – Chairman of the Supervisory Board of the Griboedov Institute of International Law and Economics.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1972.

In 2001 he graduated from Ufa State Petroleum Technological University, majoring in The Design, Construction and Operation of Gas and Oil Pipelines and Oil and Gas Storage Facilities.

**Positions held in the last 5 years:**

2009 to the present day – Deputy Vice-President, Vice-President of Transneft.

**Participation in governing bodies of other legal entities:**

2008-2012 – member of the Board of Directors of PMC ESPO, LLC;  
2010-2012 – member of the Board of Directors of LLC DSD;  
2012-2014 – member of the Board of Directors of JSC CPC-R.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

Born in 1968.

In 1991 he graduated from Moscow State Institute of International Relations (MGIMO), majoring in International Relations.

**Positions held in the last 5 years:**

2005-2013 – Deputy Director General of LLC KFK-Consult;  
2013-2013 – Executive Vice-President of Gazprombank (JSC);  
2013-2015 – Vice-President, Head of the Executive Office of Rosneft's President;  
2016 to the present day – Deputy Vice-President, Vice-President of Transneft.

**Participation in governing bodies of other legal entities:**

2009-2013 – member of the Board of Directors of SO UPS, JSC;  
2010-2013 – member of the Board of Directors of PJSC RusHydro;  
2013-2015 – member of the Management Board of Rosneft;  
2016 to the present day – member of the Board of Directors of NCSP Group;  
2016 to the present day – member of the Board of Directors of JSC CPC-R.  
Shareholding in the Company's authorized capital: none.  
Ordinary shares of the Company held: none.

**Number of Management Board members**

2014	53
2015	61
2016	58

**Issues considered**

2014	166
2015	163
2016	191

In February 2017, the powers of the Management Board member, Mikhail Barkov, were terminated. Vice-President Larisa Kalanda joined the Management Board.

**TRANSACTIONS WITH SHARES AND ISSUE OF LOANS AND CREDITS TO MEMBERS OF THE MANAGEMENT BOARD**

In 2016, members of the Management Board made no transactions in Transneft's shares.

During 2016, the President was not granted loans (credits). In 2016, one member of the Management Board received a special-purpose loan to buy an apartment.

**CONFLICT OF INTEREST**

According to information available in Company, there was no conflict of interest among the members of the Management Board during 2016.

**THE MAIN RESULTS OF THE MANAGEMENT BOARD OPERATION IN 2016**

In 2016, the Company's Management Board held 58 meetings, during which 191 issues were considered.

# SYSTEM OF REMUNERATION FOR THE KEY MANAGEMENT PERSONNEL

In accordance with the consolidated financial statements of Transneft under IFRS, the key management personnel includes members of the Board of Directors and of the Management Board of the Company, the general directors of the companies within the Group. Members of the Board of Directors receive remuneration for participation in

the work of the management body. The Annual General Meeting of Shareholders approves the remuneration payable to the members of the Board of Directors. Members of the Management Board of the Company and general directors of the companies within the Group receive salaries and other payments specified in employment agreements.

## REMUNERATION SYSTEM FOR MEMBERS OF THE BOARD OF DIRECTORS

The Transneft Board of Directors Members' Remuneration Policy was approved by the Annual General Meeting of Shareholders (order of the Federal Agency for State Property Management No. 541-r dated June 30, 2015).

The remuneration of members of the Board of Directors for their participation in the operation of the governing body is divided into three parts:

- fixed part;
- variable part;
- additional duties allowances.

The fixed part of the remuneration is payable for exercising the authorities of a member of the Board of

Directors. The variable part of the remuneration is paid for achieving the key performance indicators established by the Regulation.

Additional duties allowances are paid to members of the Board of Directors performing additional duties related to exercising the powers of the Chairman of the Board of Directors and work in the specialized Committees under the Board of Directors.

The total amount of remuneration paid to the members of the Board of Directors in 2016 was RUB 43,800,000.

**₽ 43,800**  
thousand

remuneration paid to the members of the Board of Directors in 2016

The members of the Board of Directors were not compensated for the expenses they incurred while performing their functions as members of the Board of Directors.

Members of the Board of Directors who are subject to restriction or prohibition of receiving remuneration from for-profit organizations shall not be paid the remuneration.

## REMUNERATION SYSTEM FOR THE PRESIDENT AND THE MANAGEMENT BOARD MEMBERS

Transneft sole executive body's remuneration policy is approved as revised by resolution of the Board of Directors dated January 15, 2016 (Minutes No. 1) and provides for the dependency of the remuneration on key performance indicators. This Policy is applied to determine the remuneration of Transneft's President, starting with the payment for the performance in 2015.

The members of the Management Board of Transneft, as employees of Transneft, receive remuneration, monthly salaries and other payments (including annual remuneration, depending on the performance of corporate key performance indicators for the reporting period).

The total remuneration of the Management Board members of Transneft paid by the Company in 2016:

Types of remuneration, RUB thousand	2016
Remuneration for work in the governing body	
Salary	395,233.3
Bonuses	463,484.3
Commission fees	-
Benefits	24,512.1
Compensation of expenses	19,041.5
Other types of remuneration	-
<b>Total</b>	<b>902,271.2</b>

**₽ 902,271.2**  
thousand

remuneration paid to the Management Board members in 2016

No separate remuneration is payable for the performance of the duties of the members of the Management Board, additional costs are not reimbursed.

# REVISION COMMISSION

The Revision Commission carries out functions of control over Transneft's financial and economic activity and is composed of three persons.

The procedure for the work of the Revision Commission is governed by the Regulation of Transneft's Revision Commission, approved by resolution of the Extraordinary General Meeting of Transneft (order of the Federal Agency for State Property Management dated October 6, 2015 No. 734-r).

During the reporting period, Transneft's Revision Commission operated elected:

1. by the Annual General Meeting of Shareholders (order of the Federal Agency for State Property

Management dated June 30, 2015 No. 541-r), consisting of:

- Oleg Zenkov (Chairman);
- Pavel Shumov;
- Olga Tregubenko;

2. by the Annual General Meeting of Shareholders (order of the Federal Agency for State Property Management dated June 30, 2015 No. 520-r), consisting of:

- Alexander Gladkov (Chairman);
- Oleg Zenkov;
- Pavel Shumov.

Transneft's Revision Commission Members' Remuneration and Compensation Policy was approved by the Extraordinary General Meeting of Shareholders (order of the Federal Agency for State

Property Management No. 734-r dated October 6, 2015).

Remuneration paid to members of the Revision Commission in 2016 amounted to RUB 972,500. In 2014-2015 no remuneration was paid to the members of the Revision Commission.

No compensation of expenses incurred during performance of functions as members of the Revision Commission was made for the members of the Revision Commission.

Members of the Revision Commission who are subject to restriction or prohibition of receiving remuneration from for-profit organizations shall not be paid the remuneration.

Members of the Revision Commission in 2016	Position held
Alexander Gladkov Chairman of Transneft's Revision Commission	2013 to the present day – Director of the Oil and Gas Production and Transportation Department of the Ministry of Energy of the Russian Federation.
Oleg Zenkov	2012-2016 – Advisor to the Head of the Federal Agency for State Property Management.
Olga Tregubenko	2015 to the present day – Director of the Practice of Topcompetence LLC.
Pavel Shumov	2010 to the present day – Councillor, Deputy Head of Division, Department of Competition Development, Head of the Department for the State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency, Russia's Ministry of Economic Development.

The members of the Revision Commission have no shares in the Company's authorized capital.

The members of the Revision Commission do not hold any of the Company's ordinary shares.

In the reporting year, the work plan of the Revision Commission included the following:

- the audit of the financial and business activities of Transneft;
- verification of the correctness of the calculation, accrual and transfer of dividends for 2015;
- analysis of the regulations of Transneft governing the work of the Revision Commission;

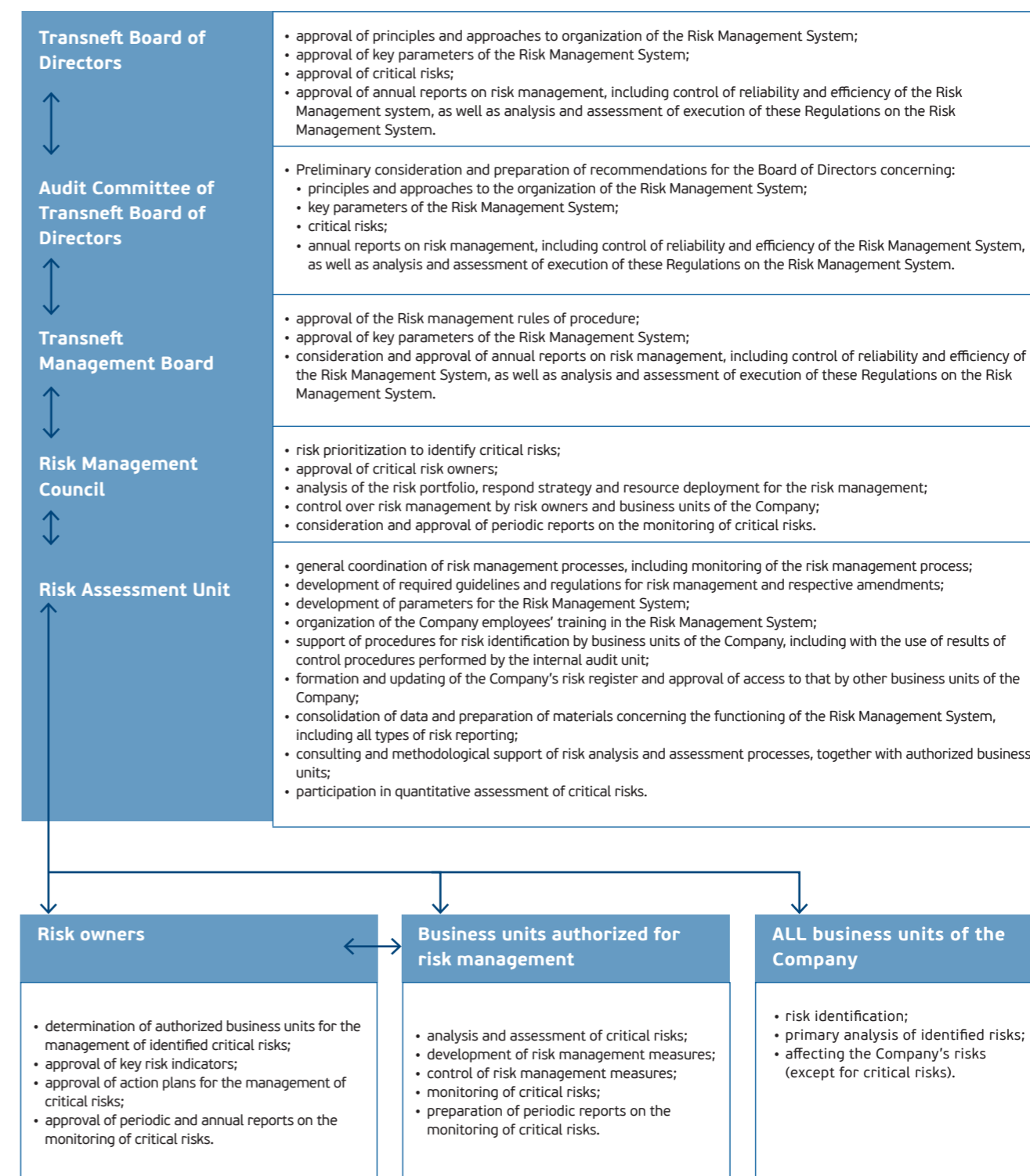
- audit of the purchases made by Transneft in 2016;
- verification of the execution of instructions from the President and the Government of the Russian Federation;
- verification of Transneft's alienation of non-core assets in 2016;
- rectification by Transneft of violations/implementation of recommendations reflected in previous reports of the Revision Commission;
- procedure for revision and update of the Long-Term Development Program;
- consideration of the certificate of the Revision Commission following the review of the financial and economic

- performance of Transneft for 2016 and the annual financial statements of Transneft for 2016;
- consideration of the opinion of the Audit Committee on the review of the financial and business activities by Transneft for 2016 and the annual accounting records of Transneft for 2016.

Following the audit of the Company's financial and business activities, a certificate was prepared for the period from January 1, 2016 to December 31, 2016, and an opinion was issued on the validity of the data contained in the Company's financial statements and annual report.

# RISK MANAGEMENT SYSTEM

## INTERACTION BETWEEN PARTIES TO THE TRANSNEFT RISK MANAGEMENT SYSTEM





## Coordination of all processes for RMS formation and functioning is entrusted to the Risk Management Council formed by the Transneft Management Board

At the end of 2015 Transneft initiated the formation of the corporate Risk Management System (RMS). It has been carried out in pursuance of an executive order of the President of the Russian Federation following the results of the meeting on the improvement of performance in publicly owned companies dated December 27, 2014 No. Pr-3013, Directive of the

Government of the Russian Federation dated 24.06.2015 No. 3984p-P13 (Rosimushchestvo (Federal Agency for State Property Management) letter dated July 7, 2015 No. 11/27343) and in accordance with the Guidelines on drafting regulations on a risk management system developed by the Ministry of Economic Development of Russia.

### List of documents approved by Transneft in 2015-2016 as part of corporate RMS formation and tasks resolved due to their approval

Approved Documents	Level, date and Minutes of approval	Resolved tasks on RMS formation
Regulations on Risk Management System	<ul style="list-style-type: none"> <li>Resolution of the Transneft Board of Directors dated November 16, 2015, Minutes No. 28</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of general principles for RMS formation;</li> <li>Determination of RMS goals and objectives;</li> <li>Designation of general approaches to RMS organization;</li> <li>Determination of functions and responsibility among parties to RMS and the nature of their interactions;</li> <li>Transfer of functions on RMS methodological and regulatory documents development to the Risk Assessment Section of the Directorate of Financial Security and Risk Assessment with the Transneft Department of Economics.</li> </ul>
Risk Management Rules of Procedure	<ul style="list-style-type: none"> <li>Resolution of the Transneft Management Board dated April 1, 2016, Minutes No. 13</li> </ul>	<ul style="list-style-type: none"> <li>Determination of the order of interaction between Company divisions as part of RMS functioning.</li> </ul>
RMS Key Parameters	<ul style="list-style-type: none"> <li>RMS Key Parameters</li> <li>Resolution of the Transneft Board of Directors dated June 29, 2016, Minutes No. 13</li> </ul>	<ul style="list-style-type: none"> <li>Designation of levels for preferred and admissible risk for each risk type;</li> <li>Formation of risk assessment scale and matrix for risk rating as critical.</li> </ul>
Risk Management Rules of Procedure Regulations on Risk Management Council Risk Management Council Members	<ul style="list-style-type: none"> <li>Resolution of the Transneft Management Board dated April 1, 2016, Minutes No. 13;</li> <li>Resolution of the Transneft Management Board dated May 12, 2016, Minutes No. 21</li> </ul>	<ul style="list-style-type: none"> <li>Formation of the Risk Management Council for general coordination over RMS functioning;</li> <li>Approval of the Risk Management Council Members.</li> </ul>
Critical Risk Register	<ul style="list-style-type: none"> <li>Decision of the Risk Management Council dated October 12, 2016, Minutes No. 3;</li> <li>Resolution of the Transneft Board of Directors dated November 29, 2016, Minutes No. 22</li> </ul>	<ul style="list-style-type: none"> <li>Risk prioritization;</li> <li>Approval of Critical Risk List;</li> <li>Determination of critical risk owners.</li> </ul>

As part of corporate RMS formation in 2016, Transneft implemented the procedure for risk identification, formed a risk register, prioritized risks and approved a critical risk list. For each critical risk the risk owner was designated. Such an owner determined divisions responsible for managing the risk, and also approved key indicators for monitoring critical risk dynamics.

Coordination of all processes for RMS formation and functioning is entrusted to the specially formed Risk Management Council.

The Council consists of:

- Nikolay Petrovich Tokarev (President of Transneft, Chairman of the Risk Management Council);
- Maksim Sergeyevich Grishanin (First Vice-President of Transneft);
- Vladimir Borisovich Rushaylo (Transneft Vice-President);
- Pavel Aleksandrovich Revel-Muroz (Transneft Vice-President);
- Rashid Ravelevich Sharipov (Transneft Vice-President).

Risks were prioritized during the face-to-face meeting of the Risk Management Council (Minutes No. 3 dated October 12, 2016), following which the below decisions were made:

- To approve a preliminary list of Transneft critical risks, following the results of prioritization, in order to submit it for consideration by the Audit Committee under the Transneft Board of Directors and for approval by the Transneft Board of Directors.
- To approve Transneft critical risk owners.

The preliminary list of critical risks was considered by the Audit Committee with the Transneft Board of Directors and approved by resolution of the Transneft Board of Directors

dated November 29, 2016 (Minutes No. 22):

- currency and interest-rate risks;
- state regulation of tariffs for oil/petroleum products transportation;
- fiscal risks;
- failure to comply with the plan on new trunk pipeline utilization;
- impact of changes in state policy regarding oil industry taxation on freight turnover;
- acts of unlawful interference, including acts of terrorism or attempted acts of terrorism;
- external supply disconnection at Transneft facilities;
- risk of changes in laws and regulations establishing and regulating technical requirements and conditions of the Company's production operations;
- risk of license revocation from the counterparty bank.

The Department of Internal Audit and Analysis of Core Business Activities shall assess RMS development efficiency and control its development at all stages (including process organization, regulatory-methodological provisions, interrelation between divisions, financial reporting, completeness and accuracy of identified risks, reasonableness in the use of funds allocated for these purposes and information analysis about occurred risks).

Since the start of 2017, responsible divisions have been analyzing critical risks and monitoring their dynamics, as well as developing action plans to manage such risks.

As part of summing up the results for 2016, the Transneft Board of Directors approved the 2016 Annual Report on Transneft risk management (resolution dated March 15, 2017, Minutes No. 3), which included a performance evaluation of the Risk Management System taking into account internal audit reports.

# RISK INSURANCE

Insurance is viewed as an instrument of the Company's risk management allowing complete or partial compensation of losses from these risks

The Company continues to effectively use the system of property risk insurance alongside the risk management instruments introduced as part of RMS. The core principles of its formation, application procedures and insurance types used in trunk pipeline transportation of oil and petroleum products are stipulated in the Regulations on own property risk insurance for Transneft and Transneft subsidiaries (approved by Transneft Order No. 26 dated February 27, 2014).

Insurance is viewed as an instrument of the Company's risk management which will allow the complete or partial transfer of financial losses from the occurrence of insurable risks to insurance companies and thus compensate (reimburse) losses from risk occurrence.

When insuring own property risks, the Company applies the following principles:

- principle of centralization;

- principle of standardization;
- principle of reasonableness in decision-making on voluntary types of insurance;
- principle of applying adequate retention;
- principle of quality, reliability and transparency of risk placement in insurance.

All types of movable and immovable property (with the exception of land parcels) form subject matters of property insurance contracts. Operated property is insured against loss, damage caused by fire, explosion, lightning, water damage, acts of nature, third parties' illegal actions and other risks (depending on the property type). In addition, Transneft subsidiaries maintain civil liability insurance against inflicting damage to third parties and the environment.

In the process of its business activities, Transneft's subsidiaries, as and when necessary, insure cargos and builder's risks independently.

# MAIN RISKS

Below is a brief description of the main risks managed in 2016, and measures undertaken by the Company to compensate for their potential adverse impact.

Risks	Actual risk occurrence in 2016	Measures undertaken to decrease the probability of risk occurrence and occurred risk mitigation
<p><b>Risk of illegal actions:</b></p> <ul style="list-style-type: none"> <li>• terrorist and sabotage threats at trunk pipeline facilities;</li> <li>• theft of oil and petroleum products, component parts of pipeline equipment, cable and wires, dismantled pipes etc.</li> </ul>	<ul style="list-style-type: none"> <li>• At the Company's facilities, security officers detained 11,400 offenders of access mode, more than 6,200 offenders of internal security policy and recorded about 3,000 violations of trunk pipeline line section protected zone, in relation to which relevant acts were drawn up.</li> <li>• 300 illegal tappings were spotted at oil and petroleum product trunk pipelines on the territory of the Russian Federation.</li> <li>• The Company's security divisions, both independently and in cooperation with law-enforcement authorities, stopped 38 instances of oil and petroleum products theft from trunk pipelines, and detained 124 persons for these violations as well as 26 cars with stolen oil and petroleum products. More than 10,000 tons of oil and petroleum products were reclaimed from law-breakers. Pursuant to all crimes related to oil and petroleum products theft, 315 claims were submitted to law enforcement authorities, upon which 260 criminal cases were initiated and 111 persons were convicted of criminal offenses, of which 62 went to prison.</li> </ul>	<ul style="list-style-type: none"> <li>• Engaging the Company's departmental security (Transneft Security, LLC), private security providers, units of the Federal Agency of Russia's National Guard Troops (Rosgvardiya) to ensure security of property and engineering and manufacturing complexes. In 2016, 1,132 of the Company's facilities out of 1,681 were guarded.</li> <li>• Facility classification and safety certificates issuance in accordance with Federal Law dated July 21, 2011 No. 256 "On the Security of the Fuel and Power Sector Facilities". In 2016, 3 facility safety certificates were developed and 162 were updated. All facilities are included in the register of the fuel and power sector facilities, maintained by the Russian Ministry of Energy.</li> <li>• Maintenance of access mode and internal security policy, revealing and stopping of intruders' penetration attempts to the facility, gun-running, carrying weapons, explosives and explosive devices.</li> <li>• Increased security of the Company's facilities on weekends and public holidays.</li> <li>• Conducting anti-terrorist exercises and drills (in 2016 – more than 3,000, including 714 with the participation of employees from the Russian Federal Security Service and the Russian Ministry of Internal Affairs).</li> <li>• Construction of technical security equipment facilities (in 2016 – for a total amount of RUB 1.355 billion).</li> <li>• Protection of trunk oil and petroleum product pipelines' line sections from unauthorized tapping.</li> <li>• Optimization of the number of security divisions, improvement of their material and technical resources and conducting in-line inspections.</li> <li>• Implementation of investigative and preventive measures in the regions with trunk oil pipelines and petroleum product pipelines (in 2016 3,835 events were conducted – raids, ambushes, covert observations etc., 995 facilities were checked).</li> </ul>

