

## 5. TRANSACTIONS WITH STAKES, SHARES, AND EQUITY INTERESTS IN BUSINESS PARTNERSHIPS AND ENTITIES

| No. | Parties   | Business to be transacted and other material terms  | Price, RUB     |
|-----|---|---|----------------|
| 1   | Federal Agency for State Property Management<br>Transneft | Transfer of 125,720 ordinary registered book-entry shares of Transneft (Issuer) with a par value of RUB 1 in the ownership of the Russian Federation represented by the Federal Property Management Agency (Acquirer). State registration number of securities: 1-01-00206-A-003D.<br>Shares of Transneft were subject to a payment in kind in the form of 10,000 ordinary shares of CPC Company (registered in the Cayman Islands' Company Registrar, registration number 72319), which is 100% of the total number of shares placed (issued) by CPC Company, and 10,000 ordinary shares of CPC Investments Company (registered in the Cayman Islands' Company Registrar, registration number 72320), which is 100% of the total number of shares placed (issued) by CPC Investments Company | 35,048,221,600 |

## 6. TRANSNEFT'S INVESTMENTS WITH EXPECTED ANNUAL INCOME IN EXCESS OF 10%

During the reporting year, Transneft made no investments with expected annual income of more than 10%.

## 7. PENDING LEGAL PROCEEDINGS

As of 31 December 2018, there is no pending litigation involving Transneft as the defendant or the plaintiff in any debt recovery claims that may have had substantial impact on its financial and operating performance.

## 8. EXECUTION OF INSTRUCTIONS FROM THE PRESIDENT AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

### 8.1. Formation of Ad-Hoc Committees under the Company's Board of Directors, under Instruction of the Government of the Russian Federation No. VZ-P13-6294 Dated 23 July 2009

Since 2008, the following Committees have been functioning under the Board of Directors of Transneft:

- The Strategy, Investments and Innovations Committee
- The Audit Committee
- The Human Resources and Remuneration Committee

For the purposes of bringing the regulations on Committees in line with the new version of the Company's Articles of Association (approved in 2016), the requirements imposed by the Bank of Russia and the Listing Rules of the Moscow Exchange, the regulations on Committees were updated by the Resolution of the Transneft Board of Directors dated 19 January 2017 (Minutes No. 1).

The KPI system was approved for the Company by the Resolution of the Board of Directors of Transneft dated 5 September 2011 (Minutes No. 14). The aforementioned system was amended and supplemented on several occasions for the purpose of its improvement. For information on availability of the approved KPI system in the Company see the Key Performance Indicators (KPI) System subsection.

### 8.2. On Implementation of the Company's Energy Saving and Energy Efficiency Strategy (Paragraph 8, Instruction No. ISh-P9-3772 of the Government of the Russian Federation Dated 18 June 2008 on Implementation of Decree of the President of the Russian Federation No. 889 On Measures to Improve Energy and Environmental Efficiency of the Russian Economy Dated 4 June 2008, Rosimushchestvo's Letters No. GN-13/28934 dated 27 November 2008, No. GN-15/2957 dated 6 February 2012)

Transneft has developed and is implementing the Energy Saving and Energy Efficiency Enhancement Programme for 2018–2023, which is an integral part of the Transneft Long-Term Development Programme. The programme was approved by the Board of Directors of Transneft on 27 December 2018 (Minutes No. 22).

In pursuance of Rosimushchestvo's Letter No. GN-15/2957 dated 06 February 2012, data on the Company's performance in the field of energy saving is published on Rosimushchestvo's intradepartmental portal. For information on Transneft's 2018 performance results in the sphere of energy saving see the Other Documents section of the Transneft personal account.

According to the 2018 results, the Energy Saving Programme was carried out in full.

**8.3. On Disposal of Non-Core Assets, Pursuant to Decree of the President of the Russian Federation No. 596 dated 7 May 2012 (Rosimushchestvo's Letters No. GN-13/1359 dated 24 January 2011, No. GN-15/10587 dated 9 April 2012, No. EA-15/48093 dated 25 October 2012), Including Information on Consideration by the Board of Directors Meetings of Disposal of Non-Core Assets of Both the Parent Company and Associate Companies, and Approval of Programmes on the Disposal of Those Assets**

*The information is available in Appendix 9 to the Annual Report.*

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**8.4. On Approval of the Innovation Development Programme Developed (Corrected) on the Basis of Methodological Instructions Approved by Instruction No. DM-P36-7563 dated 7 November 2015 (Executive Orders of the Government of the Russian Federation No. 1471p-P13 dated 3 March 2016)**

Pursuant to instruction of the Government of the Russian Federation No. DM-P36-7563 dated 7 November 2015 and Executive Orders of the Government of the Russian Federation No. 1471p-P13 dated 3 March 2016 on the basis of methodological instructions approved by Instruction of the Government of the Russian Federation No. DM-P36-7563 dated 7 November 2015, the Transneft Innovation Development Programme for 2017–2021 was developed.

The Transneft Innovation Development Programme for 2017–2021 was coordinated with the Ministry of Energy, the Ministry of Education and Science and the Ministry of Economic Development of the Russian Federation; it was approved at the meeting of the Interagency Commission for Technological Development at the Presidium of the Council for Economic Modernisation and Innovative Development under the President of the Russian Federation (Minutes No. 10-DO1 dated 7 October 2017) and then approved by the Board of Directors of Transneft on 11 November 2016 (Minutes No. 21).

