

EXTERNAL AUDIT

Pursuant to Clause 4 of Article 5 of Federal Law No. 307-FZ On Auditing dated 30 December 2018, a contract for mandatory audit of financial statements of a company where the government owns at least a 25% stake in the authorised (joint) capital shall be signed with an audit company or an individual auditor winning an open tender to be held at least once in five years as per the procedure stipulated in Federal Law No. 44-FZ On the Contractual System of the Federal and Municipal Procurement of Goods, Works and Services dated 5 April 2013.

The auditor selection tender for 2018 was conducted in accordance with the Regulations on Open Auditor Selection Tender for Mandatory Annual Audit of Transneft in 2018 and a Review of Interim Consolidated Financial Statements by IFRS for Q1 2019, approved by Transneft Order No. 28 dated 14 February 2018¹:

Bidding Terms and Conditions:

- The open tender notice is posted by the customer on its corporate website and on Transneft's website at least 20 days before the day when the envelopes containing the applications are opened
- Evaluation and comparison of the applications is to be completed no later than twenty days after the opening
- Evaluation and comparison of the applications is carried out by scoring the technical and financial proposals contained therein
- The minutes of evaluation and comparison of the applications is posted on the corporate website and on Transneft's website on the day following the aforementioned minutes signing day

The initial (maximum) price of the agreement for holding an open tender to select an audit organisation is set by the Board of Directors of the Company.

Based on the open tender results, the Board of Directors of the Company nominates the winner of the tender for the General Meeting of Shareholders to approve².

KPMG's remuneration for auditing services is determined after conducting an open tender; as per the contract for auditing the statements of Transneft for 2018, it amounted to RUB 19.5 million excluding VAT.

Results of Audit's Efficiency Assessment by the Audit Committee

The Audit Committee under the Transneft Board of Directors evaluates the auditor's opinion's conformity to Federal Law No. 307-FZ On Auditing dated 30 December 2008, as well as its compliance to the effective auditing standards.

The audit report on the financial statements of Transneft for 2018 was provided by KPMG on 28 March 2019. The report was reviewed by the Audit Committee and recognised as complying with the requirements established by the International auditing Standards in force in the Russian Federation.

¹ The Regulations were developed in accordance with the Civil Code of the Russian Federation, Federal Law No. 307-FZ On Auditing dated 30 December 2008, Federal Law No. 44-FZ On the Contractual System of the Federal and Municipal Procurement of Goods, Works and Services dated 5 April 2013 and the Rules for Assessment of Participants' Bids and Final Proposals on State and Municipal Procurement of Goods, Works and Services, approved by Resolution of the Government of the Russian Federation No. 1085 dated 28 November 2013.

² KPMG was selected as the Company's auditor in 2018.

³ March 2018 saw placement of 125,720 additionally issued shares, state registration number 1-01-00206-A-003D dated 11 January 2018. The placement report was registered on 26 April 2018.

⁴ Additionally issued shares were placed on 2 February 2017, the placement report was registered on 20 March 2017.

⁵ Additionally issued shares were placed on 30 March 2018, the placement report was registered on 26 April 2018.

⁶ The information is presented based on the list of persons registered in the shareholder register of Transneft as at 31 December 2018. If the Company's shares amounting to two or more percent of the authorised capital or ordinary shares are registered in the shareholder register of the Company in the name of a nominee, this fact is specified. Pursuant to the Federal Law On Securities Market, the list of holders of the Company's securities can be provided if it is needed to perform the obligations stipulated by federal laws.

As at 31 December 2018, the Company had no obligations stipulated by federal laws, performance of which required the list of securities' holders to be compiled and obtained.