<p><b>Risk of changes in freight turnover:</b></p> <ul style="list-style-type: none"> <li>change in the dynamics of production and commercial activities of Russian oil-producing and refining companies due to changes in prices for crude oil and petroleum products;</li> <li>change in cost structures of Russian oil-producing and refining companies due to changes in oil transit tariffs and export duties.</li> </ul>	<p>Throughout 2016, Russian oil companies continually adjusted:</p> <ul style="list-style-type: none"> <li>plans for volumes and time intervals for recovering at oilfields where oil was planned for transportation along the Company's existing pipelines and those under construction;</li> <li>volumes and directions of oil and petroleum product transportation along the pipeline system operated by Transneft Group.</li> </ul>	<ul style="list-style-type: none"> <li>This risk is outside of the Company's control. To reduce its potential negative consequences, the Company has maintained continuous cooperation with the largest clients and public regulators and has been developing a system of agreed and long-term tariffs.</li> </ul>
<p><b>Currency and interest risks:</b></p> <ul style="list-style-type: none"> <li>changes in financial and business performance depending on exchange rate fluctuations due to the Company's present currency loans and temporarily free cash.</li> </ul>	<ul style="list-style-type: none"> <li>In 2016, the RUB/USD exchange rate demonstrated a variety of trends: weakening from 72.93 RUB/USD at the beginning of January 2016 to 83.59 RUB/USD at the end of January 2016, and subsequent strengthening to 60.27 RUB/USD by the end of 2016.</li> <li>Interest rates on loans in US dollars increased in 2016, which caused a rise in the cost of loan servicing in China Development Bank; the interest payments for such a loan depend on the changes in the LIBOR 6M rate which rose from 0.85% to 1.32% in 2016.</li> </ul>	<ul style="list-style-type: none"> <li>The Company's core business activities in the Russian Federation and no material investments into foreign companies whose net asset value is exposed to the currency gap risk.</li> <li>Development and/or updating in 2016 of the Company's internal regulations aimed at currency and interest risk management: <ul style="list-style-type: none"> <li>Transneft Currency and Interest Risk Management Policy (approved by regulation of the Transneft Board of Directors dated June 29, 2016, Minutes No. 13);</li> <li>Transneft Currency and Interest Risk Management Procedure (approved by Transneft Order No. 170 dated September 8, 2016);</li> <li>Transneft Currency and Interest Risk Management Strategy (approved by resolution of the Transneft Board of Directors dated December 22, 2016, Minutes No. 22);</li> </ul> </li> <li>When necessary, forex hedging transactions are carried out to minimize the potential adverse impact from changes in foreign exchange rates on the Company's performance indicators.</li> <li>Currency diversification of Company's placed temporarily free cash, taking into account the currency profile of the debt, more than 75% of which was in currency loans in 2016.</li> <li>Planned replacement throughout 2016 of US dollar-denominated credit in the China Development Bank with long-term bonds in rubles with the coupon fixed rate (during 2016 bonds were placed for a total amount of RUB 77 billion, which was sent for early repayment of the credit in the China Development Bank in the amount of USD 1.16 million).</li> </ul>
<p><b>Tax and Legal Risks:</b></p> <ul style="list-style-type: none"> <li>various interpretations and exposure to frequent changes in the Russian tax, currency and customs legislation.</li> </ul>		<ul style="list-style-type: none"> <li>Under the conditions of imperfect and often changing legislation, Transneft, being a law-abiding commercial entity, uses its best endeavors aimed at observing such legislation, and when necessary resorts to legal defense.</li> <li>Internal control and auditing work.</li> <li>Careful analysis of potential sources and consequences of legal and tax risks.</li> <li>Expert review on complicated issues with the involvement of professional advisors.</li> <li>Independent market-value assessment of assets. In general, the impact of these risks on the Company's activities is rated as limited.</li> </ul>

<p><b>Credit Risks:</b></p> <ul style="list-style-type: none"> <li>failure of counterparties to fulfill their financial obligations, including non-repayment of advance payments, non-payment for rendered services, etc.</li> </ul>		<ul style="list-style-type: none"> <li>Preliminary analysis and monitoring of counterparties' financial and economic performance.</li> <li>Use of guarantee and penal sanction mechanisms in contracts.</li> <li>Conclusion of contracts on core activity on a prepaid basis.</li> <li>Update of the Regulations on limit setting and observance for transactions with counterparty banks of Transneft subsidiaries (Transneft Order No. 83 dated April 19, 2016): <ul style="list-style-type: none"> <li>determination of selection criteria for counterparty banks for the purpose of placing temporarily free cash and acceptance of bank guarantees;</li> <li>establishing the procedure of limit approval for transactions with counterparty banks.</li> </ul> </li> </ul>
<p><b>Risk of mutual international sector-based restrictions:</b></p> <ul style="list-style-type: none"> <li>financial sanctions.</li> </ul>	<ul style="list-style-type: none"> <li>In 2016, discriminating foreign pressure remained in relation to Russian companies, which affected Transneft as one of the backbone companies of the Russian oil and gas sector.</li> </ul>	<ul style="list-style-type: none"> <li>Adopting a centralized policy of external loans to ensure that the cost of debt for Transneft Group is as low as possible. Fund raising by the parent company with subsequent transfer of funds to Group companies as part of intra-group loans.</li> <li>Plan development for current debt refinancing and procurement of new loans with a new, efficient repayment profile and elimination of peak loads on cash flows.</li> <li>Accounting for the existing parameters of the debt portfolio in 2016 in the Company's financial economic model.</li> </ul>
<p><b>Risk of import/export ban on goods and services:</b></p> <ul style="list-style-type: none"> <li>considerable reduction in the volume and quality of works carried out by the Company due to cessation of deliveries of components and constituent parts for certain product categories.</li> </ul>		<ul style="list-style-type: none"> <li>Implementation of measures on local content in manufacturing certain categories of imported products. In 2016, manufacturing of six product types was set up in the Russian Federation: <ul style="list-style-type: none"> <li>main line and booster pumps;</li> <li>ball-type pressure and flow controllers;</li> <li>slide gate valves;</li> <li>oil quantity and quality metering system (OQQMS);</li> <li>fire auto-foam towers;</li> <li>drag reducing agents.</li> </ul> </li> </ul>
<p><b>Regulators' decisions (tariff, customs, dividend):</b></p> <ul style="list-style-type: none"> <li>tariff changes by resolutions of the Federal Antimonopoly Service (FAS of Russia);</li> <li>changes to the customs legislation and rules;</li> <li>changes to conditions of government regulation in the sector, including the accepted practice of tariff setting.</li> </ul>		<ul style="list-style-type: none"> <li>Regular work with regulatory authorities and largest clients to reduce uncertainty and the level of potential adverse impact of these risks on the Company's performance. During 2016 cooperation was implemented on the issues of applying current regulatory documents and agreements.</li> <li>Core activity within the Russian Federation, omission of exports and operating the active policy on import substitution of the purchased equipment.</li> </ul>
<p><b>Risks of changes in price for purchased goods, works and services:</b></p> <ul style="list-style-type: none"> <li>inflation development in the economy of the Russian Federation;</li> <li>restriction of opportunities to increase tariffs on services related to oil and petroleum product transportation via the trunk pipeline system by government regulation;</li> <li>changes in the Company's costs, mainly ruble-denominated, in accordance with the inflation rates.</li> </ul>		<ul style="list-style-type: none"> <li>Development and implementation of the Action Plan on reduction in operating and capital expenditure (approved by resolution of the Transneft Board of Directors dated April 10, 2014, Minutes No. 5) – suggests a reduction in operating costs (expenditures) by at least 2-3% per year, which makes it possible to greatly alleviate the impact of the mentioned risk.</li> </ul>

**Risks related to natural and climatic conditions:**

- severe climatic conditions and dangerous geological processes in the regions of operation (East Siberia, Far East, High North), resulting in marsh formation, erosion processes, landslide developments, permafrost soils etc.;
- general climatic trend in temperatures, indicating warming over a substantial area of the Russian Federation.

- In the last decade (including 2016), the frequency of hazardous natural phenomena was at a maximum for the whole period of records due to anomalous temperature deviations from long-time average annual values.

- Mitigation of adverse effects from natural phenomena due to regular monitoring of technical conditions of the Company's industrial facilities and introduction of innovative solutions.
- Preparatory measures prior to the beginning of the autumn and winter period.
- Preparation of emergency material and equipment reserves.
- Training of Emergency Response and Restoration Teams.
- Production facilities' insurance.

**Risks of accidents and incidents:**

- short-time shutdowns at local sections of the trunk pipeline system;
- incurrence of additional costs and losses.

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- High-technology in-line inspections.
- Constant monitoring of pipeline technical conditions.
- Efficient system of pipeline repairs and maintenance of safe operation.
- Insurance of property and responsibility of Transneft subsidiaries, including line section facilities, oil pump stations, oil storage facilities, buildings and facilities, transport vehicles and specialized machinery, and also equipment and crude oil/petroleum linefill in trunk pipelines and tank farms.

**HR and social risks:**

- increased necessity to hire extra staff, including for engineering due to the extension of trunk pipeline line sections and the number of oil pumping stations;
- changes in the demographic situation in the Russian Federation;
- change in competitive conditions on the labor market.

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- Ensuring Transneft subsidiaries are staffed with highly qualified personnel and maintaining their stability level.
- Improvement of the quality of personnel training, retraining and professional development in accordance with the directions of the Company's innovative development.
- Increasing flexibility of financial and non-financial incentive systems taking into account regional factors and the situation on the labor market, ensuring competitive remuneration.
- Improvement of the performance management system, including due to introduction of innovations, modern equipment and new technologies aimed at labor cost reduction.

# INTERNAL CONTROL SYSTEM

The Company employs the Internal Control System aimed at improving corporate governance and ensuring the productivity of Transneft operations, the reliability and authenticity of financial statements and the compliance of operations with legislation. Regulations on internal control procedures, being the key internal document regulating the internal control function, were approved by resolution of the Board of Directors dated September 10, 2009 (Minutes No. 12).

With the objective of preventing risks in financial and business operations, taking timely measures to eliminate

them, to identify and mobilize in-house possibilities and reserves for profit earning, and to render assistance to the Company's Management in the efficient fulfillment of managerial functions, the internal control enforces the following:

- securing investor confidence, protection of shareholders' capital investments and assets;
- maintaining a high-level business reputation;
- securing completeness and accuracy of financial statements and management reporting;
- ensuring compliance with the laws and regulations of the

Russian Federation, decisions of governing bodies and local regulatory documents;

- securing property safety and efficient resource utilization; securing execution of financial and economic plans.

The internal control is carried out, among others, by the Transneft Board of Directors, Audit Committee, Revision Commission, governing bodies, and divisions authorized to execute internal control.



# INTERNAL AUDIT SYSTEM

Internal Audit Regulations (approved by resolution of the Transneft Board of Directors dated November 16, 2015, Minutes No. 28) determine the Company's internal audit policy. In accordance with this document, internal audit is the activity whose aim is to assist the Company's governing bodies, Transneft subsidiaries in improving efficient governance by the Transneft system, the Company and Transneft subsidiaries, improving their financial and business operations through a systematic and coherent approach to analysis and assessment of the risk management, internal control and corporate governance systems of the Transneft system, the Company and Transneft subsidiaries.

The Department of Internal Audit and Analysis of Core Business Activities exercises the internal audit function in the Company and Transneft subsidiaries.

As part of an internal audit, the following actions are performed:

## 1. Performance evaluation of the Internal Control System:

- analyzing compliance of targets of the Company's business processes, projects, divisions and Transneft subsidiaries' business processes, projects, divisions with the Transneft system, Company, Transneft subsidiaries' targets; checking efficiency, reliability and consistency of business-processes (activities) and information systems, including reliability of procedures for countering illegal actions, abuse and corruption;
- checking the authenticity of accounting (financial) statements, statistical, governance and other reporting, determining to what extent the performance of business processes and divisions of the Company and Transneft subsidiaries comply with the set targets;

- determination of criteria validity established to analyze the extent of accomplishment (achievement) of the set objectives;
- identifying internal control system drawbacks which did not (do not) allow the Transneft system, the Company, Transneft subsidiaries to achieve the set targets;
- assessment of the results of the introduction (implementation) of measures to eliminate violations, drawbacks and the improvement of the Internal Control System implemented by the Company, Transneft subsidiaries at all management levels.
- checking the efficiency and feasibility of utilizing Company, Transneft subsidiaries' resources;
- checking Company and Transneft subsidiaries' asset protection;
- checking compliance with the requirements of legislation, Company and Transneft subsidiaries' Articles of Association, Company and Transneft subsidiaries' regulatory documents.

## 2. Risk Management System performance evaluation:

- checking the sufficiency and maturity of elements of the Transneft System, Company, Transneft subsidiaries' Risk Management System for efficient risk management: goals and objectives, infrastructure, including organizational structure, automation facilities etc., process structuring, regulatory and methodological support, division interaction as part of the Risk Management System, reporting;
- checking the completeness of risk identification and risk assessment accuracy on the part of the Company's and Transneft subsidiaries' management at all levels of its management;
- checking the efficiency of control procedures and other measures

for risk management, including the efficiency of utilizing resources allocated for these purposes;

- analyzing information on occurred risks (including those on violations, instances of failure to achieve the set goals, instances of court proceedings and other facts revealed as a result of checking).

## 3. Corporate Governance evaluation:

- checking the observance of ethical principles and corporate values of the Transneft system, the Company, Transneft subsidiaries;
- checking the goal setting procedure of the Transneft system, the Company and Transneft subsidiaries and monitoring/exercising control over their achievement;
- checking the level of regulatory compliance and information cooperation procedures (including on the issues of risk management and internal control) at all management levels of the Transneft system, the Company and Transneft subsidiaries, including interaction with stakeholders;
- checking enforcement of the shareholders' rights, including from affiliated companies and efficiency of relationships with stakeholders;
- checking procedures on information disclosure about the Transneft system, the Company and Transneft subsidiaries activity.

The Audit Committee under the Transneft Board of Directors evaluates the performance of the internal audit function annually. Following the 2016 results, performance evaluation of the internal audit function will be made in June 2017 in accordance with the work plan of the Audit Committee under the Board of Directors.

## List of internal documents regulating the internal audit function and issues related to functions of the risk management and internal control system

- Regulations on internal audit (approved by resolution of the Transneft Board of Directors dated November 16, 2015 (Minutes No. 28);
- Regulations on the Department of Internal Audit and Analysis of Core Business Activities of Transneft dated December 8, 2015 No. 08-03/001;
- Code of Internal Auditor Conduct (approved by Transneft Order dated April 21, 2016 No. 87);
- Program of internal audit quality assessment and improvement (approved by Transneft Order dated July 14, 2016 No. 136);
- Regulations on planning internal audit activity, auditing and analysis of core business activities of Transneft and Transneft subsidiaries (approved by the President of Transneft on November 24, 2016).



## EXTERNAL AUDIT

In accordance with the legislation of the Russian Federation, agreements on the statutory audit of accounting (financial) statements of an organization, the authorized capital of which includes the state owned share amounting to at least 25%, are concluded on the basis of an open tender which is held at least once every five years in accordance with the procedures established by Federal Law dated April 5, 2013 No. 44-FZ "On the Contract System in the Procurement of Goods, Works and Services for State and Municipal Needs".

A competitive tender for the selection of auditing firms for 2016 was held in accordance with the Regulations on open tenders for the selection of an auditing firm for the statutory annual audit of Transneft for 2016, approved by Transneft Order dated February 1, 2016 No. 18.

JSC KPMG was announced the winner.

Auditor remuneration for audit services was determined following the results of the open tender and amounted, under the agreement on Transneft accounts audit for 2016, to RUB 32,450,000, including VAT.

Following the tender results, the Company Board of Directors nominated the winner for approval by the Company's General Meeting of Shareholders.

### RESULTS OF THE AUDIT PROCESS EFFICIENCY ASSESSMENT BY THE AUDIT COMMITTEE

The Audit Committee under the Transneft Board of Directors checked the report issued by the auditor for compliance with the requirements of Federal Law dated December 30, 2008 No. 307-FZ "On Audit Activities and the Federal Standard of Audit Activity (FSAA 1/2010) Auditor's Report on Financial Statements and Formation of an Opinion on These Financial Statements". The Audit Committee declared the auditor's report on Transneft financial statements for 2016, prepared by KPMG on February 28, 2017 to be in compliance with the requirements established by the Federal Standards of Audit Activity approved by the Ministry of Finance of the Russian Federation.

### Auditor Information

Company's auditor name: Joint Stock Company KPMG (JSC KPMG).  
Location: 129110, Moscow, 18/1 Olimpiyskiy Prospekt, Room 3035.  
Mailing address: 123112, Moscow, 10 Block C Presnenskaya Naberezhnaya, Floor 31.  
Telephone: +7 495 937 44 77, fax: +7 495 937 44 99.  
JSC KPMG is registered in the Moscow Registration Chamber. Certificate dated May 25, 1992 No. 011.585.  
Listed in the Unified State Register of Legal Entities by Interdistrict Tax Office of the Ministry of the Russian Federation for Taxes and Levies No. 39 for Moscow city under No. 1027700125628 on August 13, 2002. Certificate No. 77 No. 005721432.  
JSC KPMG is a member of the self-regulatory organization of auditors, The Russian Union of Auditors (Association). Primary Number of Registration Entry in the Register of auditors and audit organizations: 11603053203.

## ANTI-CORRUPTION MEASURES AND FRAUD PREVENTION

Since October 2014, Transneft has been a member of the Anti-Corruption Charter of Russian Business. The members of the Charter declare their commitment to the principles of rejection of all forms of corruption in business activities and intentions to promote the principles of preventing and countering corruption in interactions with public authorities, counterparts, and in corporate relations.

Internal documents of Transneft determine the organization of a system for preventing and countering corruption, responsibilities, restrictions and rules of conduct for employees of all levels and from all divisions of the Company with a view to prevent possible cases of corruption and the emergence of a conflict of interest in the exercise of official duties. Every year, the Company assesses the necessity for updating the internal documents that establish procedures aimed at preventing and countering corruption.

In pursuance of Article 13.3 of the Federal Law "On Countering Corruption", the Company carries out anti-corruption measures on a regular basis. Within the framework of implementing the instructions of the Government of the Russian Federation on the execution of provisions of the National Anti-Corruption Plan for 2016-2017, measures are being taken to increase the efficiency of the

system for preventing and countering corruption.

Employees and third parties can submit information concerning violations that have signs of corruption at any time by filling out an Electronic Application Form for Citizens on the Company's public Internet resource.

In 2016, the Company conducted a training session for personnel on the topic: Improving the efficiency of anti-corruption measures in federal foundations, state companies and corporations.

# INFORMATION ON COMPLIANCE WITH RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

The Company observes most of key principles of the Corporate Governance Code; moreover, the CGC requirements are still being implemented in the Company's corporate governance practice

In the sphere of corporate governance, the Company strictly abides by the applicable legislation and also follows the Listing Rules of the Moscow Exchange, PJSC (hereinafter – Exchange). Currently, the Company has a certain potential for improvement and systematization of corporate

governance in order to ensure greater transparency in the management of the Company. In 2014, the Bank of Russia approved the Corporate Governance Code (hereinafter – Code) and recommended it for use by joint stock companies, the securities of which are admitted to organized trading. The Ac-

tion Plan (the “road map”) of Transneft for implementation of the Corporate Governance Code was approved by resolution of the Board of Directors of Transneft dated September 18, 2015 (Minutes No. 23).



# PROGRESS OF IMPLEMENTATION OF THE CODE REQUIREMENTS IN THE CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

The most important aspects of the model and the practice of corporate governance did not change in the Company compared to 2015. The Company continued to implement the Code in its activities.

Key activities carried out in 2016:

- The new version of the Articles of Association of Transneft was approved (Directive No. 520-r of the Federal Agency for State Property Management dated June 30, 2016). Most of the amendments to the Articles of Association of the Company were related to bringing the provisions of the current version of the Articles of Association in line with the requirements of the Code, the orders of the President of the Russian Federation, the directives of the Government of the Russian Federation and the practice of corporate governance developed by the Company in previous years. The following amendments to the Articles of Association were introduced:
  - the term “subsidiaries” was replaced by the term “Transneft subsidiaries” in relation to organizations, where the Company's stake (direct and (or) indirect) in the authorized capital exceeds 20 percent;
  - significant Transneft subsidiaries were identified. This was done in order to ensure special control over Transneft subsidiaries that have or may have a significant impact on the Company's financial, economic and other performance indicators, and/or

implementation of the Company's development strategy. The list of these significant subsidiaries shall be annually approved by the President of the Company based on the criteria established by the Board of Directors.

- the authority of the Board of Directors was expanded in the following areas: approval of strategy, main activity programs, budget of the Company; control over the Company's executive bodies, internal control, risk management and internal audit; business performance evaluation; control over Transneft subsidiaries and decision-making on significant transactions;
- issues requiring decisions by the majority of votes of all elected members of the Company's Board of Directors were determined;
- the list of issues that predominantly require face-to-face meetings of the Board of Directors was determined;
- the authority of the Board of Directors and the executive bodies of the Company in terms of control over Transneft subsidiaries was increased;
- the competence of the Company's governing bodies to approve internal documents was delineated.
- Approval of the Regulation on Risk Management of Transneft (resolution of the Management Board of the Company dated April 1, 2016).
- Approval of the Regulation on the Dividend Policy of Transneft (resolu-

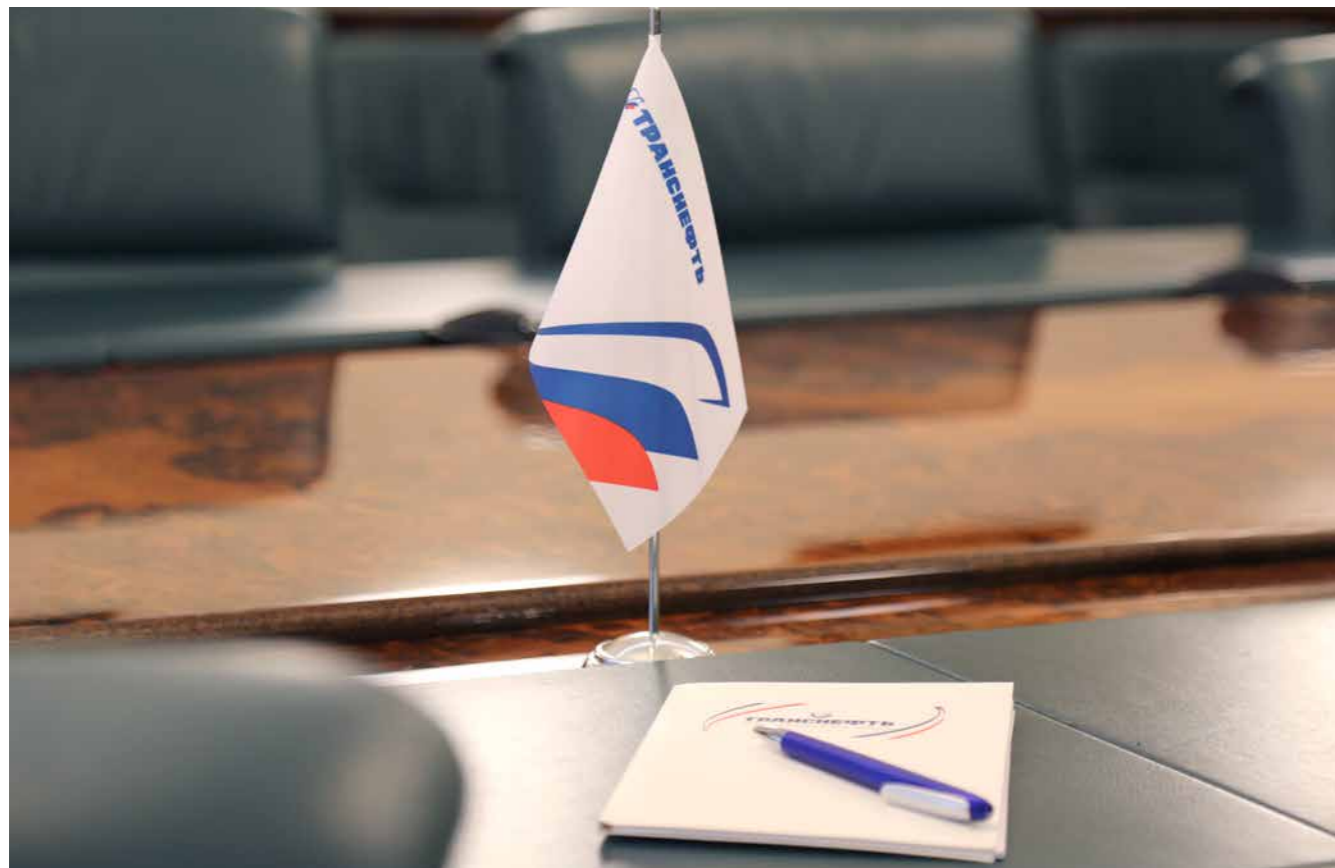
tion of the Board of Directors of the Company dated December 12, 2016).