**8.5. On Proposals and Recommendations Encouraging the Development of Environmental Responsibility Mechanisms That Rely on International Standards, Including Such as Non-Financial Reporting and Voluntary Certification and Marking Systems That are Subject to Independent Audit and Assurance (Subparagraph I, Paragraph 1, of List of Instructions from the President of the Russian Federation No. Pr-1640 dated 6 June 2010, Rosimushchestvo's Letter No. GN-13/37524 dated 5 December 2011)**

Transneft's voluntary environmental responsibility mechanism consists in the system of additional obligations assumed by the Company to maintain the scientifically substantiated balance between environmental and economic interests and the socioeconomic needs of society that promote sustainable development of the Russian Federation.

The Environmental Management System (hereinafter referred to as the EMS) has been developed, implemented and is continuously improved at Transneft and all its subsidiaries to pursue the Policy in accordance with the ISO 14001:2015 international standard.

The EMS was developed with the structure of the Company's administrative management in mind. Transneft has developed a Responsibility Assignment Matrix to meet environmental law requirements in accordance with the ISO 14001:2015 international standard.

The 2018 audits revealed that the EMS complied with all ISO 14001:2015 requirements.

In 2018, in pursuance of Executive Order of the Government of the Russian Federation No. 1710p-P13 dated 30 March 2012, and the Resolution of Transneft's Board of Directors dated 21 March 2014 (Minutes No. 3) on mandatory annual non-financial reporting, Transneft published the non-financial Sustainable Development Report, that included information on environmental responsibility, on its official website.

**8.6. On Expediency of Applying Recommendations on Management of Intellectual Property Rights, as Prescribed by Instructions of the Government of the Russian Federation No. ISh-P8-800 dated 4 February 2014**

In pursuance of Instructions of the Government of the Russian Federation No. ISh-P8-5594 dated 25 August 2017 on implementation of recommendations on management of intellectual property rights at Transneft and its subsidiaries, 2018 saw implementation of a set of measures to implement the recommendations on management of intellectual property rights at Transneft subsidiaries.

For the purpose of shaping a uniform policy of Transneft and its subsidiaries and enhancing the intellectual property management efficiency, a collegial advisory body, the Intellectual Property Commission of Transneft, has been functioning at Transneft since 2017. In 2018, the Intellectual Property Commission held three meetings dedicated to various issues of legal protection, use, and keeping records of intellectual deliverables at Transneft and its subsidiaries.

In 2018, the Regulations on Patent and Licensing Activities were developed and adopted at Transneft and its subsidiaries, that governs the patent and licensing activities at Transneft and its subsidiaries.

In 2018, a comprehensive patent analytics system was introduced at Transneft, for the Company and its subsidiaries to further apply the obtained results in their business; thus, a preliminary patent research required for including the announced R&D subjects in the annual R&D Master Plan for Transneft and its subsidiaries was conducted, patent studies were carried out at the R&D stage, and patent landscapes were built for three priority technology areas.

In 2018, Transneft subsidiaries introduced the unified Information System for Managing Intellectual Property of Transneft and its Subsidiaries Database (ISMIP DB), developed in 2017, in order to provide data support to the intellectual property (IP) rights management process at Transneft and its Subsidiaries at all stages of IP lifecycle. Three documents of title have been obtained by Transneft for ISMIP DB (including the software and the database).

In 2018, the second research-to-practice workshop on Transneft's intellectual property, as well as ten online workshops on intellectual property rights management were held for the personnel of Transneft and its subsidiaries, with highly qualified specialists in the field of intellectual property involved.

Five targeted audits of IP rights management were conducted in 2018 in order to monitor the implementation of Transneft's unified intellectual property policy at Transneft subsidiaries.

**8.7. On Development and Approval of the Long-Term Development Programme in Pursuance of Subparagraphs 33 and 34 of Paragraph 1 of Instruction of the President of the Russian Federation No. Pr-3086 dated 12 December 2013 (Executive Orders of the Government of the Russian Federation No. 4955p-P13 dated 17 July 2014, Rosimushchestvo's Letter No. PF-11/35222 dated 15 August 2014)**

As part of pursuing subparagraphs 33 and 34 of paragraph 1 of Instruction of the President of the Russian Federation No. Pr-3086 dated 27 December 2013 (Executive Orders of the Government of the Russian Federation No. 4955p-P13 dated 17 July 2014, Rosimushchestvo's Letter No. PF-11/35222 dated 15 August 2014), Transneft developed the Transneft Long-Term Development Programme, approved by the Resolution of Transneft's Board of Directors (Minutes No. 23 dated 19 November 2014).

**8.8. On Technological and Pricing Audit of Investment Projects. In Pursuance of Executive Orders of the Government of the Russian Federation No. 2988p-P13 dated 30 May 2013**

In 2018, Transneft had no investment projects which required technological and pricing audits.

**8.9. On Development of a Set of Measures (List of Measures) for Scheduled and Stage-Wise Replacement of Imported Products (Works, Services) with Procurement of Russian Products (Works, Services) Having Equivalent Technical Features and Consumer Properties and Used in Implementing Investment Projects and in Day-To-Day Operations, Based on Economic Viability and Technological Feasibility Principles; Inclusion of the List of Measures and Values of Implementation Indicators for Those Measures into the Company's Long-Term Development Programme, Taking into Account the Provisions of the Methodological Recommendations on Creation of Long-Term Development Projects (Executive Orders of the Government of the Russian**

**Federation No. 1346p-P13 dated 5 March 2015)**

Transneft is constantly working to reduce the dependence of the Russian fuel and energy sector upon imports of equipment, technical devices and components, as well as works and services of foreign companies and use of foreign software.

The implementation of import substitution at the Company is regulated by Transneft's Corporate Import Substitution Plan.

Local manufacturing of 26 types of products for trunk pipeline transportation of oil and petroleum products was provided in pursuance of the instruction to increase local manufacturing in the key economy sectors of Russia in order to ensure their invulnerability against external factors.

