

## 7.10. RISK MANAGEMENT SYSTEM

### Corporate Risk Management System

The Company has the Regulations on the Risk Management System in place, developed in accordance with the Methodological Instructions for Preparation of Regulations on Risk Management Systems issued by the Ministry of Economic Development of the Russian Federation and approved by the resolution of the Board of Directors of Transneft on 16 November 2015 (Minutes No. 28). The following documents were referred to for the purpose of the development of the Regulations:

- GOST R ISO 31000-2010. Risk management. Principles and guidelines;
- GOST R 51897-2011. ISO guide 73:2009 Risk management. Terms and definitions;
- Russian versions of the applicable international ISO standards.

The Regulations on the Risk Management System set the general principles for building the Risk Management System (hereinafter referred to as the

RMS), its goals and objectives, general approaches to setting it up, as well as to distribution of functions and responsibility between the RMS subjects and the nature of their interaction.

The Board of Directors of Transneft adopted the key RMS parameters, including the preferred and admissible risk levels, as well as risk assessment scales and the matrix for classifying risks as critical.

Based on the general requirements to setting up the RMS contained in the Regulations on the Risk Management System, the Company has the Risk Management Rules of Procedure, defining the procedures of interaction between business units within the RMS.

For coordination of the Risk Management System, the Management Board of Transneft approved the Regulations on the Risk Management Council of Transneft and created the Risk Management Council. The Council includes:

\*In 2019, the updated Regulations on the Risk Management Council of Transneft OR-03.100.00-KTN-261-19 and the updated composition of the Risk Management Council were approved (Resolution of the Management Board of Transneft dated 19 September 2019, Minutes No. 32).

- Nikolay Tokarev (President of Transneft and Chairman of the Risk Management Council);
- Maksim Grishanin (First Vice President of Transneft);
- Larisa Kalanda (Vice President of Transneft);
- Pavel Revel-Muroz (Vice President of Transneft);
- Vyacheslav Skvortsov (Vice President of Transneft);
- Rashid Sharipov (Vice President of Transneft).

The RMS ensures that Transneft's strategic goals and the main objectives of the LDP are reached. Special emphasis is placed on:

- ensuring that Transneft Group's operations are safe and uninterrupted, as well as meeting the Company's contractual obligations in respect to crude oil and petroleum products transportation;
- keeping the Company's property intact and unlocking the potential of Transneft Group;
- increasing the resilience of Transneft Group in the fast changing external and internal environment;
- ensuring resources and opportunities are used rationally and efficiently.

The Risk Assessment Section under the Directorate of Financial Support and Risk Assessment of the Department of Economy of Transneft is the

business unit ensuring the RMS functions at Transneft. The main objectives and functions of the given business unit include:

- coordinating risk management processes, including risk management process monitoring;
- developing and amending essential methodological and regulatory risk management documents;
- developing RMS parameters;
- training the Company's personnel to work with the RMS;
- supporting risk identification procedures carried out by the Company's business units, including through use of the results of monitoring procedures conducted by the internal audit unit;
- compiling and updating the Company's risk registers, as well as approving access thereto for the Company's business units;
- gathering information and preparing materials on RMS matters, including all types of risk reporting;
- providing advisory and methodological support of risk assessment and analysis processes jointly with the Company's business units;
- participating in quantitative estimation of critical risks.

### Key Principles and Objectives of the RMS

Objectives	Principles
<ul style="list-style-type: none"> <li>• forming a methodological basis for functioning of the RMS;</li> <li>• distributing powers and responsibility for risk management at all corporate management levels;</li> <li>• identifying, analysing and assessing risks;</li> <li>• developing and implementing risk management measures;</li> <li>• monitoring risk statuses and managing risks;</li> <li>• reporting on risk management</li> </ul>	<ul style="list-style-type: none"> <li>• ensuring uniformity and integration of risk management approaches and standards across the Company's corporate governance system;</li> <li>• ensuring comprehensive and continuous risk management in all lines of the Company's business and across all business processes;</li> <li>• ensuring the essential and sufficient effort to manage risks and keep the risk level within the acceptable limits while providing for the most efficient implementation of the Company's goals and objectives;</li> <li>• providing RMS subjects with the authority and resources (including information) that are essential and sufficient for managing risks;</li> <li>• ensuring timeliness of impact upon the risk, mainly through preventive procedures and measures, as well as availability of action plans, should any risk materialise;</li> <li>• prioritising essential and sufficient measures for managing critical risks;</li> <li>• regulating risk management processes in accordance with the distribution of functional obligations of RMS subjects;</li> <li>• providing for RMS's adaptivity to changes and constant improvement.</li> </ul>

## Interaction between the Subjects of the Transneft Risk Management System

### The Board of Directors of Transneft

- approving the principles and approaches to RMS organisation;
- approving the key RMS parameters;
- approving the critical risks;
- approving the annual risk management report, including monitoring the RMS's reliability and efficiency, as well as analysis and assessment of observance of the Regulations on the Risk Management System.

### The Audit Committee under the Board of Directors of Transneft

- Preliminary review and preparation of recommendations for the Board of Directors on the principles of and approaches to RMS organisation:
  - key RMS parameters;
  - critical risks;
  - annual risk management report, including monitoring the RMS's reliability and efficiency, as well as analysis and assessment of execution of the Regulations on the Risk Management System.