- Amendments to the agreement with the registrar, recommended by the Code, were introduced (the Agreement on Provision of Services for Keeping the Register of Security Holders with Registrar ROST, JSC, was approved by the Board of Directors of the Company and signed on July 28, 2016).

Preferred shares of Transneft have been traded on the Moscow Exchange since 2004 and were included into the highest quotation list. In this regard, the Company observes and reports on compliance with the Listing Rules established by the Exchange, including in terms of corporate governance. To confirm the compliance with the Rules, the Company carried out a number of measures during 2016 – early 2017:

- the document defining the Company's dividend policy was approved;
- new versions of the Regulations on the Audit and Human Resources and Remunerations Committees under the Board of Directors were approved;
- the requirement of the Exchange related to the order of appointment of the head of the Company's Internal Audit division was fulfilled;
- the functions of the Corporate Secretary were assigned to a special division of the Company – the Corporate Governance Department (hereinafter – CGD) and the Regulation on the CGD was approved.

# THE METHODOLOGY FOR ASSESSMENT OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE, STIPULATED BY THE CODE



The Company carried out an assessment of adherence to the principles of corporate governance based on the methodology set out in the Recommendations on preparation of a report on compliance with the principles and recommendations of the Corporate Governance Code (Annex to the Letter of the Bank of Russia No. IN-06-52/8 dated February 17, 2016) (hereinafter – Recommendations).

In accordance with the Recommendations, an explanation of the key reasons, factors and (or) circumstances, by virtue of which Transneft does not observe/partially observes the principles of corporate governance stipulated in the Corporate Governance Code, is presented in the Report on Compliance with the Principles and Recommendations of the Corporate Governance Code (Annex No. 7).

# 89%

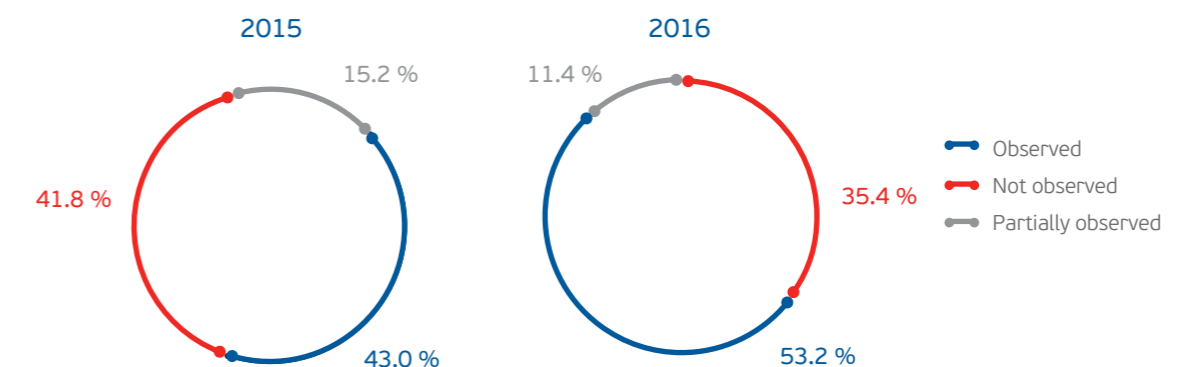
proportion of recommendations of the Code observed by the Company in full or in part

# RESULTS OF THE ASSESSMENT OF COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE OF THE CODE

Table on compliance with the principles of the Corporate Governance Code for the years 2015 and 2016

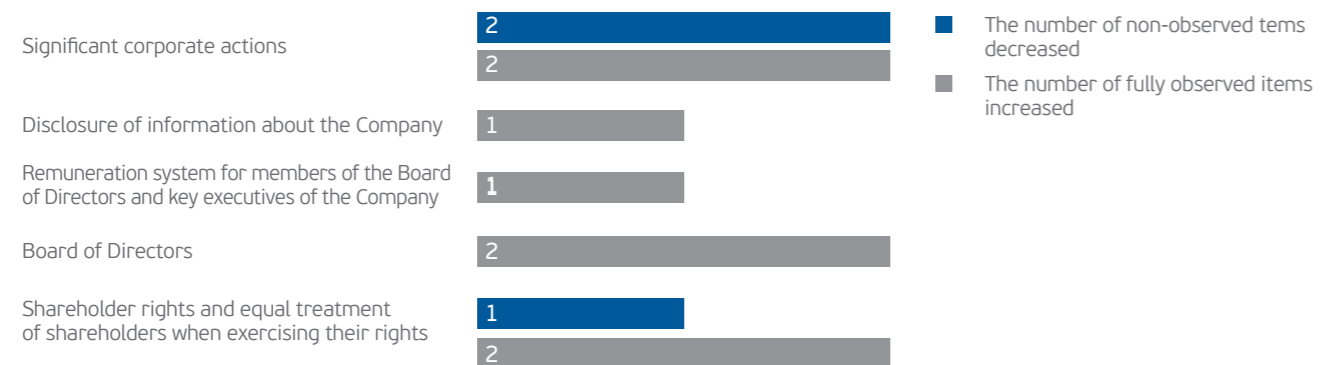
Principles of Corporate Governance	Principles recommended by the Corporate Governance Code	2015			2016		
		Observed	Partially observed	Not observed	Observed	Partially observed	Not observed
Shareholder rights and equal treatment of shareholders when exercising their rights	13	7	3	3	9	2	2
Board of Directors	36	13	19	4	15	17	4
Corporate Secretary of the Company	2	2	-	-	2	-	-
Remuneration system for members of the Board of Directors and key executives of the Company	10	6	2	2	7	1	2
Risk management and internal control system	6	3	3	-	3	3	-
Disclosure of information about the Company	7	2	5	-	3	4	-
Significant corporate actions	5	1	1	3	3	1	1
<b>Total score</b>	<b>79</b>	<b>34</b>	<b>33</b>	<b>12</b>	<b>42</b>	<b>28</b>	<b>9</b>
	100%	43.0%	41.8%	15.2%	53.2%	35.4%	11.4%

The ratio of the number of observed, not observed and partially observed principles of corporate governance under the Code as of December 31, 2015 and December 31, 2016

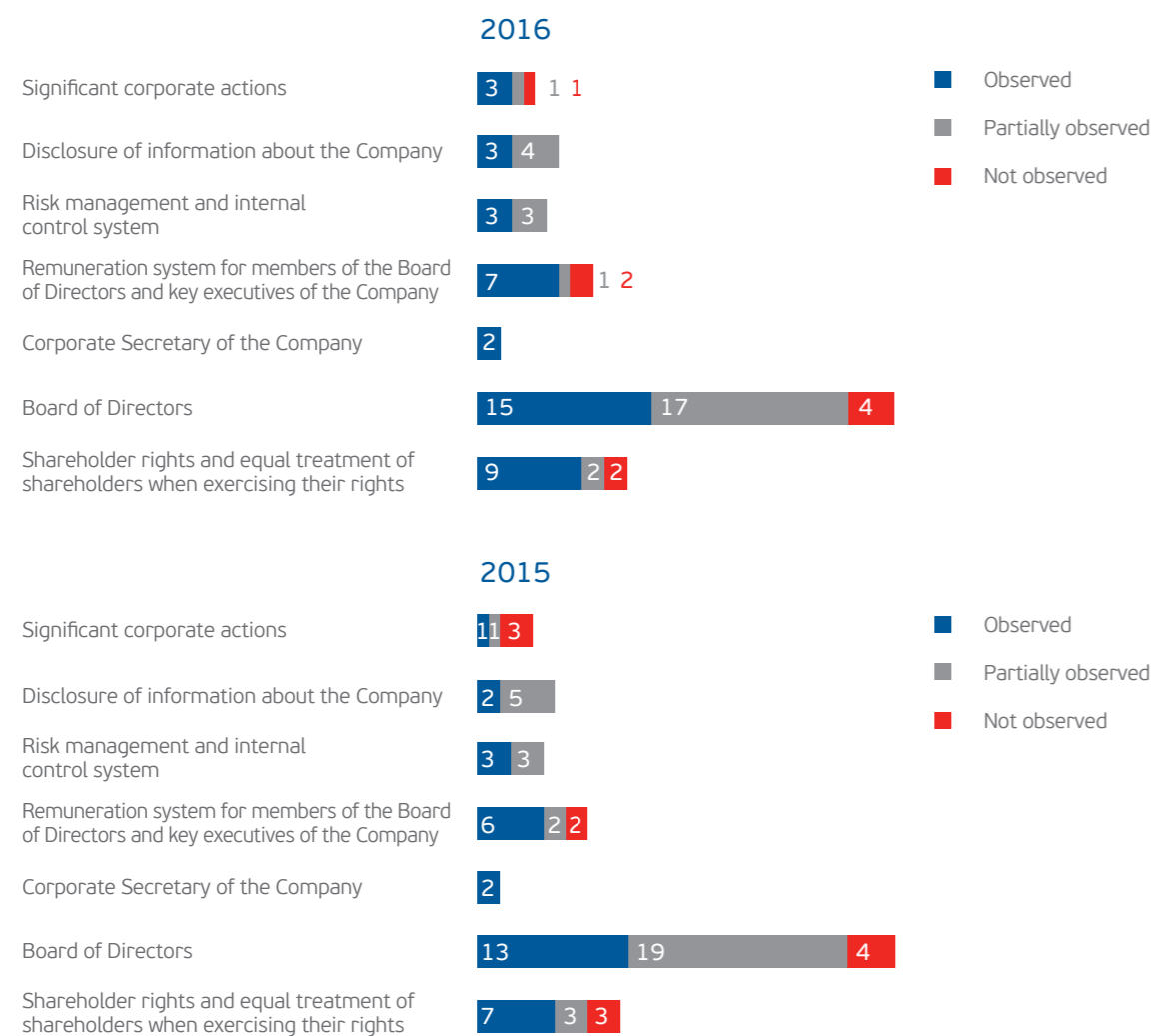




**Progress of the Code introduction into the corporate governance of the Company in 2016**



**The structure of compliance with the principles of corporate governance by sections of the Code as of December 31, 2015 and December 31, 2016**



## COMPANY'S PLANS ON FURTHER IMPROVEMENT OF THE CORPORATE GOVERNANCE PRACTICE

To improve corporate governance, Transneft planned the following measures for 2017:

- adopt new regulations on the General Meeting of Shareholders, the Board of Directors and the Management Board of the Company;
- develop regulations for the preparation of meetings of the Board of

Directors and Committees under the Board of Directors;

- develop and approve the Information Policy of the Company and the Regulation on Preparation and Disclosure of Information;
- conduct other activities in accordance with the Transneft Action Plan (the "road map") for implementation of the Corporate Governance Code.



# INFORMATION ON TRANSACTIONS, PARTICIPATION IN LEGAL ENTITIES AND COURT PROCEEDINGS

## INFORMATION ON MAJOR TRANSACTIONS MADE BY TRANSNEFT

No major transactions were made by Transneft in 2016.

## INFORMATION ON RELATED-PARTY TRANSACTIONS OF TRANSNEFT

In 2016, Transneft made 14 related-party transactions. The report on related-party transactions concluded by the Company in the reporting period was prepared in accordance with Clause 1.1 of Article 81 of the Federal Law "On Joint Stock Companies" dated December 26, 1995 No. 208-FZ and is presented in Annex No. 5.

## INFORMATION ON TRANSNEFT'S PARTICIPATION IN BUSINESS ENTITIES AND NONPROFIT ORGANIZATIONS

Transneft is a holding company. Information on Transneft participation in business entities and nonprofit organizations as of December 31, 2016 is presented in Annexes No. 2 and No. 3. Information on dividends received by Transneft is presented in Annex No. 6.

## INFORMATION ON CONCLUDED AGREEMENTS FOR THE SALE AND PURCHASE OF SHARES, STAKES AND EQUITY INTEREST

## OF BUSINESS PARTNERSHIPS AND ENTITIES, INCLUDING DATA ON THE PARTIES, SUBJECT MATTER, PRICE AND OTHER TERMS AND CONDITIONS OF THESE AGREEMENTS.

Information on agreements for the sale and purchase of shares (stakes) of business entities concluded by Transneft in 2016 is presented in Annex No. 4.

## INFORMATION ON INVESTMENTS OF TRANSNEFT WITH AN EXPECTED LEVEL OF INCOME OF MORE THAN 10% PER YEAR

In the reporting period, Transneft made no investments with an expected level of income of more than 10% per year.

## INFORMATION ON UNFINISHED LEGAL PROCEEDINGS ON CLAIMS FOR DEBT RECOVERY AGAINST TRANSNEFT

In 2016, Transneft acted as a defendant in the following legal proceedings on claims for debt recovery:

On March 17, 2016, UCP Industrial Holdings Ltd., an owner of preferred shares of Transneft, applied to the Moscow Commercial Court with a claim against Transneft for recovery of damages in the form of lost profit in the amount of RUB 84,654,130.24, caused, according to the plaintiff, as a result

of underpayment of dividends for 2013, corresponding to it as the owner of preferred shares. Also, the plaintiff made a claim for recovery of RUB 16,294,532.68 as interest for the use of other's funds. The Russian Federation, represented by the Federal Agency for State Property Management, was involved in the case as a third party that had no independent claims regarding the subject of the dispute.

The Moscow Commercial Court found the claims of the plaintiff unfounded and issued a decision dated November 24, 2016 on the rejection of the claim.

UCP Industrial Holdings, Ltd. did not agree with the resolution of the trial court and filed an appeal with the Ninth Arbitration Court of Appeal.

On March 13, 2017, during the court session of the Ninth Arbitration Court of Appeal, UCP Industrial Holdings, Ltd. withdrew the claim; the withdrawal was accepted by the court, the proceeding was discontinued.

By resolution of the Moscow Commercial Court dated March 14, 2016, Vneshprombank LLC was declared insolvent (bankrupt), bankruptcy proceedings were started against it, and the responsibilities of the bankruptcy trustee were assigned to the State Corporation Deposit Insurance Agency.

On June 27, 2016, Vneshprombank appealed to the Commercial Court with claims against Galteks LLC for recovery of debts, interest and penalties under the loan agreement in the total amount of RUB 346,959,965.03 and against Delkon LLC for recovery of debts, interest and penalties under the loan agreement in the total amount of RUB 320,576,039.53. Referring to the fact that in accordance with the guarantee contracts Transneft was the joint debtor under the above mentioned loan agreements, Vneshprombank involved Transneft in the cases as a co-defendant.

On April 26, 2017, the proceedings were suspended until the sentence on the criminal case against the management of Vneshprombank came into force.

On January 18, 2016, Inform Proekt LLC appealed to the Moscow Commercial Court with claims against Transneft for recovery of RUB 12,227,172.59, including the debt for works delivered under the agreement on the creation of an information project management system in the amount of RUB 11,115,611.48 and penalties in the amount of RUB 1,111,561.10. The claims were related to the unjustified, in the plaintiff's opinion, evasion of acceptance of works performed under the agreement and, as a result, evasion of their payment on the part of Transneft.

By resolution of the Moscow Commercial Court dated June 10, 2016, left unchanged by the decision of the Ninth Arbitration Court of Appeal dated August 24, 2016, the claim was dismissed. By resolution of the Commercial Court of Moscow District dated January 30, 2017, the said judicial acts were annulled, the case was returned to a trial court. The next hearing on the case will be held in the Moscow Commercial Court on July 17, 2017.

## INFORMATION ON UNFINISHED LEGAL PROCEEDINGS ON CLAIMS FOR DEBT RECOVERY IN WHICH TRANSNEFT ACTS AS A PLAINTIFF

At the end of 2016 there were no unfinished legal proceedings on claims for debt recovery in which Transneft acted as a plaintiff.

# AUTHORIZED CAPITAL

100% of ordinary voting shares of Transneft belong to the Russian Federation represented by the Federal Agency for State Property Management. Preferred shares of the Company are not voting and only grant their owners the right to receive fixed dividends based on the

Company's performance over the course of a year.

Information on securities of the Company as of December 31, 2016, including placement of additional shares and capital flow for the year:

Type of shares	Total number	Par value of all shares	State registration number of the issue and the date of state registration:
Ordinary shares	5,546,847	RUB 5,546,847	No. 1-01-00206-A dated December 20, 2007 <sup>1</sup>
Preferred shares	1,554,875	RUB 1,554,875	No. 2-01-00206-A dated December 20, 2007

On October 18, 2016, the Extraordinary Meeting of Shareholders made a decision to increase the authorized capital of Transneft by RUB 21,901 through placement of additional ordinary registered book-entry shares. Payment for the shares being placed was made out of property in federal ownership. For the purpose of placement, the price of 1 ordinary share of the Company was set at the amount of RUB 273,540.

shares and the date of state registration of the additional issue of ordinary shares: 1-01-00206-A-002D dated November 17, 2016). Placement of the additional issue of shares took place on February 2, 2017.

The shareholders of the Company whose share in the authorized capital of Transneft exceeds 2% and information on the shares that belong to organizations of the Transneft Group as of December 31, 2016<sup>2</sup>:

# 100%

of ordinary voting shares of Transneft belong to the Russian Federation represented by the Federal Agency for State Property Management

1. 21,901 additionally issued shares were placed in February 2017, state registration number: 1-01-00206-A-002D dated November 17, 2016. Emission report was registered on March 20, 2017.

2. The information is presented based on the list of persons registered in the shareholder register of Transneft as of December 31, 2016. If the Company's shares amounting to two or more percent of the authorized capital or the ordinary shares are registered in the shareholder register of the Company under the name of a nominee, this fact is specified. As of December 31, 2016, the Company had no information on the existence of any shareholding of preferred shares in an amount exceeding 2% of the authorized capital. In accordance with the Federal Law "On the Securities Market", the list of security holders of the Company can be provided, if it is necessary to fulfill obligations stipulated by federal laws. As of December 31, 2016, the Company had no obligations stipulated by federal laws, fulfillment of which required compilation and obtainment of the list of security holders.

Name	Location	Share in the authorized capital	Share of ordinary shares	Share of preferred shares
The Russian Federation represented by the Federal Agency for State Property Management	9 Nikolsky per., 103685, Moscow	78.1057%	100%	None
National Settlement Depository (nominee)	12 ul. Spartakovskaya, 105066, Moscow	21.2280%	None	96.9567%
Transneft	57 ul. Bolshaya Polyanka, 119180, Moscow	None	None	None
Legal entities controlled by Transneft	-	0.0220%	None	0.1004% (1,561 preferred shares)
Other	-	0.6443%	None	2.9429%

There is no special right of the Russian Federation to participate in the management of the Company (the "golden share").

As of December 31, 2016, the following persons were registered in the shareholder register:

- 2,864 natural persons;
- 25 legal entities, including 1 nominee.

As of December 31, 2016, 0.02% of the authorized capital belonged to the Transneft Group companies.

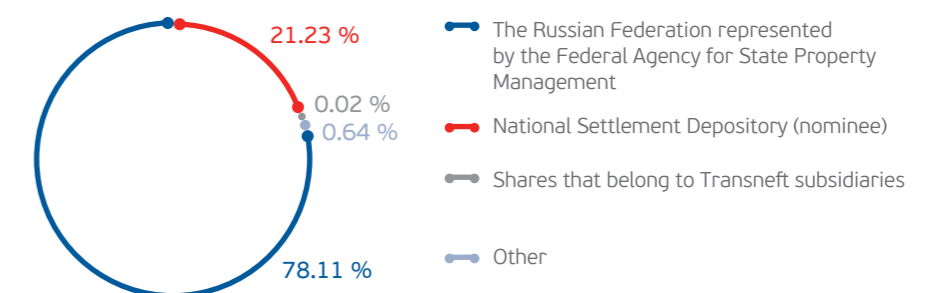
## FULL NAME AND ADDRESS OF THE REGISTRAR

Joint Stock Company R.O.S.T. Registrar, korp. 13, 18 ul. Stromynka, 107996, Moscow.

## MARKET DATA ON THE SECURITIES OF THE COMPANY

Transneft's shares are traded on the organized securities market in Russia. Preferred shares of the Company are traded on the Moscow Exchange and have been included in the unified base for calculation of main indices of the Moscow Exchange. On June 9, 2014, preferred shares of Transneft were included in the First Tier quotation list of the Moscow Exchange.