More than 25 domestic companies were engaged to set up manufacture of the imported products to be substituted: Gazkholodtehnika, Gusar, Konar, Institut Organicheskogo Sinteza Imeni I. Ya. Postovskogo (the Postovsky Institute of Organic Synthesis) and Nauchno-Issledovatel'skiy Institut Sinteticheskogo Kauchuka (the R&D Institute of Synthetic Rubber), TOMZEL, YENKHA, Penztyazhpromarmatura (PTPA), Nefteavtomatika, Impuls-Avia, VMP Holding, AZP, ROCOR R&D and Production Company, UralPOZHTEKHNIKA, Morozovsky Khimichesky Zavod (Morozovsky Chemical Plant) and other Russian companies.

To date, manufacture of 24 equipment types has been fully set up in Russia:

- Mechanical process equipment (mainline and booster pumps, four-way valve, sliding gate valves, MPU cooling system fans, pressure and flow regulators (disc, axisymmetrical and ball types)
- Equipment and instruments for metering oil and petroleum products quantity and quality (LACT, flow, density and viscosity transducers, mechanical displacement provers, spherical piston for MDPs)
- Drag reducing agents (Nika PetroTech, Yekaterinburg). A DRA manufacturing enterprise in the Alabuga Special Economic Zone in the Republic of Tatarstan is being constructed jointly with Nika PetroTech. The product output shall be 3,000 tonnes per year, expandable to 10,000 tonnes. Completion of the plant's construction is scheduled for the first quarter of 2019
- Power equipment (high-voltage electric motors). On 8 October 2015, Transneft Urals and Konar Invest established the RUSSIAN ELECTRIC MOTORS joint-stock company (hereinafter referred to as REM) in Chelyabinsk, and in October 2018, REM's electric motor manufacturing plant was commissioned

Construction of the plant began in April 2016, and the main construction work was completed as early as in 2017. In 2018, the process equipment was installed and set up at the plant. Today, it is a state-of-the-art high-tech manufacturing facility capable of producing products competitive on the global

market. The plant has more than 200 pieces of process equipment installed, 83 of which being unique high-precision equipment.

The annual output of the new enterprise (REM) will achieve 300 high-voltage electric motors with a capacity of up to 14 MW, the product range being extensible to 45 MW.

External and internal corrosion-resistant coatings:

- PS automation systems (measuring sets for LACT, radar level gauges, programmable controllers for PSs, water level and temperature measurement systems for tank farms)
- Heavy offshore booms (ECO-service-NEFTEGAZ, based in Zhukovsky)
- Firefighting foam towers (UralPOZHTEKHNIKA, based in Miass)
- Electronic components for inspection equipment (Transneft Diascan and GEATEKH (based in Zelenograd))

By their specifications, the prototypes obtained meet their foreign peers and Transneft's requirements.

In 2019–2020, production of two equipment types for oil and petroleum products trunk pipeline transportation will be set up:

- Linear electric drive for stop and control valves (production to be set up in Q1 2019)
- Activated carbon for recovery (production to be set up in Q4 2020)

**8.10. On Improving the Company's System of Key Performance Indicators in Pursuance of Paragraph 4 of the List of Instructions from the President of the Russian Federation No. Pr-1474 dated 5 July 2013 (Executive Order of the Government of the Russian Federation No. 2579p-P13 dated 25 April 2014)**

In pursuance of paragraph 4 of the list of instructions from the President of the Russian Federation No. Pr-1474 dated 5 July 2013 (Executive Orders of the Government of the Russian Federation No. 2579p-P13 dated 25 April 2014) and other instructions received in 2016 from the federal authorities of the Russian Federation, the Company developed the improved Key Performance Indicators System for business operations of Transneft and the Methods to Evaluate Achievement of Transneft's Key Performance Indicators. The above documents were approved by the Resolution of the Transneft Board of Directors on 30 November 2016 (Minutes No. 23).

*For details on the KPI system adopted by the Company see p. 31 of the present Annual Report.*

**8.11. On Increased Labour Productivity, Creating and Upgrading of High-Performance Jobs. In Pursuance of Subparagraphs 6.2, 6.3 and 6.4, Paragraph 6, Section 2 of the Action Plan Approved by Directive of the Government of the Russian Federation No. 1250-r dated 9 July 2014 (Executive Orders of the Government of the Russian Federation No. 7389p-P13 dated 31 October 2014, Rosimushchestvo's Letter No. 11/47056 dated 5 November 2014)**

A list of Transneft's measures ensuring a rise in labour productivity was included in the Transneft Long-Term Development Programme, approved by the Resolution of the Transneft Board of Directors on 27 December 2018 (Chapter 11, Personnel Management).

The KPI System of Transneft was expanded to include the Increase in Labour Productivity indicator, whose target values are annually approved by the Transneft Board of Directors.

**8.12. On Development of the Set of Measures (List of Actions) to Achieve the Operating Expenses (Costs) Reduction by at Least 2-3% Annually (Hereinafter Referred To as the OPEX Reduction Indicator); Inclusion of the List of Actions, Target Values of the Actions' Accomplishment Indicator and OPEX Reduction Indicator Values, Starting From Its Value for 2015, into the Long-Term Development Programme; Inclusion of the OPEX Reduction Indicator Target Values into the List of Key Performance Indicators for the Management Activities, and Aligning Achievement of the OPEX Reduction Indicator Values with the Remuneration Rates of the Company's Management; Amendment of the Employment Contract with the Sole Executive Body of the Company to the Extent of Inclusion into It of an Obligation to Achieve the OPEX Reduction Indicator Value Determined in the Company's Long-Term Development Programme (Executive Orders No. 2303p-P13 of the Government of the Russian Federation dated 16 April 2015).**

For 2018-2023, the target values for the indicator of the Transneft OPEX Reduction Action Plan achievement were approved by the Company's Board of Directors on 27 December 2018 (Minutes No. 22), as part of Transneft's Programme for Operational Efficiency Improvement and Cost Cutting.

The key activity areas to ensure OPEX reduction at Transneft include:

- Cutting down electricity costs
- Optimising procurement
- Cutting down fuel consumption
- Cutting down spending on maintenance services

In the context of the above activity areas, the Company has developed respective OPEX reduction measures:

Reduction in the cost of power resources is achieved through:

- Optimisation of trunk pipelines' process modes
- Optimisation of operational capacities at trunk pipelines' operational facilities
- Increase in the efficiency of energy-intensive equipment

Procurement optimisation is achieved through:

- Substituting imported products with domestically manufactured products, provided that the quality and reliability of the supplied equipment and components are equal to those of the imported ones
- Specifying a bid price of an item, given that the prior year's prices must not be exceeded
- Lower fuel consumption is achieved through:
- Introduction of GLONASS and monitoring of the movement of vehicles and special-purpose machinery along the established routes
- Installation of up-to-date automated and highly efficient equipment in boiler houses, reduction of thermal energy loss in heating networks due to the use of modern thermal insulation materials

Lower spending on maintenance services is achieved through:

- Optimisation of maintenance services' providers' operations
- Installation of modern equipment at maintenance subsidiaries' divisions
- Adoption of efficient technologies

In pursuance of paragraph 5 of the list of instructions from the President of the Russian Federation No. Pr-2821 dated 5 December 2014, issued for the purpose of implementation of the Presidential Address to the Federal Assembly of the Russian Federation of 4 December 2014, Transneft has developed a new Methodology to Calculate the Operating Expenses Reduction Indicator approved by the Resolution of the Board of Directors of Transneft dated 27 December 2018 (Minutes No. 22) for evaluation of the achievement of the Operating Expenses Reduction Percentage KPI, in accordance with the Methodological Instructions on Calculation of Costs Reduction by Joint-Stock Companies with the State's Equity Stake Exceeding 50%, approved by Order of Rosimushchestvo No. 90 dated 10 March 2016.

In the end of 2017, the Board of Directors of Transneft approved the KPI for 2018, including the OPEX Reduction Percentage KPI, with a target value of 2% for 2018 and the actual reduction of 2.1%.

Chapter 19, Reduction of Operating Expenses, of Transneft's Long-Term Development Programme determines the key goals, areas, and anticipated results of the operating expenses reduction and the procedures for implementation of Transneft's plan for reduction of operating expenses and the control of its implementation.

The employment contract with the sole executive body of the Company (President of Transneft) implies carrying out activities aimed at achieving the targets and indicators established by the Transneft Long-Term Development Programme.

**8.13. On Inclusion of the Integrated Key Performance Indicator Of Innovative Activities Developed in Accordance with the Guidelines Approved by Instruction of the Government of the Russian Federation No. DM-P36-7563 dated 7 November, 2015, since 2016 (Executive Orders of the Government of the Russian Federation No. 1472p-P13 dated 3 March 2016; Rosimushchestvo's letter No. AT-2424/02 dated 11 March 2016).**

Following the recommendations of the Ministry of Economic Development of the Russian Federation approved by Instruction of the Government of the Russian Federation No. DM-P36-7563 dated 7 November 2015, and in pursuance of Executive Orders of the Government of the Russian Federation No. 1472p-P13 dated 3 March 2016 (Rosimushchestvo's letter No. AT-2424/02 dated 11 March 2016), a comprehensive audit of performance indicators of 87 foreign companies leading in the global oil and petroleum products transportation, was carried out involving the independent international consulting company KPMG. The obtained results were used by Transneft as a basis to develop its Integrated Key Performance Indicator of Transneft's Innovative Activities.

Transneft's integrated key performance indicator of innovative activities was agreed upon by the Ministry of Economic Development and the Ministry of Energy of the Russian Federation, approved by Deputy Chairman of the Government of the Russian Federation Arkady Dvorkovich (Minutes No. AD-P36-247pr dated 17 December 2015), and included in the Transneft Long-Term Development Programme (Resolution of the Board of Directors of Transneft dated 28 October 2015, Minutes No. 26) and in the Key Performance Indicators System for Transneft's business operations (the Resolution of the Board of Directors of Transneft dated 23 December 2015, Minutes No. 32, regarding the KPI for 2016, and the Resolution of the Board of Directors of Transneft dated 30 November 2016, Minutes No. 23, regarding the KPI for 2017).

The Integrated key performance indicator of innovative activities of Transneft with target values for the period from 2016 to 2021 was also included in the Transneft Long-Term Development Programme and Transneft's Innovation Development Programme for 2017-2021.

**8.14. On Development, in Accordance with the Methodological Instructions Approved by the Government of the Russian Federation within Implementing Instruction No. Pr-3013, and Further Approval and Implementation of the Following Internal Documents of the Company: the Rules of Procedure for Improvement of the Investment and Operational Performance and Cost Reduction; the Regulations on Internal Audit; the Regulations on the Risk Management System; the Regulations on the Quality Management System; the Regulations on the Development Procedures and Implementation of Long-Term Development Programmes (Executive Orders of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015, Rosimushchestvo's Letter No. 11/27343 dated 7 July 2015)**

In pursuance of Executive Orders of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015, by virtue of the Resolution of the Board of Directors of Transneft dated 16 November 2015 (Minutes No. 28), the following internal documents of the Company were approved:

- The Transneft Rules of Procedure for Improvement of the Investment and Operational Performance and Cost Reduction
- The Transneft Regulations on Internal Audit
- The Transneft Regulations on the Quality Management System
- The Transneft Regulations on the Risk Management System
- The Regulations on the Development and Implementation of the Innovation Development Programme of Transneft

The aforementioned documents have been developed in line with the Methodological Instructions approved by the Government of the Russian Federation.