## Structure of the authorized capital as of December 31, 2016



## General information on the preferred shares of Transneft

Parameter	Value
Share category	common registered book-entry share
Par value	RUB 1
Moscow Exchange ticker	TRNFP
ISIN code	RU0009091573
Bloomberg code	TRNFP RX

## The weight of the preferred shares of Transneft in the stock indices as of December 30, 2016

Index name	weight, %
Broad Market Index	2.86
MICEX index	2.94
MICEX Oil and Gas Index	10.68

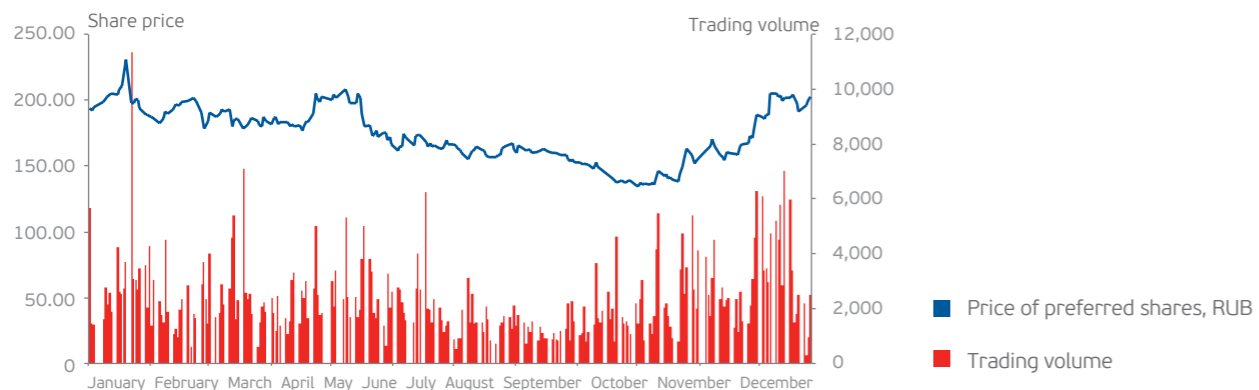
Trading results for preferred shares of the Company

	2014	2015	2016
Trading volume, RUB billion	114.6	91.0	104.2
Minimum price, RUB	70,555	115,500	132,600
Maximum price, RUB	149,770	194,500	235,700
Price as of the end of the year	126,000	194,000	197,950

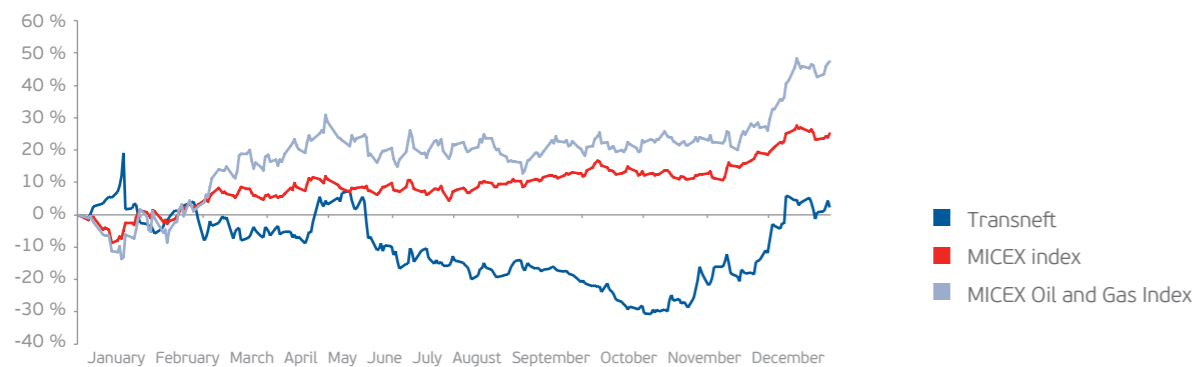
Information on the trading of preferred shares of Transneft is available at <http://www.transneft.ru> in the section For Shareholders and Investors / Stock Quotes.

At the end of 2016, the price of preferred shares of Transneft increased slightly – by 2.04% (from RUB 194,000 at the end of 2015 to RUB 197,950 at the end of 2016).

Dynamics of the value of preferred shares and trading volumes of Transneft on the Moscow Exchange



Dynamics of the value of preferred shares of Transneft in comparison with the MICEX index and the MICEX Oil and Gas Index in 2016



Market capitalization of preferred shares of Transneft

	As of December 31, 2014	As of December 31, 2015	As of December 31, 2016
Market capitalization of preferred shares of Transneft*, RUB billion	195.9	301.6	307.8

\* According to the Moscow Exchange

# CREDIT RATINGS

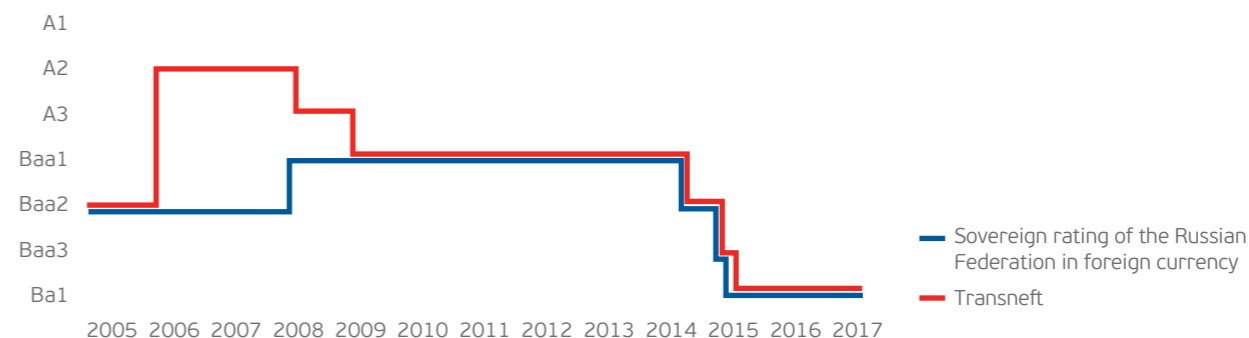
As of the end of 2016 the levels of international credit ratings of the Company, assigned by agencies Moody's and Standard & Poor's, did not change. During 2016 Standard & Poor's changed its outlook from Negative to Stable.

Information on credit ratings as of December 31, 2016

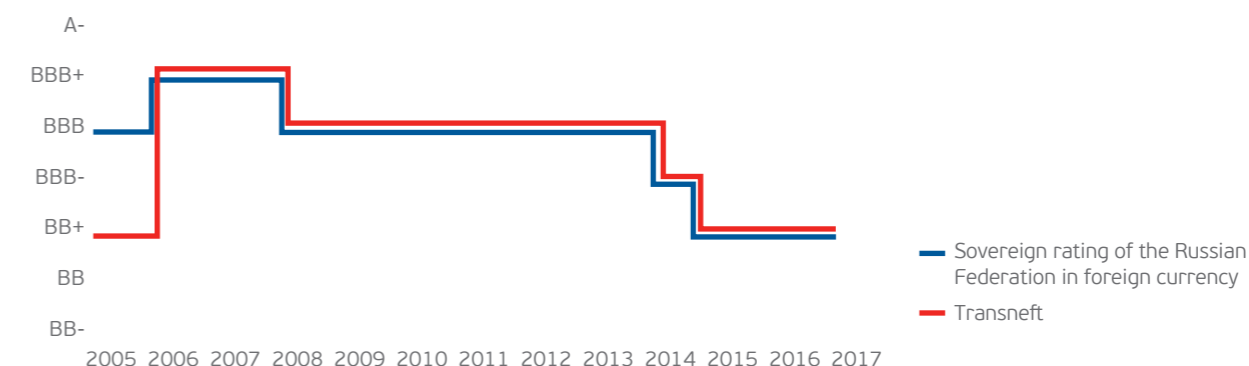
Rating agency	Rating value	
	For foreign currency liabilities	For national currency liabilities
Standard & Poor's	BB+ Outlook: Stable	BBB- Outlook: Stable
Moody's	Ba1 Outlook: Negative	-

Dynamics of Transneft's rating and the sovereign rating of the Russian Federation in foreign currency

Moody's. [www.moody.com](http://www.moody.com)



Standard & Poors's. [www.standardandpoors.ru](http://www.standardandpoors.ru)



# COMPANY BONDS

## EUROBONDS

### Issues of corporate bonds in circulation

ISIN code	Date of placement	Maturity date	Nominal volume, USD	Coupon rate (current), % per annum
XS0381439305	July 31, 2008	August 7, 2018	1,050,000,000	8.70%

## RUBLE-DENOMINATED BONDS

### Issues of corporate bonds in circulation

Series	Date of placement	Maturity date / offer date	Nominal volume, RUB	Coupon rate (current), % per annum
1	May 25, 2009	May 13, 2019 / May 14, 2018	35,000,000,000	8.50%
2	October 13, 2009	October 1, 2019 / October 3, 2017	35,000,000,000	11.00%
3	September 30, 2009	September 18, 2019	65,000,000,000	12.05%

### Issues of corporate bonds in circulation

Series	Date of placement	Maturity date / offer date	Nominal volume, RUB	Coupon rate (current), % per annum
Series BO-03	October 22, 2014	October 9, 2024 / April 19, 2017	25,000,000,000	8.50%
Series BO-04*	July 16, 2015	July 3, 2025 / January 11, 2018	17,000,000,000	8.00%
Series BO-05	April 21, 2016	April 9, 2026 / April 15, 2021	17,000,000,000	10.10%
Series BO-06	September 6, 2016	August 25, 2026 / August 30, 2022	17,000,000,000	9.30%
Series BO-07	April 26, 2017	April 14, 2027 / April 17, 2024	17,000,000,000	8.75%

\* Issue of the BO-04 series was purchased by the Group.

### Issues within the framework of the Exchange Bond Program (registration number 4-00206-A-001P-02E dated April 6, 2016)

Series	Date of issue	Maturity date	Nominal volume, RUB	Coupon rate (current), % per annum
Series BO-001R-01	June 10, 2016	June 2, 2023	20,000,000,000	9.90%
Series BO-001R-02	July 8, 2016	June 30, 2023	10,000,000,000	9.65%
Series BO-001R-03	August 11, 2016	August 3, 2023	15,000,000,000	9.45%
Series BO-001R-04	October 6, 2016	September 29, 2022	15,000,000,000	9.30%
Series BO-001R-05	February 3, 2017	January 26, 2024	15,000,000,000	9.25%
Series BO-001R-06	March 29, 2017	March 24, 2021	20,000,000,000	9.00%
Series BO-001R-07	May 3, 2017	October 28, 2020	30,000,000,000	8.75%

# DIVIDEND POLICY AND PROFIT DISTRIBUTION

On December 12, 2016, the Board of Directors of Transneft approved the Dividend Policy of the Company (hereinafter – Policy), under which the following principles should be observed when determining the amount of dividends on shares of all categories (types):

- transparency of the procedure for determining the amount of dividends;
- unconditional fulfillment of the main objectives of the Company, established by the Articles of Association, including implementation of investment activities for the development of the production base, expansion, reconstruction and upgrading of the trunk pipeline system;
- focus on increasing the Company's investment attractiveness;
- ensuring financial stability and minimizing possible negative effects on the Company's credit ratings;
- consideration of the amount of dividends on shares of all categories (types) in the calculation of tariffs for oil transportation services through trunk pipelines established by the Federal Antimonopoly Service;
- adequacy of funds available to the Company (received for the provision of oil transportation services through trunk pipelines according to established indexation of tariffs) for financing operating, investment and financial activities.

According to the approved Policy, the base level of dividend payments amounts to 25% of consolidated net profit of the reporting year, calculated under IFRS and normalized with respect to shares of the profit of dependent and jointly controlled companies, incomes received from the revaluation of finan-

cial investments, a positive balance of exchange rate differences and other irregular (non-recurring) non-monetary components of net profit.

In case of exceeding the limit of debt burden, a lack of the required amount of free cash flow or insufficient funds for investment activities and repayment of the principal debt, the level of payments is set at 20% or 15% of the normalized net profit under IFRS.

In addition, the amount of dividends cannot exceed the amount of free cash flow, calculated as the average value for the next three years (in case of dividend payment of more than 15% of the consolidated profit), and cannot be less than 25% of the Company's net profit, according to the financial statements under the Russian Accounting Standards for the reporting year.

Distribution of the total amount of dividends between categories (types) of the Company's shares is made in accordance with the Articles of Association and the requirements of the legislation of the Russian Federation.

In April 2017, amendments to the Articles of Association of Transneft concerning the determination of the amount of dividends on preferred shares were registered. The new version establishes that 10% of the Company's net profit should be allocated to dividend payment on all preferred shares at the end of the year. And the amount of dividend payment per one preferred share cannot be less than the amount of dividend payment per one ordinary share.

To ensure the transparency of the Dividend Policy, the Company publishes the Dividend Policy and the amendments to

# 100%

dividend payout ratio of net profit under RAS

it on the Transneft website:  
<http://www.transneft.ru>.

823.31 per share and in the total amount of RUB 1,280,144,204.06;

The order of the Federal Agency for State Property Management dated June 30, 2016 No. 520-r approved the decision on dividend payment on shares of Transneft based on the performance results for 2015 in the total amount of RUB 12,801,410,067.79, including:

- on ordinary shares (5,546,847 shares) in the amount of RUB 2,077.08 per share and in the total amount of RUB 11,521,265,863.73;
- on preferred shares (1,554,875 shares) in the amount of RUB

Dividends for 2015 were paid in full and within the time limits established by the legislation of the Russian Federation.

As of December 31, 2016, Transneft has no debt on dividend payments to the federal budget.

The dividend payout ratio of net profit under the Russian Accounting Standards amounted to 100%, which was a record for the Company's dividend history.

#### Dividend history of Transneft

		2012 (for 2011)	2013 (for 2012)	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)
Share category, RUB per share	Ordinary	301,31	685,1	1 221, 38	318,67	2 077,08
	Preferred	716,58	685,1	724,21	757,87	823,31
Total number of shares		7,101,722	7,101,722	7,101,722	7,101,722	7,101,722
Total amount of dividends, RUB		2,785,512,797.07	4,865,389,742.20	7,900,864,012.61	2,946,006,849.74	12,801,410,067.79
Dividend payout ratio from net profit under the Russian Accounting Standards		25%	45.7%	70.16%	25%	100%
Resolution on dividend payment		AGSM on June 29, 2012	AGSM on June 28, 2013	AGSM on June 30, 2014	AGSM on June 30, 2015	AGSM on June 30, 2016

#### Profit distribution of Transneft, RUB thousand

	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)
Retained earnings (loss) of the reporting period, including:	11,141,791	10,652,445	11,260,439	11,783,833	12,801,410
Financing capital investments	2,841,826	-	1,894,820	5,398,140	-
Dividend payment	2,785,513	4,865,390	7,900,864	2,946,007	12,801,410
Foundation of Target Capital of the Skolkovo Institute of Science and Technology	108,000	-	-	-	-
Provisions for repayment of borrowed funds used to implement investment projects	5,406,452	5,787,055	1,464,756	3,439,686	-

## SHAREHOLDER AND INVESTOR RELATIONS

The company complies with all requirements of the applicable legislation with regard to disclosure of information by public companies. Transneft ensures regular, timely, reliable and meaningful information disclosure for all stakeholders. Great attention is paid to simultaneous provision of essential information to all shareholders, investors and analysts.

According to the Regulation on Information Policy, the Company discloses information on its activities in news-lines of information agencies on the Internet, provided by one of the distributors of information on the securities market in the Russian Federation, on the Company's website and in other ways.

Currently, the main channel for information disclosure is the official

Company's official website: <http://www.transneft.ru/>. The website contains data on all major business areas of the Company, sustainable development, information for shareholders and investors, press releases, news, annual reports and other important information. In addition to posting mandatory information on its website, the Company also publishes quarterly financial statements under IFRS and the Russian Accounting Standards, analysis of the financial condition and performance of the Transneft Group carried out by the Company's management and a presentation of the Company's results compared to IFRS. Mandatory information disclosure in compliance with Russian federal laws and regulatory documents of the Bank of Russia is carried out by the Company on the page: <http://www.e-disclosure.ru/portal/company.aspx?id=636>.

[www.transneft.ru](http://www.transneft.ru)  
the official website of the Company used for information disclosure

# Execution of instructions from the President and the Government of the Russian Federation



## On September 12, 2016,

The Chairman of the Management Board, the President of Transneft Nikolay Tokarev informed the head of state about current activities of the Company

For details see: [www.transneft.ru/news/view/id/12792](http://www.transneft.ru/news/view/id/12792)

Information on the actual results of the execution of instructions from the President of the Russian Federation and the Government of the Russian Federation

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# INFORMATION ON THE ACTUAL RESULTS OF THE EXECUTION OF INSTRUCTIONS FROM THE PRESIDENT OF THE RUSSIAN FEDERATION AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

## FORMATION OF SPECIALIZED COMMITTEES UNDER THE BOARD OF DIRECTORS OF THE COMPANY IN ACCORDANCE WITH INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. V3-P13-6294 DATED JULY 23, 2009

Since 2008, committees under the Board of Directors of Transneft have functioned in the Company:

- The Strategy, Investments and Innovations Committee;
- The Audit Committee;
- The HR and Remuneration Committee.

The KPI system was approved for the Company by resolution of the Board of Directors of Transneft dated September 5, 2011 (Minutes No. 14); this System was altered and updated on several occasions for the purposes of its improvement. Information on the availability of the approved system of key performance indicators (hereinafter – KPIs) in the

Company is stipulated in the subsection "System of key performance indicators (KPI)".

## ON IMPLEMENTATION OF THE STRATEGY OF ENERGY SAVING AND ENERGY EFFICIENCY BY THE COMPANY (ITEM 8 OF INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. ISH-P9-3772 DATED JUNE 18, 2008 ON IMPLEMENTATION OF THE DECREE OF THE PRESIDENT OF THE RUSSIAN FEDERATION DATED JUNE 4, 2008 NO. 889 «ON CERTAIN MEASURES OF IMPROVING ENERGY EFFICIENCY AND ECOLOGICAL EFFICIENCY OF THE RUSSIAN FEDERATION ECONOMY», THE LETTER OF THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT NO. GN-13/28934 DATED NOVEMBER 27, 2008, NO. GN-15/2957 DATED FEBRUARY 6, 2012)

The Program of Energy Saving and Increasing Energy Efficiency of Transneft

in 2016-2021 (hereinafter – the Program) was developed and is being implemented in Transneft. The Program is an integrated part of the Transneft Long-Term Development Program.

Information on the results of the Company's activities in the area of energy saving is posted on the Interdepartmental Portal in order to implement the Letters of the Federal Agency for State Property Management No. GN-15/2957 dated February 6, 2012. Information on the results of Transneft's activities in the area of energy saving is posted in the Other documents section of Transneft Personal Account.

In 2016, the Program of Energy Saving was completed in full.

## ON THE DISPOSAL OF NON-CORE ASSETS IN ACCORDANCE WITH THE DECREE OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. 596 DATED MAY 7, 2012 (LETTER OF THE FEDERAL AGENCY FOR STATE

## PROPERTY MANAGEMENT NO. GN-13/1359 DATED JANUARY 24, 2011, NO. GN-15/10587 DATED APRIL 9, 2012, NO. EA-15/48093 DATED OCTOBER 25, 2012), INCLUDING INFORMATION ON THE CONSIDERATION OF DIVESTMENT OF NON-CORE ASSETS BOTH OF THE PARENT COMPANY AND SUBSIDIARY COMPANIES AND AFFILIATES AT MEETINGS OF THE BOARD OF DIRECTORS AND APPROVAL OF PROGRAMS ON THE DISPOSAL OF THESE ASSETS

Information is stipulated in Section Program of non-core divestment and Annex No. 1 of the Annual Report.

## ON APPROVAL OF THE INNOVATIVE DEVELOPMENT PROGRAM DEVELOPED (UPDATED) UNDER GUIDELINES APPROVED BY INSTRUCTION NO. DM-P36-7563 DATED NOVEMBER 7, 2015 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 1471P-P13 DATED MARCH 3, 2016)

In 2016, under Guidelines approved by Instruction No. DM-P36-7563 dated November 7, 2015, Transneft developed the Innovative Development Program of Transneft in 2017-2021. The Program was approved by resolution of the Board of Directors of Transneft dated November 11, 2016 (Minutes No. 21), by the Russian Ministry of Energy, the Ministry of Education and Science of the Russian Federation, the Ministry of Economic Development of the Russian Federation and approved at the meeting of the Interdepartmental Commission for Technological Development of the Presidium of the Council under the President of the Russian Federation on Economic Modernization and Innovative Development of Russia (Minutes No. 10-D01 dated October 7, 2016).

The relevant description of the Innovative Development Program is publicly available on the Transneft website.

## ON SUGGESTIONS AND RECOMMENDATIONS ON ENCOURAGING THE DEVELOPMENT OF ENVIRONMENTAL LIABILITY MECHANISMS BASED ON INTERNATIONAL STANDARDS, INCLUDING SUCH AS NON-FINANCIAL STATEMENTS AND THE VOLUNTARY CERTIFICATION SYSTEM, ARE SUBJECT TO INDEPENDENT CHECK AND APPROVAL (SUBITEM «L» OF ITEM 1 OF THE LIST OF INSTRUCTIONS OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. PR-1640 DATED JUNE 6, 2010, LETTER OF THE FEDERAL AGENCY FOR PROPERTY MANAGEMENT NO. GN-13/37524 DATED DECEMBER 5, 2011)

The voluntary environmental liability mechanism of Transneft consists in the system of additional liabilities that the Company assumed to maintain a science-based balance of environmental and economic interests with socio-economic needs of the society that contribute to the sustainable development of the Russian Federation.

In order to implement the Environmental Policy, in accordance with the requirements of the international standard ISO 14001:2004, in Transneft and Transneft subsidiaries the Environmental Management System (hereinafter – EMS) was developed, introduced and updated permanently.

The EMS was developed for the Company's administrative management structure. 19 EMS regulations were approved and determine liabilities, authorities and the interaction of personnel in the EMS.

The Matrix of Responsibility for Implementation of Requirements of Environmental Law was defined in accordance with the international standard ISO 14001:2004.

In accordance with Agreement No. 119/05-02/16 dated February 15, 2016, in 2016, LLC (MSC) DQS con-

ducted 24 EMS certification audits in Transneft and Transneft subsidiaries for compliance with requirements of the international standard ISO 14001:2004.

The EMS is considered as the system that meets the requirements of ISO 14001:2004, based on the results of the audits. The Company and 23 Transneft subsidiaries received new international certificates DQS.

Annual audits will be conducted by international auditors in order to confirm compliance of the Company's EMS with requirements of the international environmental standard ISO14001-2004 in all organizational structures.

In 2016, in order to implement Directive of the Government of the Russian Federation No. 1710p-P13 dated March 30, 2012 «On Statutory Annual Disclosure of Nonfinancial Statements», Transneft posted the nonfinancial report on the sustainable development of the Company, including information on environmental liability, on the official Transneft website.

In order to encourage the development of environmental liability mechanisms based on international standards, the key environmental efficiency indicator «Reduction of specific air pollutant emissions in the process of transportation of oil and petroleum products through trunk oil pipelines» was determined and approved by resolution of the Board of Directors of Transneft dated December 23, 2014 (Minutes No. 27).

In 2016, specific air emissions decreased by 0.002 kg/ton (1%) compared with the previous year to 0.156 kg/ton; it was planned to reduce specific air pollutant emissions by 1% in 2016 (approved by resolution of the Board of Directors of Transneft dated December 23, 2015, Minutes No. 32).



In 2016, the planned value of the key performance indicator "Reduction of specific air pollutant emissions" was fully achieved.

**ON THE REASONABILITY OF IMPLEMENTATION OF RECOMMENDATIONS ON INTELLECTUAL PROPERTY OWNERSHIP MANAGEMENT IN ACCORDANCE WITH INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. ISH-P8-800 DATED FEBRUARY 4, 2014**

Measures on intellectual property ownership management were developed and are being implemented in Transneft in accordance with recommendations on intellectual property ownership management (Instruction of the Government of the Russian Federation No. ISH-P8-800 dated February 4, 2014). Measures on intellectual property ownership management is an integrated part of the Innovative Development Program of Transneft in 2017-2021 approved by resolution of the Board of Directors of Transneft dated November 11, 2016 (Minutes No. 21).