**8.15. On Implementation of the Corporate Governance Code in Line with Instruction of the Government of the Russian Federation No. ISH-SHZ-5859 dated 31 July 2014, Paragraph 4, Section I of Minutes No. 5 of the Meeting of the Government of the Russian Federation dated 13 February 2014 (Executive Orders of the Government of the Russian Federation No. 5667p-P13 dated 2 September 2014)**

The Board of Directors of Transneft approved the Transneft Action Plan (Road Map) for Implementation of the Corporate Governance Code (CGC) on 18 September 2015 (Minutes

No. 23). For a detailed report on the introduction of the CGC into the activities of the Company and on compliance with the CGC throughout the reporting year, please see Annex 11, page 171.

**8.16. On Establishing Unified Boards of Treasury of the Parent, Subsidiary, and Affiliated Joint-Stock Companies. In Pursuance of Paragraph 1 of Instructions from the President of the Russian Federation No. Pr-1032 dated 7 May 2014 (Executive Orders of the Government of the Russian Federation No. 5110p-P13 dated 8 August 2014)**

In pursuance of Executive Orders of the Government of the Russian Federation No. 1796p-P13 dated 26 March 2015, updated information on the analysis of the results of having a unified board of treasury established at Transneft has been submitted to the Ministry of Finance of Russia and to Rosfinmonitoring (the Federal Financial Monitoring Service).

**8.17. On Purchase of Competitive Domestically Manufactured Software Required for the Activities of a Joint-Stock Company, in Pursuance of Instruction of the Government of the Russian Federation No. ISH-P13-1872 dated 1 April 2016 (Executive Orders of the Government of the Russian Federation No. 4972p-P13 dated 11 July 2016)**

In 2018, Transneft spent RUB 103.2 million on purchase of domestically produced software, acting in pursuance of the instruction from the Government of the Russian Federation on preferred use of domestic software. The purchased software includes ERP and EAM systems, as well as information security systems.

**8.18. On Changing the Procurement Policy of Transneft, as Regards the Innovative Building Materials, in Pursuance of Paragraph 7 of Minutes of the Meeting of the Chairman of the Russian Government No. DM-P9-38pp dated 14 June 2016 (Executive Orders No. 6558p-P13 dated 5 September 2016)**

In line with Executive Orders of the Government of the Russian Federation No. 6558p-P13 dated 5 September 2016, the Transneft Board of Directors made a decision (Minutes No. 20), dated 9 November 2016, to amend the Regulations on the Procurement of Good, Works and Services in the following:

- Prioritising the procurement of Russian innovative building materials
- The possibility of signing long-term contracts with Russian producers of building materials, with guaranteed supplies of innovative building materials in the future, as well as with manufacturers who have formalised special investment contracts for production of these materials in accordance with the established procedure

**8.19. On Expanding the Use of Factoring in the Execution of Contracts for the Delivery of Goods (Performing Works, Rendering Services) in Pursuance of Instruction of the Government of the Russian Federation No. DM-P13-1100 dated 1 March 2016 (Executive Orders of the Government of the Russian Federation No. 7704p-P13 dated 11 October 2016)**

As per Executive Orders of the Government of the Russian Federation No. 7704p-P13 dated 11 October 2016, the Transneft Board of Directors made a decision dated 9 November 2016 (Minutes No. 20) to make amendments to the Transneft Regulations on the Procurement of Goods, Works and Services, as regards the procedure for using factoring (the assignment of claim) in the execution of contracts for supplying goods (performing works, rendering services), signed by the Company with SMEs, based on the results of procurement using the methods specified in the Regulations, save for auction sales pursuant to the civil laws of the Russian Federation.

**8.20. On Development and Adoption of Local Regulatory Acts by Transneft, Regulating the Procurement Standards of Certain Goods, Works and Services; On Publication of Procurement Standards on the Official Websites of Transneft in the Internet; On Mandatory Use of Procurement Standards in Planning and Conduct of Transneft's Operational Activities in Pursuance of Paragraph 2 of Instruction of the Russian Government No. DM-P9-8413 dated 12 December 2015 (Executive Orders of the Government of the Russian Federation No. 2793p-P13 dated 19 April 2016)**

In accordance with Executive Orders of the Government of the Russian Federation No. 2793p-P13 dated 19 April 2016, the Transneft Board of Directors approved the Procurement Standards for Certain Types of Goods, Works and Services (hereinafter referred to as the Procurement Standards) on 28 July 2016 (Minutes No. 14).

In accordance with Paragraph 3.5 of the Procurement Standards, the Standards were adjusted (updated) and approved by the Transneft Board of Directors (Minutes No. 14 dated 30 August 2018).

The approved Procurement Standards are published on the official Transneft website ([www.transneft.ru](http://www.transneft.ru)).

The Procurement Standards are used by Transneft in procurement planning and procurement documentation preparation, as well as for the control of prices included in the Procurement Standards of Goods, Works and Services

stipulated in the contracts signed on the basis of procurement results.

**8.21. On Introducing Professional Standards in the Activities of a Joint-Stock Company, in Pursuance of Paragraph 3, Section I of the Meeting of the Government of the Russian Federation No. 9 dated 24 March 2016 (Executive Orders of the Government of the Russian Federation No. 5119p-P13 dated 14 July 2016)**

In accordance with Executive Orders of the Government of the Russian Federation No. 5119p-P13 dated 14 July 2016, in 2018, two meetings of the Transneft Board of Directors were initiated.

During the first meeting, adjustments to the Plan for Introduction Professional Standards at Transneft and its Subsidiaries in 2016-2020 was considered.

Based on the results of monitoring of professional standards, the Board of Directors approved the revised Plan for Introduction of Professional Standards at Transneft and its Subsidiaries in 2016-2020, which was supplemented with 14 additional professional standards to be introduced in 2019.

During the second meeting, the report on the introduction of professional standards at Transneft and its subsidiaries in 2016-2018 was reviewed.

As part of implementation of the Plan for Introduction of Professional Standards at Transneft and its Subsidiaries in 2016-2020, the introduction procedure was completed for 70 professional standards in 2016-2018, covering about 38 thousand employees and 247 job titles / professions.

**8.22. On Approving the Accounting Procedure for Investment Projects Included in the List of Investment Projects in Pursuance of Paragraph 6 of Resolution of the Government of the Russian Federation No. 1516 dated 30 December 2015 (Executive Orders of the Government of the Russian Federation No. 1659p-P13 dated 15 March 2016)**

In pursuance of Executive Orders of the Government of the Russian Federation, Transneft has developed sectoral rules of procedure OR-03.100.50-KTN-107-16, "Investment Projects of Transneft. Procedure of Keeping the List of Projects", approved by the Management Board of Transneft on 15 June 2016 (Minutes No. 25).

The rules of procedure determine the procedure for keeping the list of Transneft's investment projects, for selecting investment projects and including them in the register

of investment projects, maintained by federal executive authorities (hereinafter referred to as the FEA) as per Resolution of the Government of the Russian Federation No. 1516 dated 30 December 2015.

The list of investment projects delivered by Transneft within its Long-Term Development Programme in 2018 lacked projects complying with the criteria for selection and inclusion in the register of investment projects which are the responsibility of FEA.

Information about the absence of projects for inclusion in the FEA register was forwarded to the Ministry of Economic Development of the Russian Federation by Transneft in letter No. AK-07.3-01-10/1181 dated 15 January 2018 and to the Ministry of Industry and Trade of the Russian Federation in letter No. AK-07.3-01-10/8383 dated 15 February 2018.

On 16 August 2018, the Government of the Russian Federation issued Resolution No. 949 to approve exclusion of clause 6 from Resolution of the Russian Government No. 1516 dated 30 December 2015, which required that companies with state participation formed a list of investment projects meeting the criteria specified in the Resolution and sent it to the Ministry of Industry and Trade of the Russian Federation. The list of investment projects is formed solely by executive bodies of the government authorised to consider applications from initiators of investment projects for state support, and by the Vnesheconombank State Corporation, and is further submitted to the competent authority in charge of maintaining the register of investment projects, while participation of the investment project's initiator is not required. Relevant amendments are planned to be made to the sectoral rules of procedure OR-03.100.50-KTN-107-16.

**8.23. On Amending Development Plans, Including Long-Term Development Programmes, the Company's Strategies and Investment Programmes, as Regards the Introduction of Separate Sections (Special Measures) Prioritising the Financing of Socioeconomic Development of Russia's Far East (Development of Such Measures, if Needed), in Pursuance of Subparagraph B of Paragraph 6 of Instruction of the Government of the Russian Federation No. DM-P16-6658 dated 30 September 2015 (Executive Orders of the Government of the Russian Federation No. 4531p-P13 dated 28 June 2016)** As part of execution of subparagraph b, paragraph 6 of Instruction of the Government of the Russian Federation No. DM-P16-6658 dated 30 September 2015 (Executive Orders of the Government of the Russian Federation No. 4531p-P13 dated 28 June 2016), a section on the development of Russia's Far East was included in the Transneft Long-Term Development Programme (chapter 24, Transneft's Activities in the Territory of the Far Eastern Federal District). The amended LDP was approved by the Board of Directors of Transneft on 30 December 2016 (Minutes No. 27). All planned parameters' values are given for each constituent entity included in the FEFD (Far Eastern Federal District) separately,

in accordance with the instructions of the Government of the Russian Federation, as part of the annual LDP adjustment for 2017, in the section on the development of Russia's Far Eastern Federal District. In preceding years, the target values were established for the FEFD as a whole.

In 2018, as per the Methodological Recommendations on the Creation of Long-Term Development Projects by Joint-Stock Companies and Federal State Unitary Enterprises, as well as by Public Joint-Stock Companies, Whenever the Aggregate Share of the Russian Federation in the Authorised Capital of Such Companies Exceeds 50%, the Transneft Long-Term Development Programme (including Chapter 24, Transneft's Activities in the Far Eastern Federal District) was adjusted as scheduled, and its term was extended until 2023.

**8.24. On the Procedure for Identification and Disposal of Non-Core Assets, in Pursuance of Instruction of the President of the Russian Federation No. Pr-348 dated 22 February 2016 (Executive Orders of the Government of the Russian Federation No. 4863p-P13 dated 7 July 2016)**

Based on Executive Orders of the Government of the Russian Federation No. 4863p-P13 dated 7 July 2016, the Transneft Board of Directors approved the Programme for Disposal of Transneft Group Enterprises' Non-Core Assets, as well as the Non-Core Assets Register.

On the basis of Executive Orders of the Government of the Russian Federation No. 6604p-P13 dated 18 September 2017, and in accordance with Methodological Recommendations of the Government of the Russian Federation on Non-Core Assets Identification and Disposal No. 894-r dated 10 May 2017, the Transneft Board of Directors approved a new version of the Programme for Disposal of Transneft Group's Non-Core Assets (including the Transneft Group Non-Core Assets Register) on 27 December 2017.

**8.25. On Introduction of Recommendations on Intellectual Property Rights Management. Instruction from the Government of the Russian Federation No. ISH-P8-5594 dated 25 August 2017 (Executive Orders of the Government of the Russian Federation No. 9177-P13 dated 12 December 2017)**

In 2014-2017, Transneft introduced the Recommendations on Management of Intellectual Property Rights in Subsidiaries, as prescribed by Instruction of the Government of the Russian Federation No. ISH-P8-800 dated 4 February 2014.