**ON THE DEVELOPMENT AND APPROVAL OF THE LONG-TERM DEVELOPMENT PROGRAM OF THE COMPANY IN ORDER TO IMPLEMENT SUBITEMS 33, 34 OF ITEM 1 OF INSTRUCTION OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. PR-3086 DATED DECEMBER 27, 2013 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 4955P-P13 DATED JULY 17, 2014, LETTER OF THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT NO. PF-11/35222 DATED AUGUST 15, 2014)**

In order to implement Instruction of the President of the Russian Federation No. Pr-3086 dated December 27, 2013 (Directive of the Government of the Russian Federation No. 4955p-P13 dated July 17, 2014, Letter of the Federal Agency for State Property Management No. PF-11/35222 dated

August 15, 2014), Transneft developed and approved the Transneft Long-Term Development Program by resolution of the Board of Directors of Transneft dated November 19, 2014 (Minutes No.23).

**ON THE TECHNOLOGICAL AND PRICE AUDIT OF INVESTMENT PROJECTS. IN ORDER TO IMPLEMENT DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2988P-P13 DATED MAY 30, 2013**

In order to implement the Directive of the Government of the Russian Federation, Transneft organized a technological and price audit on two new investment projects included in the Program of Development, Upgrading and Reconstruction of Facilities of Trunk Oil Pipelines of Transneft in 2016-2021 which is an integrated part of the Transneft Long-Term Development Program.

In 2016, Transneft organized a technological and price audit on the third stage of investment of the Yug (South) project and investment project Capacity increase of the Usa-Ukhta trunk oil pipeline and the Ukhta-Yaroslavl trunk oil pipeline. The audit completion date was Q2 2017. At present, the expert organization LLC FBK is conducting the audit of the projects and the audit report is being formed.

Also, in February 2016, the Company convened a meeting of the Consumer Council to consider audit reports of the technological and price audit on Transneft's investment projects.

- Capacity increase of Yaroslavl-Moscow trunk oil pipeline;
- Reconstruction of the Kuybyshev-Tikhoretsk trunk oil pipeline and the Zhirnovsk-Volgograd trunk oil pipeline to ensure a supply of up to 14.5 million tons of oil per year to Volgograd Refinery;
- Construction of the Volgograd Refinery-Tinguta pipe-end pumping station trunk petroleum product pipeline;

- Reconstruction of the trunk pipeline system to increase the volumes of petroleum products transportation to the Moscow Region;
- Development of the trunk pipeline system to increase the supply of petroleum products to the port of Primorsk to 25 million tons per year (the Sever (North) Project).

Expert reports developed by expert organization OJSC Kim and Partners, based on the results of the technological and price audit on the investment projects, were approved at the meeting of the Consumer Council.

**ON INCLUDING INFORMATION ON REQUIREMENTS FOR A LABOR FORCE AND ENGINEERING SKILLS IN THE LONG-TERM DEVELOPMENT PROGRAM. LIST OF INSTRUCTIONS OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. PR-1627 DATED JULY 1, 2014 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 7439P-P13 DATED NOVEMBER 5, 2014, LETTER OF THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT NO. 11/39404 DATED SEPTEMBER 15, 2014)**

The Transneft Long-Term Development Program up to 2020 (approved by resolution of the Board of Directors dated October 28, 2015) includes information on requirements for personnel of Transneft subsidiaries up to 2020, including engineering specialties (Chapter 10 Personnel management).

**ON THE DEVELOPMENT OF THE SET OF MEASURES (LIST OF MEASURES) FOR SCHEDULED AND PHASED REPLACEMENT OF THE PROCUREMENT OF FOREIGN PRODUCTS (WORKS, SERVICES) WITH THE PROCUREMENT OF RUSSIAN PRODUCTS (WORKS, SERVICES) HAVING EQUIVALENT TECHNICAL CHARACTERISTICS AND CONSUMER PROPERTIES THAT ARE USED TO IM-**

**PLEMENT INVESTMENT PROJECTS AND DAILY OPERATIONS BASED ON ECONOMIC AND TECHNOLOGICAL FEASIBILITY PRINCIPLES; ADDITION OF THE LIST OF MEASURES AND VALUES OF INDICATORS OF THE MEASURES IMPLEMENTATION TO THE COMPANY'S LONG-TERM DEVELOPMENT PROGRAM TAKING INTO CONSIDERATION GUIDELINES ON THE DEVELOPMENT OF THIS PROGRAM (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 1346P-P13 DATED MARCH 5, 2015)**

In accordance with the resolutions of the Commission under the President of the Russian Federation, Transneft developed the Program of Localization of Manufacture of Import Product Equivalents within the Russian Federation for Oil and Petroleum Products Trunk Oil Pipeline Transportation (hereinafter – the Program), that was approved by resolution of the Board of Directors of Transneft dated November 19, 2014 (Minutes No. 23) and is an integrated part of the Transneft Long-Term Development Program. The Program was updated in 2016 and approved by resolution of the Board of Directors of Transneft dated December 30, 2016 (Minutes No. 27) as part of the Long-Term Development Program.

The Program continues work on import substitution that the Company implemented in previous years. It is aimed at the implementation of the localization strategy, creating conditions for the manufacture of equipment, materials, and complementary parts within the Russian Federation and increasing the share of Russian technologies in the production process.

The Program is aimed at ensuring the technological safety of trunk oil pipeline transportation of oil and petroleum products by reducing the dependence on imported products.

In the process of the Program development, the impact on the reliability,

technological and environmental safety of different types of equipment, materials, and complementary parts was analyzed taking into account shares of Russian and imported products.

In the context of the Program, 26 types of products for trunk oil pipeline transportation of oil and petroleum products will be localized.

Separate Action Plans on the Localization of Manufacture of Analogs of Import Products for Oil and Petroleum Products Trunk Pipelines within the Russian Federation were developed for each type of product included in the Program. The Action Plans were approved by manufacturers involved in the localization of manufacture within the Russian Federation.

In order to put import-substituting equipment into production, more than 25 national companies were involved: LLC Gazkholodtekhnik, LLC Gusar, CJSC Konar, I. Ya. Postovsky Institute of Organic Synthesis and S.V. Lebedev Synthetic Rubber Research Institute, TOMZEL, JSC, LLC ENKHA, JSC Penztyazhpromarmatura, JSC Neft-eavtomatika, CJSC Impuls-Avia, CJSC Scientifically Industrial Holding VMP, LLC APP, LLC Scientific development and production center ROKOR, JSC UralPOZHTECHNIKA, CJSC Morozov Chemical Plant and other companies.

During the implementation of the Program, the manufacture of 21 types of products was fully developed within the Russian Federation.

There are 12 types of products in the priority area of the Program (Group I):

- mechanical and technological equipment (main line and booster pumps, four-way cock, slide gate valves, air fans for cooling main pumping units, disk, axi-symmetrical and spherical pressure and flow rate controllers);
- equipment and tools for recording the quantity and quality of oil and petroleum products (measure-

ment and oil quality systems, flow transducers, density and viscosity of liquids, pipe piston provers);

There are 9 types of products in Group II of the Program:

- external and internal anticorrosive coating;
- systems of oil pumping stations automatization (measuring complexes for oil quantity and quality metering systems, radar level transmitters, programmed controllers for oil pumping stations, systems of measuring levels and temperature in tank farms);
- large marine containment booms;
- fire auto-foam tower;
- drag reducing agents.

Technical specifications of received samples conform to the technical specifications of import equivalents and requirements of Transneft.

In 2017-2020, 5 types of products for trunk oil pipeline transportation of oil and petroleum products will be put into production:

- electronic components for diagnostic equipment (put into production – Q2 2017);
- ball bearing piston for turboblower stations (put into production – Q4 2017);
- straight-type electrical drive for shutoff and control valves (put into production – Q4 2019);
- power-generating equipment (electric motors) (put into production – 2018). On October 8, 2015 in Chelyabinsk, JSC Transneft Urals and LLC Konar-Invest formed Joint Stock Company RUSSIAN ELECTRIC MOTORS (hereinafter – JSC REM) that in 2016-2017 built a plant in Chelyabinsk to ensure the transfer of manufacturing methods (know-how), engineering and technological documentation from the Italian side – Nidec ASI (Italy) to JSC REM, as well as personnel training. At the present moment, the plant at Industrial Park Stankomash is under construction in Chelyabinsk;

- activated recuperative charcoal (put into production – Q1 2020).

The share of Russian equipment acquired by Transneft subsidiaries in total purchases in monetary terms is equal to:

- 2014 – 90%, import – 10%;
- 2015 – 91%, import – 9%;
- 2016 – 91.6%, import – 8.4%.

**ON IMPROVING THE SYSTEM OF KEY PERFORMANCE INDICATORS OF THE COMPANY'S ACTIVITY IN ORDER TO IMPLEMENT ITEM 4 OF THE LIST OF INSTRUCTIONS OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. PR-1474 DATED JULY 5, 2013 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2579P-P13 DATED APRIL 25, 2014)**

In order to implement Item 4 of the List of instructions of the President of the Russian Federation No. Pr-1474 dated July 5, 2013 (Directive of the Government of the Russian Federation No. 2579p-P13 dated April 25, 2014), as well as other instructions of federal bodies of state power of the Russian Federation that were issued in 2016, the Company developed the improved System of key performance indicators of Transneft's business activity and Evaluation Methods of Implementation of Key Performance Indicators of Transneft's Business Activity. These documents were approved by resolution of the Board of Directors of Transneft dated November 30, 2016 (Minutes No. 23).

Detailed information on the Company's KPIs is stipulated in the section System of key performance indicators (KPIs) of this Report.

**ON THE INCREASE IN LABOR PRODUCTIVITY, CREATION, AND UP-GRADING OF HIGH-PERFORMANCE WORKPLACES. IN ORDER TO IMPLEMENT SUBITEMS 6.2, 6.3 AND 6.4 OF ITEM 6, SECTION 2 OF THE PLAN OF MEASURES APPROVED BY REGULATION OF THE GOVERNMENT**

**OF THE RUSSIAN FEDERATION NO. 1250-R DATED JULY 9, 2014 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 7389P-P13 DATED OCTOBER 31, 2014, LETTER OF THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT NO. 11/47056 DATED NOVEMBER 5, 2014)**

The Transneft Long-Term Development Program approved by resolution of the Board of Directors dated December 30, 2016 (Chapter 10 Personnel management) includes the list of measures of Transneft aimed at increasing labor efficiency.

**ON THE DEVELOPMENT (UPDATING) OF MEASURES IN THE CONTEXT OF THE LONG-TERM DEVELOPMENT PROGRAM THAT ARE AIMED AT REDUCING OPERATING EXPENSES AT LEAST BY 10% IN 2016 TAKING INTO ACCOUNT THE IMPLEMENTATION OF MEASURES MENTIONED IN DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2303P-P13 DATED APRIL 16, 2015, INCLUDING SUBSIDIARIES; QUARTERLY CONSIDERATION OF REPORTS OF MANAGERS ON THE IMPLEMENTATION OF MEASURES ON THE REDUCTION OF OPERATING EXPENSES AT MEETINGS OF THE BOARD OF DIRECTORS, IN ORDER TO IMPLEMENT ITEM 4 OF SECTION 2 OF THE MINUTES OF THE MEETING WITH THE CHAIRMAN OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. DM-P13-2PR DATED JANUARY 18, 2016 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 4750P-P13 DATED JULY 4, 2016)**

In the context of scheduled updating of the Long-term Development Program, taking into account the Directive of the Government of the Russian Federation No. 2303p-P13 dated April 16, 2015, the list of measures on reducing Transneft's operating expenses was updated (expanded) in June 2016.

In order to implement Directive of the Government of the Russian Federation No. 4750p-P13 dated July 4, 2016, in August 2016, Transneft subsidiaries updated Action Plans on the Reduction of Operating Expenses of Transneft subsidiaries in 2016.

Transneft's report on the implementation of measures on reducing operating expenses in Q3 2016 was considered by the Board of Directors of Transneft on February 21, 2017 (Minutes No. 2).

The economic effect from the implementation of measures on reducing operating expenses of Transneft in 2016 was RUB 9,167 million or 10.4% of the sum of the operating expenses of the corresponding period, which proves the efficiency of measures on reducing expenses and implementing the resolution of the Board of Directors of the Company dated July 28, 2016 (Minutes No. 14) as part of achieving the planned level of reduction year on year by Transneft in 2016.

At the end of 2015, the Board of Directors of Transneft approved KPIs for 2016, including: Percentage reduction in operating expenses – a planned value in 2016 of 2%, an actual value of 3.1%. In accordance with Item 9.6 of the Guidelines on using KPIs and the Letter of the Russian Ministry of Energy No. KM-14391/06 dated December 18, 2014, "previously determined target values of indicators for the current calendar year shall not be altered". Therefore, the value determined by resolution of the Board of Directors of Transneft dated December 23, 2015 (Minutes No. 32) is used as a target value for this indicator.

The main purposes, directions and planned results of operating expenses reduction, and the procedure of organizing and controlling the implementation of the operating expenses reduction plan are stipulated in the Transneft Long-Term Development Program in Chapter 18 Reduction of operating expenses.

**ON THE DEVELOPMENT OF A SET OF ARRANGEMENTS (LIST OF MEASURES) AIMED AT ACHIEVING THE INDICATOR VALUE OF OPERATING EXPENSES REDUCTION OF AT LEAST 2-3% ANNUALLY (HEREINAFTER – THE OE REDUCTION INDICATOR); ADDITION OF THE LIST OF MEASURES, VALUES OF IMPLEMENTATION INDICATORS OF THESE MEASURES, AS WELL AS VALUES OF THE OE REDUCTION INDICATOR, BEGINNING WITH ITS VALUE IN 2016 TO THE LONG-TERM DEVELOPMENT PROGRAM; INCLUSION OF KEY VALUES OF THE OE REDUCTION INDICATOR IN THE LIST OF KEY MANAGEMENT PERFORMANCE INDICATORS, AS WELL AS COORDINATION OF ACHIEVING THESE VALUES OF THE OE REDUCTION INDICATOR WITH THE REMUNERATION OF THE COMPANY'S MANAGEMENT; AMENDING THE EMPLOYMENT AGREEMENT WITH THE SOLE EXECUTIVE BODY OF THE COMPANY AS RELATED TO THE RESPONSIBILITY FOR ACHIEVING VALUES OF THE OE REDUCTION INDICATOR STIPULATED IN THE COMPANY'S LONG-TERM DEVELOPMENT PROGRAM (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2303P-P13 DATED APRIL 16, 2015)**

Implementation indicators of the Action Plan on the Reduction of Operating Expenses of Transneft in 2017–2021 were approved by resolution of the Board of Directors of Transneft dated December 12, 2016 (Minutes No. 25) as part of the Program of the Increase in Operating Performance and Reduction of Expenses of Transneft.

The basic business areas that ensure operating expenses reduction of Transneft are the following:

- electricity costs reduction;
- procurement optimization;
- fuel consumption reduction;
- reduction of expenses for services.

In the context of the above-mentioned areas, the Company developed the

following measures on operating expenses reduction:

Energy costs reduction is ensured by:

- optimization of operating practices of trunk pipelines;
- capacity optimization of trunk pipelines' facilities;
- increase of the efficiency factor of energy-intensive equipment.

Procurement optimization is ensured by:

- import substitution under the condition of maintaining the quality and reliability of equipment and complementary parts;
- formation of a lot base cost taking into account non-exceedance of the previous year's prices.

Fuel consumption reduction is ensured by:

- integration of GLONASS and control of tracks of transport and special vehicles;
- installation of modern automatized and highly efficient equipment in boiler rooms, reduction of thermal energy loss in heat networks by means of using modern heat-insulating materials.

Reduction of expenses for services is ensured by:

- optimization of the production activity, installation of modern equipment in divisions of the Transneft system, integration of efficient technologies.

In the context of the implementation of Item 5 of Instruction of the President of the Russian Federation No. Pr-2821 dated December 5, 2014 on the implementation of the Presidential Address to the Federal Assembly of the Russian Federation dated December 4, 2014, in accordance with the Guidelines on the Calculation of Expenses Reduction for Joint Stock Companies with more than a 50% Government Share in Authorized Capitals, that were approved by Order of the Federal Agency for State Property Management No. 90 dated

March 10, 2016, Transneft developed the updated Calculation Methodology of the Operating Expenses Reduction Indicator approved by resolution of the Board of Directors of Transneft dated November 30, 2016 (Minutes No. 23) for the calculation of achieving the key performance indicator Percentage reduction in operating expenses, beginning with the results of 2016.

At the end of 2015, the Board of Directors of Transneft approved KPIs for 2016, including: Percentage reduction in operating expenses – a planned value in 2016 of 2%, an actual value of 3.1%.

The labor contract with the sole executive body of the Company (the President of Transneft) stipulates implementation of measures aimed at achieving purposes and indicators provided by The Transneft Long-Term Development Program. The main purposes, directions and planned results of reducing operating expenses, and the procedure of organizing and controlling the implementation of the operating expenses reduction plan are stipulated in the Transneft Long-Term Development Program in Chapter 18 Reduction of operating expenses.

**ON THE INCLUSION OF THE INTEGRAL KEY PERFORMANCE INDICATOR OF INNOVATIVE ACTIVITY SINCE 2016 THAT WAS DEVELOPED IN ACCORDANCE WITH THE RECOMMENDATIONS APPROVED BY INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. DM-P36-7563 DATED NOVEMBER 7, 2015 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 1472P-P13 DATED MARCH 3, 2016, LETTER OF THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT NO. AT-2424/02 DATED MARCH 11, 2016)**

Transneft's integral key performance indicator of innovative activity was developed in 2015, approved by the Ministry of Economic Development of

the Russian Federation, the Russian Ministry of Energy, and the Deputy Chairman of the Government of the Russian Federation A.V. Dvorkovich (Minutes No. AD-P36-247pr dated December 17, 2015) and included in the Transneft Long-Term Development Program (by resolution of the Board of Directors of Transneft dated October 28, 2015, Minutes No. 26) and Transneft's System of Key Performance Indicators of Business Activity (by resolution of the Board of Directors of Transneft dated December 23, 2015, Minutes No. 32 for 2016; by resolution of the Board of Directors of Transneft dated November 30, 2016, Minutes No. 23 for 2017).

The structure of the integral indicator of innovative activity and the calculation methodology of included indicators were developed in accordance with the results of researching innovative activity indicators of 49 foreign companies – world leaders in oil and petroleum products transportation, conducted by KPMG consulting company.

**ON THE DEVELOPMENT, IN ACCORDANCE WITH THE GUIDELINES APPROVED BY THE GOVERNMENT OF THE RUSSIAN FEDERATION IN THE CONTEXT OF THE IMPLEMENTATION OF INSTRUCTION NO. PR-3013, APPROVAL AND INTRODUCTION OF THE FOLLOWING INTERNAL DOCUMENTS OF THE COMPANY: PROCEDURAL RULES FOR INVESTMENT AND OPERATING PERFORMANCE AND COST REDUCTION; REGULATION ON INTERNAL AUDIT; REGULATION ON RISK MANAGEMENT SYSTEM; REGULATION ON QUALITY MANAGEMENT SYSTEM; REGULATION ON THE DEVELOPMENT AND IMPLEMENTATION OF THE INNOVATIVE DEVELOPMENT PROGRAM (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 3984P-P13 DATED JUNE 24, 2015, LETTER TO THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT NO. 11/27343 DATED JULY 7, 2015)**

In order to implement Directive of the Government of the Russian Federation No. 3984p-P13 dated June 24, 2015, by resolution of the Board of Directors of Transneft dated November 16, 2015 (Minutes No. 28), the following internal documents of the Company were approved:

- Procedural Rules for Transneft Investment and Operating Performance Improvement and Cost Reduction;
- Transneft Internal Audit Regulation;
- Transneft Quality Management System Regulation;
- Transneft Risk Management System Regulation;
- Transneft Regulations on the Development and Implementation of the Innovative Development Program.

The documents were developed based on the Guidelines approved by the Government of the Russian Federation.

**ON THE INTRODUCTION OF THE CORPORATE GOVERNANCE CODE. IN THE CONTEXT OF THE IMPLEMENTATION OF INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. ISH-SH3-5859 DATED JULY 31, 2014, ITEM 4 OF SECTION I OF THE MINUTES OF THE MEETING OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 5 DATED FEBRUARY 13, 2014 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 5667P-P13 DATED SEPTEMBER 2, 2014)**

The Transneft Action Plan (the "road map") for the introduction of the Corporate Governance Code was approved by resolution of the Board of Directors of Transneft dated September 18, 2015 (Minutes No. 23). The detailed report on the introduction of the Corporate Governance Code in the Company's business activity and on its observation over the course of the year is stipulated in Section 10 Information on the observation of

Corporate Governance Code recommendations.

**ON THE CREATION OF CONSOLIDATED TREASURIES IN PARENT, SUBSIDIARY COMPANIES, AND AFFILIATES. IN ORDER TO IMPLEMENT ITEM 1 OF INSTRUCTION OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. PR-1032 DATED MAY 7, 2014 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 5110P-P13 DATED AUGUST 8, 2014)**

In order to implement the resolution of the Board of Directors of Transneft dated April 27, 2015 (Minutes No. 10) On annual analysis of the creation of consolidated treasuries in Transneft, its subsidiary companies and affiliates, Transneft sent the report of the economic effect from the creation of consolidated treasuries in Transneft, its subsidiary companies and affiliates to the Ministry of Finance of the Russian Federation and the Federal Financial Monitoring Service.

In accordance with the letter of the Intraregional Operational Administration of the Federal Treasury No. 95-09-11/05-1033 dated October 21, 2015, Transneft sent information on the results of analyzing the creation of consolidated treasuries in Transneft, its subsidiary companies and affiliates to the Intraregional Operational Administration monthly within the prescribed time.

**ON THE PROCUREMENT OF RUSSIAN COMPETITIVE SOFTWARE FOR THE COMPANY'S ACTIVITY, IN ORDER TO IMPLEMENT INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. ISH-P13-1872 DATED APRIL 1, 2016 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 4972P-P13 DATED JULY 11, 2016)**

In 2016, in the context of the implementation of Instruction of the

Government of the Russian Federation No. ISH-P13-1872 dated April 1, 2016 (Directive of the Government of the Russian Federation No. 4972p-P13 dated July 11, 2016), the following projects using Russian competitive software for the Company's activity were implemented.

1. Upgrading information security of local area networks of Transneft and Transneft subsidiaries.

In integrating the system of confidential information leakage prevention, the Russian product InfoWatch Traffic Monitor Enterprise Edition was chosen.

Moreover, solutions to protect of local area networks from the leakage of confidential information, based on InfoWatch Traffic Monitor, are being integrated in some Transneft subsidiaries. For example, this product is being integrated in Transneft Kama Region, JSC and Transneft Urals, JSC.

2. Upgrading the net information infrastructure of of Transneft and Transneft subsidiaries.

In the context of the project, the antivirus software of the foreign company TrendMicro was replaced by Russian software Kaspersky Total Security for Business.

3. Creation of a consolidated corporate integral information management system (hereinafter – CCIIMS).

In 2016, Transneft conducted a benchmarking study using ERP-platforms from SAP AG and Galaktika Corporation. The study showed that the integration of the Galaktika ERP-platform solution as more economically feasible and will speed up the creation of the consolidated CCIIMS. In addition, the base functionality of the Galaktika product

meets Transneft's requirements for business process automation regarding a passport system and technical conditions control, as well as operation and repair of primary equipment. Adding of ERP Galaktika System and Galaktika EAM – Production Management System to the register of Russian software is a further advantage of using this product. At present, the IT strategy of Transneft and Transneft subsidiaries is being revised regarding replacing the SAP ERP automation platform with ERP/EAM Galaktika.

**ON AMENDMENTS IN PROCUREMENT POLICY OF PJSC REGARDING INNOVATIVE CONSTRUCTION MATERIALS IN ORDER TO IMPLEMENT ITEM 7 OF THE MINUTES OF THE MEETING WITH THE CHAIRMAN OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. DM-P9-38-PR DATED JUNE 14, 2016 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 6558P-P13 DATED SEPTEMBER 5, 2016)**

In accordance with Directive of the Government of the Russian Federation No. 6558p-P13 dated September 5, 2016, the Board of Directors of Transneft decided (November 9, 2016, Minutes No. 20) to amend the Regulation on Procurement of Goods, Works, Services by Transneft regarding:

- consideration of Russian innovative construction materials as priority materials for procurement;
- possibility of long-term contracts with Russian construction materials manufacturers for the supply of secured volumes of innovative construction materials in future periods, as well as with manufacturers that entered into special investment contracts on the integration of manufacturing these products in accordance with the established procedure.

**ON EXPANDING THE USE OF FACTORING DURING THE IMPLE-**

**MENTATION OF CONDITIONS OF CONTRACTS FOR THE SUPPLY OF GOODS (WORKS, SERVICES), IN ORDER TO IMPLEMENT INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. DM-P13-1100 DATED MARCH 1, 2016 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 7704P-P13 DATED OCTOBER 11, 2016)**

In accordance with Directive of the Government of the Russian Federation No. 7704p-P13 dated October 11, 2016, the Board of Directors of Transneft decided (November 9, 2016, Minutes No. 20) to amend the Regulation on the Procurement of Goods, Works, Services by Transneft regarding the establishment of a procedure of assignment of claims (factoring) in the process of implementation of contracts for the supply of goods (works, services) concluded by the Company with small and medium-sized businesses, as a result of procurement stipulated by the Regulation, excluding competitive bidding, in accordance with the Civil Code of the Russian Federation.

**ON THE DEVELOPMENT AND ADOPTION OF LOCAL REGULATORY ENACTMENTS OF PJSC STIPULATING THE STANDARDIZING OF SEPARATE TYPES OF GOODS, WORKS, SERVICES; ON THE PLACEMENT OF PROCUREMENT STANDARDS ON PJSC OFFICIAL WEBSITE IN THE INTERNET DATA TELECOMMUNICATIONS NETWORK; ON THE MANDATORY USE OF PROCUREMENT STANDARDS IN THE PROCESS OF PLANNING AND CONDUCTING PJSC ACTIVITY IN ORDER TO IMPLEMENT ITEM 2 OF INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. DM-P9-8413 DATED DECEMBER 12, 2015 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2793P-P13 DATED APRIL 19, 2016)**

In accordance with Directive of the Government of the Russian Federation No. 2793p-P13 dated April 19, 2016, the Board of Directors of Transneft decided (July 28, 2016, Minutes No. 14) to approve the Procurement Standards of Goods, Works, Services by Transneft (hereinafter – the Procurement Standards).

The approved Procurement Standards are posted on the Transneft official website in the Internet data telecommunications network ([www.transneft.ru](http://www.transneft.ru)).

The Procurement Standards are used by Transneft in the process of planning procurement, preparing documentation on procurement, as well as price control regarding contracts concluded as a result of procurement.

The Procurement Standards stipulate monitoring the results of implementing the Procurement Standards and annually updating the Procurement Standards.

**ON THE INTRODUCTION OF PROFESSIONAL STANDARDS IN A JSC'S ACTIVITY, IN ORDER TO IMPLEMENT ITEM 3 OF MEETING OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 9 DATED MARCH 24, 2016 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 5119P-P13 DATED JULY 14, 2016)**

The Action Plan on the Introduction of Professional Standards in Transneft and Transneft subsidiaries in 2016–2020 was approved by resolution of the Board of Directors of Transneft dated December 8, 2016 (Minutes No. 24). The Plan is formed in compliance with the regulations and standards of the Federal Law, explanations of the Ministry of Labor and Social Protection of the Russian Federation (Letter No. 14 O/10/13/2253 dated April 4, 2016 Information of the Ministry of Labor and Social Protection of the Russian Federation on Using Professional Standards), recommendations of the

Ministry of Labor and Social Protection of the Russian Federation on the organization of professional standards introduction, the Consolidated R&D Plan of Transneft and Transneft subsidiaries in 2016–2018, as well as requirements of the Company's internal documents.

The Plan up to 2020 stipulates the following measures on:

- professional standards introduction;
- development of professional standards for occupations that are in demand in Transneft;
- professional training and/or supplementary professional education of employees taking into account regulations of professional standards introduced.

**ON THE APPROVAL OF THE RECORDING PROCEDURE OF INVESTMENT PROJECTS INCLUDED IN THE LIST OF INVESTMENT PROJECTS IN ORDER TO IMPLEMENT ITEM 6 OF THE REGULATION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 1516 DATED DECEMBER 30, 2015 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 1659P-P13 DATED MARCH 15, 2016)**

In order to implement the Directive of the Government of the Russian Federation, Transneft developed the industry-based rules OR-03.100.50-KTN-107-16 Transneft investment projects. The procedure of recording the list of projects was approved by the Management Board of Transneft on June 15, 2016 (Minutes No. 25).

The Rules stipulate the procedure of recording the list of Transneft investment projects taking into account the Regulation of the Government of the Russian Federation No. 1516 dated December 30, 2015 in order to include investment projects of Transneft in the investment projects register mentioned in Item 1 of Part 1 of Clause 3.1 of the Federal Law No. 223-FZ dated July 18, 2011 On the Procurement of Goods, Works,

and Services by Certain Types of Legal Entities.

The list of investment projects implemented by Transneft, as part of the Long-Term Development Program, does not include projects that satisfy the criteria of selection and addition to the investment projects register managed by the Ministry of Economic Development of the Russian Federation in accordance with Regulation of the Government of the Russian Federation No. 1516 dated December 30, 2015. Transneft sent Letter AK-07.3-01-10/32243 dated June 15, 2016 with information on the absence of these projects to the Ministry of Economic Development of the Russian Federation.

**ON AMENDING DEVELOPMENT PLANS, INCLUDING LONG-TERM DEVELOPMENT PROGRAMS, STRATEGIES AND INVESTMENT PROGRAMS OF THE COMPANY REGARDING SEPARATE SECTIONS (SPECIAL MEASURES) ENSURED PRIORITY OF FINANCIAL PURPOSES (DEVELOPMENT OF SUCH MEASURES IF NEEDED) OF THE SOCIO-ECONOMIC DEVELOPMENT OF THE FAR EAST IN ORDER TO IMPLEMENT SUBITEM «B» OF ITEM 6 OF INSTRUCTION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. DM-P16-6658 DATED SEPTEMBER 30, 2015 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 4531P-P13 DATED JUNE 28, 2016)**

In the context of implementation of subitem "b" of Item 6 of Instruction of the Government of the Russian Federation No. DM-P16-6658 dated September 30, 2015 (Directive of the Government of the Russian Federation No. 4531p-P13 dated June 28, 2016), the section of the Far East Development (Chapter 23 Transneft activity in the territory of the Far Eastern Federal District) was included in the Transneft Long-Term Development Program. The updated Long-Term Development Program

was approved by resolution of the Board of Directors of Transneft dated December 30, 2016 (Minutes No. 27).

**ON THE PROCEDURE FOR THE IDENTIFICATION AND DISPOSAL OF NON-CORE ASSETS IN ORDER TO IMPLEMENT INSTRUCTION OF THE PRESIDENT OF THE RUSSIAN FEDERATION NO. PR-348 DATED FEBRUARY 22, 2016 (DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 4863P-P13 DATED JULY 7, 2016)**

Pursuant to Directive of the Government of the Russian Federation No. 4863p-P13 dated July 7, 2016, by resolution of the Board of Directors of Transneft dated October 14, 2016 (Minutes No. 17), the Transneft Group Non-Core Asset Divestment Program and the Transneft Group Non-Core Asset Register were approved.

# ANNEXES

## Annex No. 1

### Information on Non-Core Assets Sale by Transneft Subsidiaries in 2016

No.	Non-Core Asset Name	Identification number (if applicable)	Balance sheet line where the asset was recorded on the reporting date, preceding its sale	Bookkeeping accounts (taking into account analytics) with recorded return and expenditure on asset disposal (91.1XX/91.2XX)	Asset book value, RUB thousand	Actual sale value, RUB thousand	Deviation of actual sale value from the asset book value, RUB thousand	Reason for deviation of actual sale value from the asset book value
1	2	3	4	5	6	7	8	9
1	OJSC AVB Bank	-	Financial Investments	91.04 Revenue from conversion of unlisted securities / 91.05 Value of converted unlisted securities	18,000	0.0016	-17,999,9984	Transfer of ownership during repurchase at the request of a person holding 95%. Cl. 21 Art. 189.50 No. 127-FZ On Bankruptcy (Insolvency) dated October 26, 2002
2	Lesnoe Ozero Recreation Center	100_3984, 100_4098, 100_4099, 100_4100, 200_1001, 200_1003, 200_1004, 200_1005, 200_4107, 200_90210, 200_91524, 200_91525, 200_91526, 200_91909	Fixed assets Zero residual value on off-balance sheet accounts	91.04 030102 Revenue from other sales of fixed assets; 030103 Revenue from other sales of fixed assets, requiring state registration; 030602 Revenue from sales of materials, besides those assigned for Capex / 91.05 050102 Residual value of other sold fixed assets; 050103 Residual value of other sold fixed assets, requiring state registration	18,023.19	11,800	-6,223.1901	Open tenders in 2013-2015 did not take place due to the absence of buyer requests. The asset was sold without announcing its value under book value to the only buyer at the price exceeding the facility market value
<b>Total (in round figures)</b>		-	-	-	<b>36,023</b>	<b>11,800</b>	<b>-24,223</b>	-

## Annex No. 2

### Information about Transneft participation in for-profit organizations as of December 31, 2016

No.	Company name	Area of activity	Participation interest, including via controlled entities, %
1	2	3	4
<b>Information on business entities with the Company's equity stake in the authorized capital from 50 percent + 1 share to 100 percent</b>			
1	Joint-Stock Company «Transneft Siberia» (Transneft Siberia, JSC)	Oil and petroleum products transportation	100
2	Joint-Stock Company «Transneft Druzhba» (Transneft Druzhba, JSC)	Oil and petroleum products transportation	100
3	Joint-Stock Company «Transneft Volga Region» (Transneft Volga Region, JSC)	Oil transportation	100
4	Joint-Stock Company «Transneft Kama Region» (Transneft Kama Region, JSC)	Oil transportation	100
5	Joint-Stock Company «Transneft Western Siberia» (Transneft Western Siberia, JSC)	Oil and petroleum products transportation	100
6	Joint-Stock Company «Transneft Urals» (Transneft Urals, JSC)	Oil and petroleum products transportation	100
7	Joint-Stock Company «Transneft Upper Volga» (Transneft Upper Volga, JSC)	Oil and petroleum products transportation	100
8	Joint-Stock Company «Transneft Central Siberia» (Transneft Central Siberia, JSC)	Oil transportation	100
9	Joint-Stock Company «Transneft North» (Transneft North, JSC)	Oil transportation	100
10	Joint-Stock Company «Black Sea Oil Trunk Pipelines» (Chernomortransneft, JSC)	Oil transportation	100
11	Limited Liability Company «Transneft Baltic» (Transneft Baltic, LLC)	Oil and petroleum products transportation	100
12	Limited Liability Company «Transneft East» (Transneft East, LLC)	Oil transportation	100
13	Limited Liability Company «Transneft Far East» («Transneft Far East, LLC»)	Oil transportation	100
14	Transnefteproduct Joint-Stock Co. (Transnefteproduct, JSC)	Fuel wholesale	100
15	Moscow oil pipeline transport Company (Mostransnefteproduct, JSC)	Petroleum product transportation	100
16	Joint Stock Company «Srednevolga Transnefteproduct» (JSC «Srednevolga Transnefteproduct»)	Petroleum product transportation	100
17	Joint Stock Company «Transnefteproduct-Samara» (JSC «Transnefteproduct-Samara»)	Petroleum product transportation	100
18	Joint Stock Company «Transnefteproduct-Zapad» (JSC «Transnefteproduct-Zapad»)	Financial intermediation	100
19	Limited Liability Company «Transneft Primorsk Port» (Transneft Primorsk Port, LLC)	Cargo-handling operations	100
20	Limited Liability Company «Transneft Kozmino Port» (Transneft Kozmino Port, LLC)	Oil transportation	100
21	Joint-Stock Company «Transneft Underwater Service» (Transneft UW Service, JSC)	Underwater crossings diagnostics and repair	100
22	Joint-Stock Company «Institute for Design of Oil Trunk Pipelines» (Giprotruboprovod, JSC)	Development of design and estimate documentation	100
23	Joint-Stock Company «Oil Transportation and Production Telecommunications» (Svyaztransneft, JSC)	Securing engineering communication of the facilities of oil trunk pipelines	100
24	Joint-Stock Company «Transneft Diascan» (Transneft Diascan, JSC)	Oil trunk pipeline line section diagnostics	100

No.	Company name	Area of activity	Participation interest, including via controlled entities, %
1	2	3	4
25	Joint-Stock Company «Transneft Metrology» (Transneft Metrology, JSC)	Metrological support of oil transportation	100
26	Limited Liability Company «Eastern Siberia – Pacific Ocean» Project Management Center» (PMC ESPO, LLC)	Performance of customer-builder functions	100
27	Limited Liability Company Far East Construction Directorate (FECD, LLC)	Performance of customer-builder functions	100
28	Limited Liability Company «Transneft - Pipeline Construction Directorate» (Transneft PCD, LLC)	General construction works	100
29	Joint-stock company «Non-State Pension Fund «TRANSNEFT» (JSC «NPF «TRANSNEFT»)	Non-state pension scheme	100
30	Limited Liability Company «Transneft Invest» Management Company («Transneft Invest» Management Company, LLC)	Non-state pension fund assets trust management	100
31	Limited Liability Company «Transneft Media» (Transneft Media, LLC)	Publishing activities	100
32	Limited Liability Company «Transneft Finance» (Transneft Finance, LLC)	Rendering services as regards accounting, tax and management accounting	100
33	Limited Liability Company «Transneft Energy» (Transneft Energy, LLC)	Power sales	100
34	Limited Liability Company Research and Development Institute for Pipeline Transportation (Transneft R&D, LLC)	Research activities	100
35	Limited Liability Company «Transneftstroy» (Transneftstroy, LLC)	Construction of buildings and facilities	100
36	Limited Liability Company «Transneft Service» (Transneft Service, LLC)	Cargo handling services	100
37	Joint Stock Company «Transneft-Terminal» (JSC «TNT»)	Rendering services for oil and petroleum products transportation	100
38	Joint-Stock Company «Transneft Service» (Transneft Service, JSC)	Fuel wholesale	100
39	Limited Liability Company «Transneft Ust-Luga Port» (Transneft Ust-Luga Port, LLC)	Oil transshipment	100
40	Joint Stock Company «TELECOM-OILPRODUCT» (JSC «TELECOM-OILPRODUCT»)	Provision of all types of communication, telecommunication and information services to petroleum products supply system enterprises	100
41	Limited liability company «Transneft security services» (Transneft security services, LLC)	Departmental security service	100
42	Limited liability company «Transneft-Logistics» (Transneft-Logistics, LLC)	Freight transport logistics	100
43	Limited Liability Company Institute of Energy Resources Transportation Problems (IPTER, LLC)	Scientific research and experimental development in natural sciences and engineering	100
44	Limited Liability Company Gruzovaya (Gruzovaya, LLC)	Railway transport activity	100
45	Joint Stock Company Tomsk Plant of Electric Drives (TOMZEL, JSC)	Precision engineering	100
46	Limited Liability Company «Transneft Electric Network Service» (Transneft Electric Network Service, LLC)	Power transmission services	100
47	Limited Liability Company «Transneft Technology» («Transneft Technology», LLC)	Servicing automation facilities, telemechanization and computer-aided manufacturing systems	100
48	Limited Liability Company TN-Fininvest (TN-Fininvest, LLC)	Investment consulting services, portfolio management	100
49	Limited Liability Company «Transneft Supervision» (Transneft Supervision, LLC)	Technical and building supervision and monitoring	100
50	Limited Liability Company Transneft – Ust-Luga (Transneft – Ust-Luga, LLC)	Investments in securities	100
51	Limited Liability Company «Transneft Telecom» («Transneft Telecom», LLC)	Telecommunication activities	100
52	Joint Stock Company PROMSFERA (PROMSFERA, JSC)	Real estate leasing	100
53	Limited Liability Company «Tikhoretsk-Nafta» (LLC «Tikhoretsk-Nafta»)	Cargo-handling operations	100
54	Subsidiary of the state-owned enterprise for industrial communication of the petroleum product support system – Rovensky Tsekh Elektrosvyazi (Rovensky Telecommunication Shop)	Rendering of communication services	100

No.	Company name	Area of activity	Participation interest, including via controlled entities, %
1	2	3	4
55	Unitary production enterprise Zapad-Telecomnefteproduct (Unitary enterprise Zapad-Telecomnefteproduct)	Rendering of communication services	100
56	Unitary production enterprise Zapad-Transnefteproduct (Unitary enterprise Zapad-Transnefteproduct)	Petroleum products transportation	100
57	Joint-stock company The Sanatorium «Prometheus» (The Sanatorium «Prometheus», JSC)	Sanatorium and health resort services	100
58	Limited Liability Company Transneftstroy-Tyumen (Transneftstroy-Tyumen, LLC)	General construction works	100
59	FESTINA ALLIANCE LTD	Any activity not prohibited by law	100
60	SWELTON INVESTMENTS LTD	Any activity not prohibited by law	100
61	Fenti Development Ltd.	Any activity not prohibited by law	100
62	MCGRAW LIMITED	Any activity not prohibited by law	100
63	TIMOTHE LIMITED	Any activity not prohibited by law	100
64	WEMOR LIMITED	Any activity not prohibited by law	100
65	Limited Liability Company Ceramic Materials Plant (Ceramic Materials Plant, LLC)	Production of ceramic and construction materials	99.99
66	Limited Liability Company Sibnefteprovod Workers' Supply Administration (Sibnefteprovod WSA, LLC)	Rendering public catering and retail services	99.9
67	Joint Stock Company OMEGA (The OMEGA Company)	Pipeline monitoring system production	60
68	Joint Stock Company Transneft Oil Pumps (Transneft Oil Pumps, JSC)	Development, production and sale of pumping equipment for trunk pipeline transportation facilities	51
69	RUSSIAN ELECTRIC MOTORS, Joint Stock Company (REM, JSC)	Power sale	51
70	Limited Liability Company «Transneft Synthesis» (Transneft Synthesis, LLC)	Petroleum products production	51
71	Joint-Stock Company «Transneft Energyterminal» (Transneft Energyterminal, JSC)	Freight transport logistics	50.04
<b>Information on business entities with the Company's equity stake in the authorized capital from 20 to 50 percent</b>			
72	Limited Liability Company Novorossiysk Fuel Oil Terminal (NFT, LLC)	Services for cargo handling (loading, unloading, transshipment, including stevedore works) and storage (including intra-warehousing)	50
73	Limited Liability Company «Nefte-Shipping Agency» (LLC «Nefte-Shipping Agency»)	Maritime transport support activities	50
74	GYNURA TRADING LIMITED	Any activity not prohibited by law	50
75	DELAYS LIMITED	Any activity not prohibited by law	50
76	OMIRICO LIMITED	Any activity not prohibited by law	50
77	Limited Liability Company LatRosTrans (LatRosTrans, LLC)	Petroleum product transportation	34
78	Pipeline Consortium "Burgas – Alexandroupolis" Limited (PC-BA Ltd.)	Burgas – Alexandroupolis oil pipeline design and construction	33.34
79	Limited Liability Company Nevskaya Pipe Company (Nevskaya Pipe Company, LLC)	Cargo-handling operations	26
80	Limited Liability Company «RUSENERGORESOURCE» (RUSENERGORESOURCE, LLC)	Power sale	25
81	Stusara N.V.	Any activity not prohibited by law	25
<b>Information on business entities with the Company's equity stake in the authorized capital from 2 to 20 percent</b>			
82	Joint Stock Company Saint-Petersburg International Mercantile Exchange (SPIMEX, JSC)	Management and control over stock, commodity, monetary and currency and stock exchanges' activity	20
83	Joint stock company «Sea port service» (JSC «Sea port service»)	Cargo handling, sea vessel servicing	20
84	KHL Limited Company (OOO KHL)	Rendering services for sporting events	11.7647

### Annex No. 3

#### Information about Transneft participation in nonprofit organizations as of December 31, 2016

No.	Name of Group, Holding Company or Association	Participation time frame	The Company's role (place) and functions in the nonprofit organization
1	2	3	4
1	International Association of Oil Transporters (IAOT)	Since 2015	A member, forms part of the Assembly – Association supreme body
2	Russian International Affairs Council (RIAC)	Since 2015	Council member
3	Non-Profit Partnership Russian National Committee of the World Petroleum Council on Organizing and Holding International Oil Congresses	Since 1998	Founder member
4	The Russian Union of Industrialists and Entrepreneurs (RSPP)	Since 2014	Union member
5	Non-Profit Partnership Ecological Development Technologies Technological Platform	Since 2013	Partnership member

### Annex No. 4

#### Information on agreements for sale and purchase of business entities' shares (participatory interests), concluded by Transneft in 2016

No.	Parties	Subject matter and other essential terms of the transaction	Price, RUB	Deadline for the fulfilment of the obligation
1	2	3	4	5
1	Transneft Urals, JSC (Issuer) Transneft (Shareholder)	Purchase and sale of JSC Transneft – Urals registered ordinary book-entry shares as a result of the increase in the Company's authorized capital with par value of RUB 1 in the amount of 20,443 pieces, sell price per share is RUB 166,216.80, state registration number of issued securities: 1-01-30774-D-001D.	3,397,970,042.40	Shall remain in effect until the Parties fulfill their obligations completely. Deposit of shares to Transneft current account on September 13, 2016.
2	Transneft Western Siberia, JSC (Issuer) Transneft (Shareholder)	Purchase and sale of JSC Transneft – Western Siberia registered ordinary book-entry shares as a result of the increase in the Company's authorized capital with par value of RUB 1 in the amount of 2087 pieces, sell price per share is RUB 297,381.77, state registration number of issued securities: 1-01-00049-F-003D.	620,635,753.99	Shall remain in effect until the Parties fulfill their obligations completely. Deposit of shares to Transneft current account on October 7, 2016.
3	Transneft Upper Volga, JSC (Issuer) Transneft (Shareholder)	Purchase and sale of JSC Transneft – Upper Volga registered ordinary book-entry shares as a result of the increase in the Company's authorized capital with par value of RUB 1 in the amount of 6951 pieces, sell price per share is RUB 191,708.24, state registration number of issued securities: 1-01-10152-E-002D.	1,332,563,976.24	Shall remain in effect until the Parties fulfill their obligations completely. Deposit of shares to Transneft current account on November 10, 2016.
4	Transneft Baltic, LLC (Company) Transneft (Participant)	Increase in the Company's authorized capital due to the participant's (Transneft) contribution in the form of monetary resources in the amount of RUB 2,897,537,000.	2,897,537,000.00	Changes in the Unified State Register of Legal Entities were registered on November 7, 2016 under SRN (state registration number) 2167848761496.
5	Sogaz, JSC (Buyer) Transneft (Seller)	Purchase and sale of JSC IC Transneft registered ordinary book-entry shares with par value of RUB 24,049 in the amount of 954 pieces, sell price per share is RUB 106,270.00, state registration number of issued securities: 1-04-10281-Z.	101,381,580.00	Shall remain in effect until the Parties fulfill their obligations completely. Derecognition of shares from Transneft current account on June 10, 2016.