During that period, Transneft and its subsidiaries implemented the recommended measures for intellectual property (IP) rights management, particularly:

- An Intellectual Property Management Section in charge of IP rights management was established under Transneft's Innovative Development and R&D Directorate
- A full-time position of a Senior Expert in Intellectual Property Management was introduced in the technical section of Transneft subsidiaries (science and technology support and information section at the subsidiaries)

- The Transneft Intellectual Property Committee was established as a collegial advisory body and has been functioning routinely, governed by the Regulations on Transneft's Intellectual Property Committee adopted by Transneft
- Ten sectoral rules of procedure related to intellectual property were developed and approved at Transneft, including the Fundamental Provisions for Intellectual Property Rights Management at Transneft and its Subsidiaries, the Regulations on Commercialisation of Transneft's Intellectual Property, the Regulations on Identification, Legal Protection, and Keeping Records of Transneft's Trade Secrets (Know-How), Taking Stock of Intellectual Property Rights, and other sectoral rules of procedure
- Standard contract forms for deals implying involvement of IP rights in civil-law business (alienation agreements concerning exclusive rights to IP; licensing agreements on the use of rights to IP) were developed
- Targeted inspections are carried out at Transneft subsidiaries in order to ensure that Transneft controls the implementation of IP rights management measures
- Annual measures are taken with regard to IP identification and legal protection, including development and approval of the annual Plan for Legal Protection (Security) of the Intellectual Property of Transneft and its subsidiaries, expert examination of reporting documents and deliverables at all R&D stages in order to identify and keep records of potentially copyrightable IP and prepare recommendations for their legal protection; patent research at various R&D stages, along with construction of patent landscapes; interaction with third parties on the issues of acquisition/alienation of IP rights, entering into licensing agreements on IP usage, supervision of notification of authors from respective business units on creation of potentially copyrightable IP, including initiative-based IP, etc.
- A unified Intellectual Property Management Information System Database (ISMIP DB) designated to render data support to the IP rights management process at Transneft and its Subsidiaries at all stages of IP lifecycle was developed and introduced
- A system of continuous training of the employees of Transneft and its subsidiaries in the field of intellectual property, including retraining and advanced training programmes and courses, is provided for, as well as the annual research to practice workshop on Transneft's intellectual property involving highly qualified specialists in the field of intellectual property
- Monitoring of the efficiency of the IP rights management system is performed annually

Since 2017, Transneft has been implementing the Recommendations adopted by Instruction of the Government of the Russian Federation No. ISH-P8-5594 dated 25 August 2017.

In compliance with Executive Order of the Government of the Russian Federation No. 9177-P13 dated 12 December 2017 and in pursuance of Instruction No. ISH-P8-5594, the Board of Directors of Transneft resolved that the intellectual property management recommendations be implemented at Transneft (Minutes No. 1 dated 9 February 2019).

In pursuance of Instructions of the Government of the Russian Federation No. ISH-P8-5594 dated 25 August 2017 on implementation of recommendations on management of intellectual property rights at Transneft and its subsidiaries, 2018 saw implementation of a set of measures to implement the recommendations on management of intellectual property rights at Transneft subsidiaries.

For the purpose of shaping a uniform policy of Transneft and its subsidiaries and enhancing the intellectual property management efficiency, a collegial advisory body, the Intellectual Property Commission of Transneft, has been functioning at Transneft since 2017. In 2018, the Intellectual Property Commission held three meetings dedicated to various issues of legal protection, use, and keeping records of intellectual deliverables at Transneft and its subsidiaries.

In 2018, the Regulations on Patent and Licensing Activities were developed and adopted at Transneft and its subsidiaries, that govern the patent and licensing activities at Transneft and its subsidiaries.

In 2018, a comprehensive patent analytics system was introduced at Transneft, for the Company and its subsidiaries to further apply the obtained results in their business; thus, a preliminary patent research required for including the announced R&D subjects in the annual R&D Master Plan for Transneft and its subsidiaries was conducted, patent studies were carried out at the R&D stage, and patent landscapes were built for three priority technology areas.

In 2018, Transneft subsidiaries introduced the unified Information System for Managing Intellectual Property of Transneft and its Subsidiaries Database (ISMIP DB), developed in 2017, in order to provide data support to the intellectual property (IP) rights management process at Transneft and its Subsidiaries at all stages of IP lifecycle. Three documents of title have been obtained by Transneft for ISMIP DB (including the software and the database).

In 2018, the second research-to-practice workshop on Transneft's intellectual property, as well as ten online workshops on intellectual property rights management were held for the personnel of Transneft and its subsidiaries, with highly qualified specialists in the field of intellectual property involved.

Five targeted audits of IP rights management were conducted in 2018 in order to monitor the implementation of Transneft's unified intellectual property policy at Transneft subsidiaries.

**8.26. On Transition to Prioritised Use of Domestic Software. Item 4 of Section II of the Minutes of the Meeting of the Government Commission on the Use of Information Technologies to Improve the Quality of Life and the Business Conditions, No. 1 dated 9 February 2018 (Executive Orders of the Government of the Russian Federation No. 10068p-P13 dated 6 December 2018)**

Transneft has been taking measures to substitute imported software with domestic software since 2016, when a decision was made to change the strategic course of use and to choose basic platforms and application software of domestic origin instead of their foreign analogues for the corporate integrated information management system utilised by Transneft and its subsidiaries.

In April 2017, the Management Board of Transneft approved the decision to use Galaktika ERP platform as part of the standard solution for business asset and resource management systems, as well as for financial and operational activities instead of SAP products of German origin. In view of implementation of this solution, Galaktika TPR 2.0 Corporate Information System (CIS) was developed in 2017-2018, which was upgraded to Galaktika TPR 3.0 CIS in 2018-2019. The system also includes a work and service management (WaSM) subsystem based on Galaktika EAM platform. Along with that, the corporate information system for certification and technical condition control (CIS CaTCC) was developed. Adoption of Galaktika TPR 3.0 CIS and CaTCC CIS at Transneft subsidiaries is scheduled for 2019-2025.

Prognoz Platform, a business analytics platform developed and maintained by Foresight, a Russian company,

was selected for newly created corporate information and analytical systems. The following corporate systems of Transneft were developed on the basis of this platform in 2018:

- PM CIS (Programmes Management)
- PR OA CIS (Planning and Reporting on Operational Activities)
- APCS PPM CIS (Programme and Plan Management APCS)

Transition from Prognoz Platform version 8 to an upgraded version 9 is being tested in the context of corporate systems development activities.

The WebTutor system by the Russian developer WebSoft Development was introduced in the field of online learning and testing instead of the product line by SAP.

In terms of IT infrastructure, a testing schedule was developed and approved in September 2018 for Alt Server and Alt Rabochaya Stantsiya, domestic operating system with the participation of its developer, Bazalt SPO, and for Postgres Pro domestic database management system with the participation of its developer, PPG. In terms of office software, comprehensive testing of the MyOffice domestically developed office software was conducted from December 2017 to December 2018 with the participation of its developer, New Cloud Technologies.

In terms of geographic information systems (GIS), a few key software products were selected from among more than 50 products listed in the Domestic Software Register (hereinafter referred to as the Register) to assess possible substitution

of certain imported components of geographic information platforms and solutions for Transneft (GIS Aksioma, GIS Tsiklon, NextGIS, Scanex GeoMixer, etc.). Testing of selected and available GIS software is scheduled for 2019, along with elicitation of requirements for its adjustment to match Transneft's needs.

Three domestic integration buses were selected from among the software products listed in the Register, in order to assess possible import substitution for IBM products-based Enterprise Information Systems Integration System (EISIS) and Enterprise data delivery systems (EDDS). In 2019, testing of the selected software products and the Apache Kafka and Mule ESB free software is planned to develop domestic industry-specific software on their basis for application integration and data delivery.

As for management platforms for information resources, core data and content (IBM FileNet and OpenText EMC Documentum), utilised as part of electronic archives and workflow systems (electronic data storage CIS, electronic data archive CIS, electronic document management system EDMS CIS, etc.), pilot development and migration of this functionality to a single software platform based on Transneft's existing and future developments is planned in 2019-2021.

Thus, Transneft is already using the following domestically developed products (or in-house products not listed in the Register):

- Galaktika and 1C software solutions
- PROGNOZ Platform software solution
- information systems for automation of commodity

transportation activities

- Kaspersky Laboratory antivirus solution
- Infowatch software
- MaxPatrol software
- CryptoPro software
- the Kontinent VPN hardware and software solutions, etc.

In pursuance of Executive Orders of the Government of the Russian Federation No. 10068p-P13 dated 6 December 2018, a meeting of the Board of Directors of Transneft was held to discuss Transneft's transition to prioritised use of domestic software. The following decisions were reached as a result of the meeting:

- To develop an action plan for 2019-2021 regarding Transneft's transition to prioritised use of domestic software
- To include measures implying transition of the Company to prioritised use of domestic software into the Transneft Long-Term Development Programme as part of the import substitution measures

**8.27. On Inclusion of the Main Parameters of the Need for Labour Resources, including Engineering and Technical Specialties, into the Company's Long-Term Development Programme in Accordance with Subclause b, Clause 2 of the List of Instructions from the President of the Russian Federation No. Pr-1627 dated 01 July 2014**

The information on the personnel needed by Transneft subsidiaries, inter alia in engineering occupations (Chapter 11, Personnel Management), was included into the Transneft Long-Term Development Programme (approved by resolution of the Board of Directors of Transneft on 27 December 2018).

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## 9. INFORMATION ON DISPOSAL OF NON-CORE ASSETS OF TRANSNEFT AND ITS SUBSIDIARIES

### Programme for Disposal of Non-Core Assets

Based on the Programme of Disposal of Transneft Group's Non-Core Assets from 2011 to 2015, approved by the Board of Directors on 01 April 2011 (Minutes No. 7), Transneft disposed of 253 non-core assets (hereinafter: NCA).

The Transneft Board of Directors made the decision to close the Programme on 22 June 2016 (Minutes No. 12).

Based on Executive Orders of the Government of the Russian Federation No. 4863p-P13 dated 7 July 2016, the Board of Directors of Transneft passed a resolution (dated 14 October 2016, Minutes No. 17) to prepare and approve a new Programme for Disposal of Transneft Group's Non-Core Assets and a new Non-Core Assets Register.

The Programme and the Register were prepared according to the Methodological Instructions of the Federal Agency for State Property Management (Rosimushchestvo) on Identification and Disposal of Non-Core Assets approved

by Instruction of the Government of the Russian Federation No. ISh-P13-4065 dated 7 July 2016.

In 2017, following Executive Orders of the Government of the Russian Federation No. 6604p-P13 dated 18 September 2017 and the Methodological Recommendations on the Identification and Disposal of Non-Core Assets, approved by Directive of the Government of the Russian Federation No. 894-r, dated 10 May 2017, Transneft updated the NCA Programme and the non-core assets Register of Transneft Group.

The Board of Directors of Transneft made the decision on 27 December 2017 to approve a NCA Disposal Programme for Transneft Group (including the Transneft NCA Register). The Programme and the Register are available on the Company's website.

In 2018, two non-core assets were disposed under the aforementioned Programme.