### Annex No. 5

#### The report on interested-party transactions, concluded by Transneft in 2016, prepared in accordance with Clause 1.1 of Article 81 of the Federal Law "On Joint Stock Companies" dated December 26, 1995 No. 208-FZ

No.	Date of contract (supplementary agreement)	Counterparty	Subject matter and other essential terms of the transaction	Price	Deadline for the fulfilment of the obligation	Information on transaction approval; governing bodies who adopted the decision	Interested party (parties)
1	January 17, 2016	Insurer – Joint Stock Company INSURANCE COMPANY TRANSNEFT (JSC IC TRANSNEFT)	Supplementary agreement to voluntary health insurance contract on a change in the number of insured persons	Additional insurance premium amounts to RUB 851,456.80	January 17, 2016 to January 24, 2016	Transaction approved by Transneft Board of Directors, Minutes dated December 24, 2014 No. 28	First Vice-President, Member of the Management Board of Transneft M.S. Grishanin Vice-President, Member of the Management Board of Transneft B.M. Korol
2	January 20, 2016	Borrower – Vice-President, Member of the Management Board of Transneft M.V. Margelov	Special-purpose loan agreement on transfer to the borrower's ownership of monetary funds	Loan amounts to RUB 25,000,000.00	2 years from the moment of granting loan amount	Transaction approved by Transneft Board of Directors on January 15, 2016, Minutes dated January 18, 2016 No. 1	Vice-President, Member of the Management Board of Transneft M.V. Margelov
3	January 27, 2016	Insurer – Joint Stock Company INSURANCE COMPANY TRANSNEFT (JSC IC TRANSNEFT)	Supplementary agreement to Third Party Liability Insurance Contract in the course of vehicle operation on exclusion of one means of transport from insurance	Insurance premium to be returned to the insurer amounts to RUB 61.16	December 29, 2015 to February 13, 2016	Transaction approved by Transneft Board of Directors on September 18, 2015, Minutes dated September 21, 2015 No. 23	First Vice-President, Member of the Management Board of Transneft M.S. Grishanin Vice-President, Member of the Management Board of Transneft B.M. Korol
4	January 28, 2016	Insurer – Joint Stock Company INSURANCE COMPANY TRANSNEFT (JSC IC TRANSNEFT)	Supplementary agreement to Voluntary Vehicle Insurance Contract on exclusion of one means of transport from insurance	Insurance premium to be returned to the insurer amounts to RUB 1,622.42	Contract applicable to relations of the Parties as from December 29, 2015.	Transaction approved by Transneft Board of Directors on September 18, 2015, Minutes dated September 21, 2015 No. 23	First Vice-President, Member of the Management Board of Transneft M.S. Grishanin Vice-President, Member of the Management Board of Transneft B.M. Korol
5	February 21, 2016	Insurer – Joint Stock Company INSURANCE COMPANY TRANSNEFT (JSC IC TRANSNEFT)	Supplementary agreement to accident and health insurance contract on a change in the number of insured persons	Additional premium amounts to RUB 139,092.95	February 21, 2016 to May 31, 2016	Transaction approved by Transneft Board of Directors, Minutes dated December 24, 2014 No. 28	First Vice-President, Member of the Management Board of Transneft M.S. Grishanin; Vice-President, Member of the Management Board of Transneft B.M. Korol
6	March 28, 2016	Donee – The Russian Union of Industrialists and Entrepreneurs (RSPP)	Earmarked donation agreement in the form of gratuitous transfer to the donee of monetary funds in order to implement statutory objectives	Donation amounts to RUB 500,000.00	March 28, 2016 for an indefinite period	Transaction approved by Transneft Board of Directors, Minutes dated March 22, 2016 No. 5	Member of the Board of Directors, Chairman of the Management Board, President of Transneft N.P. Tokarev
7	May 6, 2016	Insurer – Joint Stock Company INSURANCE COMPANY TRANSNEFT (JSC IC TRANSNEFT)	Supplementary agreement to accident and health insurance contract on changing in the number of insured persons	Additional premium amounts to RUB 48,818.12	March 1, 2016 to May 31, 2016	Transaction approved by Transneft Board of Directors, Minutes dated December 24, 2014 No. 28	First Vice-President, Member of the Management Board of Transneft M.S. Grishanin; Vice-President, Member of the Management Board of Transneft B.M. Korol

No.	Date of contract (supplementary agreement)	Counterparty	Subject matter and other essential terms of the transaction	Price	Deadline for the fulfilment of the obligation	Information on transaction approval; governing bodies who adopted the decision	Interested party (parties)
8	November 29, 2016	Rosneft Oil Company	Supplementary agreement on prolongation for 2017 of Agreement dated November 28, 2014 No. 11/13-03/15 On Information Services Rendering Delivery of information and advice on Rosneft petroleum products transportation. Services shall be paid for on a monthly basis	Planned amount of revenue from information services rendering for 2017 will amount to RUB 1,363,874.16 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 20, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak Member of Transneft Board of Directors M.A. Warnig
9	December 1, 2016	Rosneft Oil Company	Service contract on oil storage. Storage is carried out in storage facilities with anonymization on the basis of Rosneft's request in the volumes and within time periods agreed upon by the parties, or in case of impossibility of oil transportation arisen through no fault of Transneft. Services shall be paid for in the month following the storage month.	Planned revenue for rendering oil storage services for 2017 will amount to RUB 118,000,000.00 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 20, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak Member of Transneft Board of Directors M.A. Warnig
10	December 1, 2016	Rosneft Oil Company	Service contract on compounding (bringing of oil quality to a certain level through special technical aids) of high-sulfur and especially high-sulfur oil taken into the trunk pipeline system for transportation (in the amount of approximately 9.82 million tons). Services shall be paid for on a monthly basis against Statements of Services Rendered	Planned revenue from rendering compounding services of high-sulfur and especially high-sulfur oil for 2017 will amount to RUB 547,520,000.00 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 20, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak Member of Transneft Board of Directors M.A. Warnig
11	December 1, 2016	Rosneft Oil Company	Service contract on compounding (bringing of oil quality to a certain level through special technical aids) of high-paraffin oil taken into the trunk pipeline system for transportation (in the amount of approximately 2.88 million tons). Services shall be paid for on a monthly basis against Statements of Services Rendered	Planned revenue from rendering compounding services on high-paraffin oil for 2017 will amount to RUB 325,680,000.00 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 20, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak Member of Transneft Board of Directors M.A. Warnig
12	December 1, 2016	Rosneft Oil Company	Service contract on petroleum product storage (in the amount of approximately 2.0 million tons). Storage is carried out in storage facilities with anonymization on the basis of Rosneft's request in the volumes and within time periods agreed upon by the parties, or in case of impossibility of petroleum products transportation arisen through no fault of Transneft. Services shall be paid for in the month following the storage month.	Planned revenue for rendering petroleum products storage services for 2017 will amount to RUB 223,306,575.26 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 22, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak Member of Transneft Board of Directors M.A. Warnig

No.	Date of contract (supplementary agreement)	Counterparty	Subject matter and other essential terms of the transaction	Price	Deadline for the fulfilment of the obligation	Information on transaction approval; governing bodies who adopted the decision	Interested party (parties)
13	December 1, 2016	Public Joint Stock Company Gazprom	Service contract on oil storage. Storage is carried out in storage facilities with anonymization on the basis of Gazprom's request in the volumes and within time periods agreed upon by the parties, or in case of impossibility of oil transportation arisen through no fault of Transneft. Services shall be paid for in the month following the storage month.	Ceiling revenue for rendering oil storage services for 2017 will amount to RUB 49,680,000.00 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 20, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak
14	December 8, 2016	Rosneft Oil Company	Supplementary Agreement to Contract dated October 10, 2013 No. 30/13-1/13/100013/04227C On Establishing of 11-year Long-Term Tariff for oil transportation services via the Tikhoretsk-Tuapse-2 oil pipeline to RN-Tuapse Refinery. Supplementary agreement determines the amount of the long-term tariff rate for 2017. Services shall be paid for on a monthly basis.	Long-term tariff rate for 2017 shall amount to RUB 149.99 per ton (VAT inc.). Planned amount of revenue for 2017 shall amount to RUB 1,447,403,500.00 (VAT inc.)	January 1, 2017 to December 31, 2017	Transaction approved by Transneft Board of Directors on December 20, 2016, Minutes dated December 22, 2016 No. 26	Member of Transneft Board of Directors A.V. Novak Member of Transneft Board of Directors M.A. Warnig



## Annex No. 6

### Dividends Received by Transneft in 2016

No.	Company name	Amount, RUB	Governing body who adopted the decision
1	2	3	4
1	Transnefteproduct, JSC	1,530,937,206	Shareholder's (Transneft) decision dated June 27, 2016 (Decision No. 1)
2	Transneft Druzhba, JSC	6,830,916,625	Shareholder's (Transneft) decision dated December 30, 2015 (Decision No. 4)
3	SPIMEX, JSC	3,675,000	Decision of the Annual General Shareholders' Meeting of SPIMEX, JSC dated June 21, 2016 (Minutes dated June 22, 2016 No. 21)
4	PC-BA Ltd.	13,336,000	Decision of the Extraordinary General Shareholders' Meeting of PC-BA Ltd. dated June 13, 2016 (Minutes dated June 14, 2016 No. 2)

## Annex No. 7

### REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

The Board of Directors of Transneft confirms that the given data contains full and reliable information for 2016 on the Company's compliance with the principles of corporate governance of the Corporate Governance Code, approved by the Board of Directors of the Bank of Russia on March 21, 2014. Principles of corporate governance of the Corporate Governance Code under the numbers 1.1.1, 1.1.4, 1.2.1, 1.2.2, 1.2.3, 1.2.4, 1.3.1, 1.3.2, 1.4, 2.1.2, 2.1.4, 2.1.5, 2.1.6, 2.2.1, 2.4.1, 2.4.3, 2.5.2, 2.6.2, 2.7.1, 2.7.2, 2.7.4, 2.8.4, 2.8.5, 2.8.6, 4.1.1, 4.1.2, 4.1.3, 4.2.3, 4.3.1, 4.3.3, 5.1.3, 5.2.1, 5.2.2, 6.2.2, 6.2.3, 6.3.2, 7.1.1, 7.1.3, 7.2.1 are fully observed.

#### General observations on the clauses of the Corporate Governance Code (hereinafter – the Code) that are not observed or partially observed.

Provision of the Code to which the explanation refers	Information on clauses 1.1.2, 1.1.3, 1.1.5, 1.1.6, 2.3.2, concerning the General Shareholders' Meeting.
Description of circumstances of operation and reasons for non-compliance with the clauses of the Code	Transneft has unique conditions, which is the reason why its procedures for compliance with the Code are different from those of other public companies. In particular, all voting shares (100%) belong to one shareholder – the Russian Federation. In this regard, the recommendations of the Code related to providing equal opportunities and informing shareholders, when they exercise their rights related to voting procedures in the Company, are not applied. In addition, it is not necessary to publish materials for General Shareholders' Meetings, since the interaction that takes place during such meetings is strictly bilateral: between the Company and one shareholder. The timing of such meetings and the procedure for the exercise of shareholder rights are established directly by the decision of the shareholder in accordance with the legislation of the Russian Federation.
Description of measures aimed at reducing emerging risks	Additional measures aimed at reducing emerging risks are not required, since there are no risks of inequality of shareholders' rights.
Intentions to comply with clauses of the Code in the future	In case the number of shareholders who own voting shares increases in the future or the owners of preferred shares receive the voting right, the Company intends to observe all applicable clauses of the Code.
Provision of the Code to which the explanation refers	Information on clauses 2.1.1, 2.3.1, 2.3.3, 2.4.2, 2.4.4, 2.5.1, 2.7.3, concerning the Board of Directors.
Description of circumstances of operation and reasons for non-compliance with the clauses of the Code	Due to the fact that all voting shares (100%) belong to one shareholder – the Russian Federation, the Company had no need to implement a number of corporate governance procedures, however, after the Code was recommended for use by Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014, the Company has been working to bring the corporate governance practice in line with the recommendations of the Code.
Description of measures aimed at reducing emerging risks	Individual measures aimed at reducing the risks related to the applied clauses are presented in the table of compliance with the Code individually for each clause.
Intentions to comply with clauses of the Code in the future	The Action Plan (the "road map") for implementation of the Corporate Governance Code was approved by the Board of Directors of Transneft (Minutes No. 23 dated September 18, 2015). However there are no established plans for a number of clauses applied. Decisions on these clauses depend on the shareholder owning 100% of the voting shares – the Russian Federation.

Provision of the Code to which the explanation refers	Information on other clauses that are not observed or partially observed: 2.1.3, 2.1.7, 2.2.2, 2.3.4, 2.5.3, 2.6.1, 2.6.3, 2.6.4, 2.8.1, 2.8.2, 2.8.3, 2.9.1, 2.9.2, 3.1.1, 3.1.2, 4.2.1, 4.2.2, 4.3.2, 5.1.1, 5.1.2, 5.1.4, 6.1.1, 6.1.2, 6.2.1, 6.3.1, 7.1.2, 7.2.2.
Description of circumstances of operation and reasons for non-compliance with the clauses of the Code	Due to the fact that all voting shares (100%) belong to one shareholder – the Russian Federation, the Company had no need to implement a number of corporate governance procedures, however, after the Code was recommended for use by Letter of the Bank of Russia No. 06-52/2463 dated April 10, 2014, the Company has been working to bring the corporate governance practice in line with the recommendations of the Code.
Description of measures aimed at reducing emerging risks	To prevent emerging risks the Board of Directors of Transneft approved the Action Plan (the «road map») for implementation of the Corporate Governance Code (Minutes No. 23 dated September 18, 2015). With respect to the applied clauses, the Company established planned dates for the implementation of the Code's provisions. The dates are indicated in the table of compliance with the Code individually for each clause. Other measures for reducing the risks are not currently used, if not stated otherwise in the table of compliance with the Code.
Intentions to comply with clauses of the Code in the future	

The table below provides an explanation of the reasons why the principle is not observed fully or not observed as well as planned measures and timelines for compliance with the principles where applicable.

No. of the Code's clause	Principles of corporate governance	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>1.1</b>	<b>The Company should treat all shareholders equally and fairly when they exercise their right to participate in the management of the Company.</b>			
1.1.2	The procedure for notifying of a General Shareholders' Meeting and providing materials for the meeting enables the shareholders to prepare for it properly.	1.The notification of the General Shareholders' Meeting is posted (published) on the Internet website at least thirty days before the date of the meeting. 2.Notification of the meeting states where it is to be held and the documents needed in order to enter the premises. 3.Shareholders were given access to the information on persons who had proposed agenda items and nominated candidates to the Board of Directors and the Company's Revision Commission.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraphs 1 and 2. Given the peculiarities of the structure of the authorized capital of the Company (100% of the voting shares belong to the Russian Federation), the said rules are not applied by virtue of law: at a time when all voting shares of the Company belong to one shareholder, decisions on issues within the competence of the General Shareholders' Meeting are made by the shareholder (the Russian Federation represented by the Federal Agency for State Property Management) on a unilateral basis and executed in writing. See explanations in the preamble.
1.1.3	During the preparation for the General Shareholders' Meeting and the meeting itself, the shareholders had an opportunity to receive information on the meeting and related materials easily and in a timely manner, as well as to ask the Company's executive bodies and members of the Company's Board of Directors questions and communicate with each other.	1.During the reporting period, shareholders were given an opportunity to ask members of executive bodies and of the Company's Board of Directors questions before and during the Annual General Shareholders' Meeting. 2.The position of the Board of Directors (including minority reports included in the minutes) on each agenda item of the General Shareholders' Meetings, held in the reporting period, was included in the materials for the General Shareholders' Meeting. 3.The Company provided authorized shareholders with access to the list of persons eligible for participation in the General Shareholders' Meeting, starting with the date of its receipt by the Company, in all instances when General Shareholders' Meetings were held during the reporting period	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraphs 1 and 3. Given the peculiarities of the structure of the authorized capital of the Company (100% of the voting shares belong to the Russian Federation), the said rules are not currently applied by virtue of law. The Company constantly interacts with the major shareholder and ensures that it has access to information. See explanations in the preamble.
1.1.5	All shareholders could freely exercise their right to vote in the way that was the easiest and most convenient for them.	1.An internal document (internal policy) of the Company contains provisions whereby each participant of the General Shareholders' Meeting may request a copy of the ballot filled in by him/her and certified by the Company's counting commission before the end of the respective meeting.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	Given the peculiarities of the structure of the authorized capital of the Company (100% of the voting shares belong to the Russian Federation), the said provisions are not currently applied by virtue of law. See explanations in the preamble.

No. of the Code's clause	Principles of corporate governance	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
1.1.6	The procedure for holding the General Shareholders' Meeting established by the Company provides everyone present with equal opportunity to express their opinion and ask questions on matters of their concern.	1. In the reporting period, when conducting the General Shareholders' Meeting in the form of a joint presence of shareholders, a sufficient amount of time was provided to make reports on agenda items and to discuss the issues. 2. Candidates to the governing and supervisory bodies of the Company were available for answering questions of shareholders at the meeting at which their nominees were put to vote. 3. While making decisions related to the preparation and holding of General Shareholders' Meetings, the Board of Directors addressed the issue of using telecommunications to provide shareholders with remote access to participate in General Meetings in the reporting period.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	Given the peculiarities of the structure of the authorized capital of the Company (100% of the voting shares belong to the Russian Federation), the said rules are not currently applied by virtue of law. See explanations in the preamble.
<b>2.1</b>	<b>The Board of Directors is responsible for the strategic management of the Company, it establishes the main principles and approaches to creating the risk management and internal control system, supervises the work of the Company's executive bodies, and performs other key functions.</b>			
2.1.1	The Board of Directors is responsible for making decisions related to the appointment and dismissal of members of executive bodies, including due to improper performance of their functions. The Board of Directors also ensures that the Company's executive bodies act in accordance with the approved development strategy and the key business areas of the Company.	1. The Board of Directors has powers stipulated in the Articles of Association regarding appointing and relieving members of executive bodies of their posts, as well as determining the terms and conditions of agreements in relation to them. 2. The Board of Directors considered the report(s) of the Sole Executive Body and members of the Collective Executive Body on implementation of the Company's strategy.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to appointment of the President of the Company. In accordance with the Articles of Association of the Company, the Board of Directors is responsible for forming the Management Board (the President of the Company is appointed by the General Shareholders' Meeting). The Board of Directors considers reports of the executive bodies including reports on implementation of the Strategy. See explanations in the preamble.
2.1.3	The Board of Directors determines the principles and approaches to creating the risk management and internal control system in the Company.	1. The Board of Directors determined principles and approaches to creating the risk management and internal control system in the Company. 2. The Board of Directors carried out an assessment of the Risk Management and Internal Control System of the Company in the reporting period.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to internal control. The Board of Directors approved the Regulation on the Risk Management System (resolution dated November 16, 2015, Minutes No. 28), that stipulates general principles of formation of the Risk Management System, its goals and objectives, general approaches to the organization, distribution of functions and responsibilities between the actors of the Risk Management System and the nature of their interaction. In summing up the results of 2016, the Board of Directors of Transneft approved the Annual Report for 2016 on Risk Management in Transneft, which included a performance evaluation of the Risk Management System. In the effective Regulation on the Internal Control Procedures of the Company (approved by the Board of Directors of Transneft on September 10, 2009, Minutes No. 12) this issue has not been fully reflected. The Provision will be updated during 2017. See explanations in the preamble.
2.1.7	The Board of Directors controls the corporate governance practice in the Company and plays a key role in significant corporate events of the Company.	1. In the reporting period the Board of Directors considered the issue of corporate governance practice in the Company.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	The Board of Directors did not consider the issue of corporate governance practice in 2016. The consideration of the issue is planned for 2017. See explanations in the preamble.
<b>2.2</b>	<b>The Board of Directors is accountable to the Company's shareholders.</b>			
2.2.2	The Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. The Company has a transparent procedure enabling shareholders to send their questions and opinions on them to the Chairman of the Board of Directors.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Applied in practice. The implementation of this principle is planned through incorporation in the internal documents of the Company in 2017. See explanations in the preamble.

No. of the Code's clause	Principles of corporate governance	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>2.3</b>	<b>The Board of Directors is an effective and professional governing body of the Company, able to make objective independent judgments and make decisions in the interests of the Company and its shareholders.</b>			
2.3.1	Only persons having an impeccable business and personal reputation and the knowledge, skills and experience required for making decisions within the competence of the Board of Directors and for efficient performance of its functions are elected to the Board of Directors.	1. The Company's procedure for performance assessment of the Board of Directors also includes evaluation of the professional qualifications of its members. 2. In the reporting period, the Board of Directors (or its Nominations Committee) assessed candidates to the Board of Directors in terms of experience, knowledge, business reputation, lack of conflict of interest, etc.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraph 1. Given the peculiarities of the structure of the authorized capital of the Company (100% of the voting shares belong to the Russian Federation), the composition of the Board of Directors of the Company is determined by the sole shareholder who owns the voting shares. See explanations in the preamble.
2.3.2	Members of the Board of Directors are elected through a transparent procedure that enables shareholders to obtain information about the candidates, sufficient to form an opinion about their personal and professional qualities.	1. In all cases when the agenda of a General Shareholders' Meeting held in the reporting period included election of the Board of Directors, the Company provided its shareholders with biographical details of all candidates to the Board of Directors, results of the assessment of such candidates carried out by the Board of Directors (or its Nominations Committee), as well as information on whether the candidate met the criteria of independence in accordance with Recommendations No. 102-107 of the Code and the written consent of the candidates to election to the Board of Directors.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Given the peculiarities of the structure of the authorized capital of the Company (100% of the voting shares belong to the Russian Federation), the composition of the Board of Directors of the Company is determined by the sole shareholder who owns the voting shares. See explanations in the preamble.
2.3.3	The membership of the Board of Directors is balanced, including in terms of its members' qualifications, experience, knowledge and business skills, and enjoys the confidence of shareholders.	1. As part of performance assessment of the Board of Directors in the reporting period, the Board of Directors analyzed its needs in terms of professional qualifications, experience and business skills.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	As part of performance assessment of the Board of Directors of the Company, the above mentioned needs were analyzed by the HR and Remuneration Committee of the Board of Directors. See explanations in the preamble.
2.3.4	The number of members of the Company's Board of Directors allows it to organize its activity in the most efficient way, which includes forming Committees under the Board of Directors, and gives the Company's substantial minority shareholders an opportunity to elect to the Board of Directors a candidate for whom they vote.	1. As part of performance assessment of the Board of Directors in the reporting period, the Board of Directors considered whether the number of its members met the needs of the Company and the interests of the shareholders.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	In the reporting period, the Board of Directors did not consider whether the number of its members met the needs of the Company and the interests of the shareholders. The consideration of the issue is planned for 2017. According to the new version of the Articles of Association of the Company, approved by resolution of the sole shareholder, owner of the voting shares, dated June 30, 2016, the number of members of the Board of Directors increased from 7 to 8 persons. See explanations in the preamble.
<b>2.4</b>	<b>The Board of Directors includes a sufficient number of independent directors.</b>			
2.4.2	The Company assesses whether the candidates to the Board of Directors meet the independence criteria and regularly analyzes whether the independent members of the Board of Directors comply with the independence criteria. When carrying out the assessment, the content should prevail over the form.	1. In the reporting period, the Board of Directors (or the Nominations Committee of the Board of Directors) formed an opinion on the independence of each candidate to the Board of Directors and provided the shareholders with the relevant report. 2. In the reporting period, the Board of Directors (or the Nominations Committee of the Board of Directors) considered the independence of the current members of the Board of Directors who are specified in the Annual Report as independent directors at least once. 3. The Company developed procedures that determine what actions are required from a member of the Board of Directors if he/she ceases to be an independent director, including obligations to inform the Board of Directors of this fact in a timely manner.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	The HR and Remuneration Committee of the Company annually assesses the independence of the candidates to the Board of Directors. Additionally, the Company consults with the Exchange and the Federal Agency for State Property Management regarding the independence of the members of the Board of Directors. In the reporting period, the Board of Directors considered whether M. I. Grishankov was an independent member of the Board of Directors. The implementation of paragraph 3 is planned through incorporation in the internal documents of the Company in 2017. See explanations in the preamble.
2.4.4	Independent directors play a key role in preventing internal conflicts in the Company and in carrying out significant corporate actions.	1. Independent directors (who have no conflict of interest) carry out a preliminary assessment of significant corporate actions related to a potential conflict of interest and submit the results of this assessment to the Board of Directors.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	Independent directors assess significant corporate actions related to a potential conflict of interest as a part of analyzing materials for the members of the Board of Directors. The independent directors did not submit to the Board of Directors specific results of such evaluation. See explanations in the preamble.

No. of the Code's clause	Principles of corporate governance	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>2.5</b>	<b>The Chairman of the Board of Directors ensures that functions assigned to the Board of Directors are performed as efficiently as possible.</b>			
2.5.1	An independent director was elected Chairman of the Board of Directors, or a Senior Independent Director was appointed from among the elected independent directors to coordinate the work of the independent directors and communicate with the Chairman of the Board of Directors.	1.The Chairman of the Board of Directors is an independent director or a senior independent director has been elected from among independent directors. 2.The role, rights and duties of the Chairman of the Board of Directors (and, if applicable, of the Senior Independent Director) are properly specified in internal documents of the Company.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraph 1. The Chairman of the Board of Directors is a not an independent director. See explanations in the preamble.
2.5.3	The Chairman of the Board of Directors takes all necessary measures that ensure timely provision of information, required to make decisions on the agenda items, to members of the Board of Directors.	1.The duty of the Chairman of the Board of Directors to take measures that ensure timely provision of information, required to make decisions on the agenda items of the meeting, to members of the Board of Directors is stipulated in the Company's internal documents.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Applied in practice. The implementation of the corresponding principle is planned through incorporation in the internal documents of the Company in 2017. See explanations in the preamble.
<b>2.6</b>	<b>Members of the Board of Directors act reasonably and in good faith in the interests of the Company and its shareholders on the basis of sufficient information, exercising due diligence and care.</b>			
2.6.1	Members of the Board of Directors make decisions taking into account all available information, in the absence of a conflict of interest, and given equal treatment of shareholders of the Company, within a standard business risk.	1.The Company's internal documents stipulate that a member of the Board of Directors should notify the Board of Directors if there is a conflict of interest in relation to any agenda item of the meeting of the Board of Directors or a Committee of the Board of Directors prior to the discussion of that agenda item. 2.The Company's internal documents stipulate that a member of the Board of Directors should refrain from voting on any issue in relation to which he/ she has a conflict of interest. 3.The Company established a procedure which allows the Board of Directors to obtain professional advice on issues within its competence at the expense of the Company.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Applied in practice. The implementation of the corresponding principles is planned through incorporation in the internal documents of the Company in 2017. See explanations in the preamble.
2.6.3	Members of the Board of Directors have sufficient time to perform their duties.	1.Individual attendance of meetings of the Board and the Committees, as well as time devoted to preparation for the meetings, were taken into account when performing the assessment of the Board of Directors in the reporting period. 2.In accordance with internal documents of the Company, members of the Board of Directors should inform the Board of Directors of their intention to join governing bodies of other organizations (apart from organizations controlled by or affiliated with the Company) and of the fact of their appointment.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Applied in practice. The implementation of the corresponding principles is planned through incorporation in the internal documents of the Company in 2017. See explanations in the preamble.
2.6.4	All members of the Board of Directors have equal access to documents and information of the Company. Newly elected members of the Board of Directors are provided with sufficient information on the Company and the work of the Board of Directors in the shortest time possible.	1.In accordance with internal documents of the Company, members of the Board of Directors have the right to access documents and make inquiries concerning the Company and its controlled entities, and the Company's executive bodies are obliged to provide the said information and documents. 2.The Company has a formalized orientation program for newly elected members of the Board of Directors.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Applied in practice. The implementation of the corresponding principles is planned through incorporation in the internal documents of the Company in 2017. See explanations in the preamble.
<b>2.7</b>	<b>Meetings of the Board of Directors, preparation for them and participation of members of the Board of Directors in the meetings ensure efficient performance of the Board of Directors.</b>			
2.7.3	The form of the meeting of the Board of Directors is determined taking into account the importance of agenda items. The most important issues are addressed at face-to-face meetings.	1.The Articles of Association or other internal document of the Company provides that the most important issues (according to the list given in Recommendation No. 168 of the Code) should be addressed at face-to-face meetings of the Board.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	The Articles of Association of the Company determines the list of issues that should be addressed predominantly at face-to-face meetings of the Board of Directors. See explanations in the preamble.

No. of the Code's clause	Principles of corporate governance	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>2.8</b>	<b>The Board of Directors establishes committees for preliminary consideration of the most important issues related to the Company's business.</b>			
2.8.1	An Audit Committee consisting of independent directors was established for preliminary consideration of issues related to monitoring the Company's financial and business operations.	1.The Board of Directors formed the Audit Committee consisting of independent directors only. 2.The Company's internal documents set out the objectives of the Audit Committee, including those specified in Recommendation No. 172 of the Code. 3.At least one member of the Audit Committee, being an independent director, has experience and knowledge in preparation, analysis, evaluation and audit of accounting (financial) statements. 4.Meetings of the Audit Committee were held at least once a quarter in the reporting period.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraph 2 in the reporting period. The new version of the Regulation on the Audit Committee of the Board of Directors, that determines the goals of the Committee based on Recommendation No. 172 of the Code, was approved by the Board of Directors of the Company on January 19, 2017 (Minutes No. 1). See explanations in the preamble.
2.8.2	A Remunerations Committee consisting of independent directors and chaired by an independent director, who is not the Chairman of the Board of Directors, was created for preliminary consideration of any issues related to establishment of an efficient and transparent remuneration practice.	1.The Board of Directors formed a Remunerations Committee consisting of independent directors only. 2.The Chairman of the Remunerations Committee is an independent director who is not the Chairman of the Board of Directors. 3.The Company's internal documents set out the objectives of the Remunerations Committee, including those specified in Recommendation No. 180 of the Code.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraphs 1 and 3 in the reporting period. The Company created an HR and Remuneration Committee, and only one of its three members is not an independent director. The new version of the Regulation on the HR and Remuneration Committee, that determines the goals of the Committee based on Recommendation No. 180 of the Code, was approved by the Board of Directors on January 19, 2017 (Minutes No. 1). See explanations in the preamble.
2.8.3	A Nomination (Appointment, HR) Committee consisting mostly of independent directors was established for preliminary consideration of any issues related to workforce planning (succession planning), professional composition and performance of the Board of Directors.	1.The Board of Directors established the Nomination Committee (or another committee performs its duties specified in Recommendation No. 186 of the Code) consisting mostly of Independent Directors. 2.The Company's internal documents set out the objectives of the Nomination Committee (or a respective committee with shared functions), including those specified in Recommendation No. 186 of the Code.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to paragraph 2 in the reporting period. The new version of the Regulation on the HR and Remuneration Committee, that determines the goals of the Committee based on Recommendation No. 186 of the Code, was approved by the Board of Directors of the Company on January 19, 2017 (Minutes No. 1). See explanations in the preamble.
<b>2.9</b>	<b>The Board of Directors arranges a performance assessment of the Board of Directors, its Committees and members.</b>			
2.9.1	Performance assessment of the Board of Directors is aimed at evaluating the efficiency of the Board of Directors, its Committees and members, determining whether their work meets the Company's development needs, intensifying the work of the Board of Directors and identifying opportunities for improvement of its performance.	1.Self-assessment or an external assessment of performance of the Board of Directors carried out in the reporting period included performance assessment of its Committees, individual members and the Board of Directors as a whole. 2.Results of self-assessment or an external assessment of the Board of Directors conducted in the reporting period were considered at a face-to-face meeting of the Board of Directors.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	The HR and Remunerations Committee examined the results of an objective evaluation of all members of the Board of Directors of the Company, carried out on the basis of the Methodology for Individual Assessment of Members of the Board of Directors of Joint Stock Companies with State Participation. See explanations in the preamble.
2.9.2	Assessment of performance of the Board of Directors, its Committees and members is carried out on a regular basis at least once a year. An external organization (consultant) is engaged to perform an independent assessment of performance of the Board of Directors at least once every three years.	1.In the last three reporting periods an external organization (consultant) was engaged to perform an independent assessment of performance of the Board of Directors at least once.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	It is planned to engage an external organization to perform an independent assessment of performance of the Board of Directors in 2017. See explanations in the preamble.

No. of the Code's clause	Principles of corporate governance	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>3.1</b>	<b>The Company's Corporate Secretary facilitates efficient ongoing communication with shareholders, coordinates the Company's efforts aimed at protecting the shareholders' rights and interests and supports efficient work of the Board of Directors.</b>			
3.1.1	The Corporate Secretary has knowledge, expertise and qualification sufficient for performing his or her duties, excellent reputation and enjoys shareholders' confidence.	1.The Company has adopted and disclosed an internal document: the Regulation on the Corporate Secretary. 2.The biography of the Corporate Secretary is published on the Company's website and in the Annual Report; it is as detailed as that of the members of the Board of Directors and the executive management of the Company.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	Not observed in the reporting period. The Board of Directors approved the Regulation on the Corporate Governance Department (a special division that carries out the functions of the Corporate Secretary of the Company) on January 19, 2017 (Minutes No. 1). See explanations in the preamble.
3.1.2	The Corporate Secretary is fairly independent from the Company's executive bodies and has necessary powers and resources to perform his or her duties.	1.The Board of Directors approves the appointment and dismissal of the Corporate Secretary and his or her additional remuneration.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	Not observed in the reporting period. The Board of Directors agreed on the head of the special division that carries out the functions of the Corporate Secretary of the Company on January 19, 2017 (Minutes No. 1). See explanations in the preamble.
<b>4.2</b>	<b>The system of remuneration for the members of the Board of Directors ensures that the directors' financial interests are aligned with the long-term financial interests of shareholders.</b>			
4.2.1	The Company pays fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participating in individual meetings of the Board or Committees under the Board of Directors. The Company does not offer any short-term and additional financial incentives to the members of the Board of Directors.	1.Fixed annual remuneration was the only form of financial remuneration paid to the members of the Board of Directors for their work in the reporting period.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Additional remuneration is provided to the members of the Board Directors of the Company for performing additional duties (membership, chairmanship in the specialized Committees under the Board of Directors). According to the Regulation on Remuneration of Members of the Board of Directors approved by the resolution of the sole shareholder – the owner of the voting shares – dated June 30, 2015, the amount of remuneration of members of the Board of Directors consists of the fixed (guaranteed) and variable (bonus) parts. See explanations in the preamble.
4.2.2	Long-term ownership of the Company's shares is the most important factor for aligning the financial interests of members of the Board of Directors with the long-term interests of shareholders. At the same time, the Company does not associate the rights to sell shares with achieving certain performance indicators, and the members of the Board of Directors do not participate in stock option programs.	1.If an internal document (documents), namely the Company's policy (policies) on remuneration, stipulate(s) provision of members of the Board of Directors with shares, clear rules regarding the ownership of shares by members of the Board of Directors, aimed at encouraging long-term ownership of such shares, should be introduced and disclosed.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	The Regulation on Remuneration of Members of the Board of Directors approved by the resolution of the sole shareholder – the owner of the voting shares – dated June 30, 2015, does not stipulate provision of the Company's shares to the members of the Board of Directors. See explanations in the preamble.
<b>4.3</b>	<b>The system of remuneration of members of executive bodies and other key managers of the Company ensures that the remuneration is linked to the Company's performance and reflects their personal contribution to this performance.</b>			
4.3.2	The Company has implemented a long-term incentive program for members of executive bodies and other key managers involving the use of Company's shares (options or other derivative financial instruments, the underlying asset of which constitutes the Company's shares).	1.The Company implemented a long-term incentive program for members of executive bodies and other key managers that involves the use of Company's shares (financial instruments based on the Company's shares). 2.The long-term incentive program for members of executive bodies and other key managers of the Company provides that the right to sell shares and other financial instruments used in such a program may be exercised no earlier than three years from the date of their provision. At the same time, the right to sell them is related to achieving certain performance indicators of the Company.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	Incentives for members of executive bodies and other key managers of the Company do not provide for the use of Company's shares. See explanations in the preamble.

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<b>5.1</b>	<b>The Company has created an effective risk management and internal control system aimed at providing reasonable assurance that the Company will achieve its goals.</b>			
5.1.1	The Board of Directors of the Company has established the principles and approaches to organization of a risk management and internal control system in the Company.	1.Functions of various governing bodies and divisions of the Company in the risk management and internal control system are clearly defined in internal documents/a corresponding policy of the Company approved by the Board of Directors.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to internal control. The Board of Directors approved the Regulation on the Risk Management System (resolution dated November 16, 2015, Minutes No. 28) that stipulates the general principles of formation of the Risk Management System, its goals and objectives, general approaches to the organization, distribution of functions and responsibilities between the actors of the Risk Management System and the nature of their interaction. The Board of Directors has not established the principles and approaches to organization of an internal control system. In the effective Regulation on the Internal Control Procedures of the Company (approved by the Board of Directors of Transneft on September 10, 2009, Minutes No. 12) this issue was not fully reflected. The Provision will be updated during 2017. See explanations in the preamble.
5.1.2	Executive bodies of the Company ensure creation and support of an effective system of risk management and internal control in the Company.	1.1. The Company's executive bodies ensured distribution of functions and powers regarding risk management and internal control among heads (managers) of units and divisions accountable to them.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	Not observed with regard to internal control. The Board of Directors of Transneft approved the Regulation on the Risk Management System (resolution dated November 16, 2015, Minutes No. 28). Key parameters of the Risk Management System were endorsed by the Management Board of Transneft (Minutes No. 13 dated April 1, 2016), considered by the Audit Committee under the Board of Directors of Transneft and approved by the Board of Directors of Transneft (Minutes No. 13 dated June 29, 2016). In 2016, based on the general requirements for organization of the Risk Management System, provided in the Regulation on the Risk Management System, the Company developed the Risk Management Policy (approved by resolution of the Management Board of Transneft Minutes No. 13 dated April 1, 2016), which determines the procedure for interaction of the Company's divisions in the framework of the Risk Management System. To facilitate the overall coordination of the Risk Management System of the Company, the Management Board of Transneft approved the Regulation on the Risk Management Council of Transneft (Minutes No. 13 dated April 1, 2016) and established the Risk Management Council, the members of which were approved by decision of the Management Board of Transneft (Minutes No. 21 dated May 12, 2016).  In the effective Regulation on the Internal Control Procedures of the Company (approved by the Board of Directors of Transneft on September 10, 2009, Minutes No. 12), this issue was not fully reflected. The Provision will be updated during 2017. See explanations in the preamble.

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5.1.4	The Board of Directors takes all necessary measures to ensure that the Company's Risk Management and Internal Control System is in line with the principles and approaches to its organization, established by the Board of Directors, and functions efficiently.	1. In the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed the performance of the Company's Risk Management and Internal Control System. Information on the key results of such evaluation was included in the Company's Annual Report.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<p>Not observed with regard to internal control.</p> <p>In summing up the results of 2016, the Board of Directors of Transneft approved the Annual Report for 2016 on the Risk Management in Transneft, which included performance evaluation of the Risk Management System.</p> <p>In the effective Regulation on the Internal Control Procedures of the Company (approved by the Board of Directors of Transneft on September 10, 2009, Minutes No. 12) this issue was not fully reflected. The Provision will be updated during 2017. See explanations in the preamble.</p>
<b>6.1 The Company and its operations are transparent to shareholders, investors and other stakeholders.</b>				
6.1.1	The Company has developed and implemented an information policy ensuring effective communication between the Company, shareholders, investors and other stakeholders.	1. The Board of Directors approved the Information Policy of the Company developed taking into account the recommendations of the Code. 2. The Board of Directors (or one of its Committees) considered the issues related to the Company's compliance with the Information Policy at least once in the reporting period.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<p>Not observed with regard to paragraph 2. In 2016, neither the Board of Directors, nor any of its Committees considered issues related to the Company's compliance with the Information Policy. It is planned to consider this issue in 2017. See explanations in the preamble.</p>
6.1.2	The Company discloses information on the system and practice of corporate governance, including detailed information on compliance with the principles and recommendations of the Code.	1. The Company discloses information on its corporate governance system and general principles of corporate governance used by the Company, including on the Company's website. 2. The Company discloses information on the composition of executive bodies and the Board of Directors, independence of its members and their membership in the Committees under the Board of Directors (in accordance with definitions given in the Code). 3. In the case there is an entity controlling the Company, the Company publishes a memorandum of the entity detailing its plans in relation to corporate governance in the Company.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<p>Paragraph 3 is not observed.</p> <p>It is planned to publish such a memorandum in the event of its development in 2017.</p> <p>See explanations in the preamble.</p>
<b>6.2 The Company discloses comprehensive, up-to-date and accurate information on the Company in a timely manner to ensure that the Company's shareholders and investors are able to make informed decisions.</b>				
6.2.1	The Company discloses information in accordance with the principles of regularity, consistency and promptness, as well as availability, accuracy, comprehensiveness and comparability of disclosed data.	1. The Company's Information Policy stipulates approaches to and criteria for identifying information which may have a significant impact on the value of the Company and its securities, as well as procedures ensuring timely disclosure of such information. 2. If the Company's securities are traded on foreign regulated markets, disclosure of material information in the Russian Federation and in such markets is simultaneous and equivalent during the reporting year. 3. If foreign shareholders own a considerable number of shares in the Company, information was disclosed not only in Russian, but also in one of the prevailing foreign languages during the reporting year.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<p>Paragraph 1 is not observed.</p> <p>In 2017, the Company plans to approve a new version of the Information Policy that will stipulate approaches to and criteria for identifying information which may have a significant impact on the value of the Company and its securities, as well as procedures ensuring timely disclosure of such information.</p> <p>See explanations in the preamble.</p>
<b>6.3 The Company provides equal and easy access to information and documents at the shareholders' request.</b>				
6.3.1	The Company provides information and documents at shareholders' requests in accordance with the principles of fairness and ease.	1. The Company's Information Policy stipulates that shareholders must be granted easy access to information, including information on legal entities controlled by the Company, at the shareholders' request.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<p>In 2017, the Company plans to approve a new version of the Information Policy that will define the procedure of providing shareholders with information, including information on legal entities controlled by the Company, at the shareholders' request.</p> <p>See explanations in the preamble.</p>

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<b>7.1 Actions that have or may have a substantial impact on the authorized capital structure and financial position of the Company and, accordingly, on the shareholders' position (significant corporate actions) are taken on fair conditions safeguarding the rights and interests of the shareholders and other stakeholders.</b>				
7.1.2	The Board of Directors plays a key role in making decisions or recommendations with regard to significant corporate actions; the Board of Directors relies on the opinion of the Company's independent directors.	1.1. The Company has established a procedure, in accordance with which independent directors express their opinions on significant corporate actions prior to their approval.	<input type="checkbox"/> observed <input type="checkbox"/> partially observed <input checked="" type="checkbox"/> not observed	<p>In 2017, the Company plans to develop and approve a procedure, in accordance with which independent directors will express their opinions on significant corporate actions prior to their approval. See explanations in the preamble.</p>
<b>7.2 The Company ensures that significant corporate actions are taken in a way that enables the shareholders to receive full information on such actions in a timely manner, provides them with an opportunity to influence such actions and guarantees that their rights are observed and properly protected when such actions are taken.</b>				
7.2.2	The rules and procedures for implementation of significant corporate actions are set forth in the Company's internal documents.	1. The Company's internal documents establish the procedure for engaging an independent appraiser to carry out a valuation of the property disposed of or acquired as a result of a major or related-party transaction. 2. The Company's internal documents establish the procedure for engaging an independent appraiser to assess the value of purchase and buyback of the company's shares. 3. The Company's internal documents provide for an expanded list of grounds on which members of the Company's Board of Directors and other persons stipulated by applicable laws can be recognized as related parties in the Company's transactions.	<input type="checkbox"/> observed <input checked="" type="checkbox"/> partially observed <input type="checkbox"/> not observed	<p>Paragraphs 1 and 3 are not observed.</p> <p>In 2017, the Company plans to approve internal documents that will stipulate the procedure for engaging an independent appraiser to carry out a valuation of the property for transactions.</p> <p>See explanations in the preamble.</p>