### Management Board of Transneft

- approving the Risk Management Rules of Procedure;
- approving the key RMS parameters;
- reviewing and approving the annual risk management report, including monitoring the RMS's reliability and efficiency, as well as analysing and assessing observance of the Regulations on the Risk Management System

### The Risk Management Council

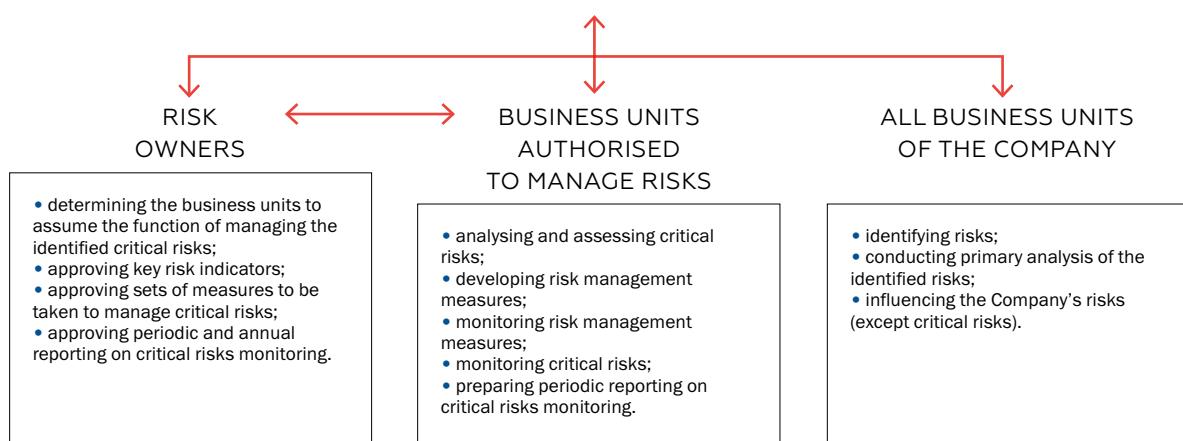
- prioritising risks in order to identify critical risks;
- deciding upon the critical risks' owners;
- analysing the risk portfolio, response strategy and redistribution of resources in relation to risk management;
- monitoring the risk management process conducted by risk owners and the Company's business units;
- reviewing and approving periodic critical risk monitoring reports

### The Risk Assessment

- coordinating risk management processes, including monitoring the risk management process;
- developing and amending essential methodological and regulatory risk management documents;
- developing RMS parameters;
- training the Company's personnel to work with the RMS;

- supporting risk identification procedures carried out by the Company's business units, including through use of the results of monitoring procedures conducted by the internal audit unit;
- compiling and updating the Company's risk registers, as well as approving access thereto for the Company's business units;

- gathering information and preparing materials on RMS matters, including all types of risk reporting;
- providing advisory and methodological support of risk assessment and analysis processes, with the participation of the Company's business units;
- participating in quantitative estimation of critical risks



## Critical Risks

The key parameters of the Risk Management System annually approved by the Board of Directors of the Company serve as the basis for classifying a risk as critical. When prioritising, each risk is assessed according to two scales, the damage assessment scale and the risk probability assessment scale. Damage assessment implies that a risk is evaluated by its possible financial consequences and by its potential industrial safety impact. The worst-case scenario is taken as the risk impact score. The resulting estimates are then compared with the matrix for classifying risks as critical.

The 2020 list of critical risks was approved by the Board of Directors of Transneft on 30 December 2019 (Minutes No. 24) and amended by the resolution of the Board of Directors of Transneft dated 28 July 2020 (Minutes No. 13). In 2020, the register of risks was updated for further prioritisation and adoption of the list of critical risks for 2021. The risk prioritisation was

approved by the resolution of the Risk Management Council of Transneft dated 29 December 2020 (Minutes No. 7). The list of critical risks for 2021 was approved by the resolution of the Board of Directors of Transneft dated 20 February 2021 (Minutes No. 1).

Appointed for each of the Transneft critical risks is a risk owner who determines and authorises a business unit to manage the given risk, decides on the key risk indicators to monitor the risk dynamics and approves an action plan to manage the critical risk developed by the authorised business unit. The register of risks is revised annually, with special reporting on critical risks being generated.

### Actual materialisation of risks in 2020

In 2020, partial materialisation of the Illegal Tappings into Oil and Petroleum Products Trunk Pipelines risk had no impact on the implementation of oil and petroleum products pumping plans.

#### Amendments to the List of Critical Risks

Critical Risks in 2020	Critical Risks in 2021
<ul style="list-style-type: none"> <li>• Adverse effects due to unfavourable public health situation;</li> <li>• State regulation of oil and petroleum products transportation tariffs</li> <li>• Fiscal risks</li> <li>• Shutdown of external power supply to Transneft's facilities</li> <li>• The risk of new technical standards and (or) changes to the existing ones, which may affect the technological processes related to design, construction and operation of the trunk pipeline (including environmental and industrial safety requirements).</li> <li>• Non-compliance of oil (petroleum products characteristics) quality indicators with established standards</li> <li>• International sanctions</li> <li>• Credit risk concerning partner banks</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal risks</li> <li>• Impairment of investments of Transneft and its subsidiaries</li> <li>• Adverse effects due to unfavourable public health situation;</li> <li>• The risk of new technical standards and (or) changes to the existing ones, which may affect the technological processes related to design, construction and operation of the trunk pipeline (including environmental and industrial safety requirements).</li> </ul>

## Critical Risks Management at Transneft in 2020

Possible consequences	Measures taken to reduce risk materialisation likelihood and to mitigate the impact of materialised risks	Actual materialisation of risks in 2020
<b>1. Adverse effects due to unfavourable public health situation</b>		
Adverse effects due to unfavourable public health situation associated with the spread of particularly dangerous infections. World economic crisis as a result of the pandemic caused by the spread of the COVID-19 virus.		
Unbudgeted costs. Decrease in revenue. Decrease in oil and petroleum products transportation volume. Temporary suspension of transportation in certain directions. Temporary (permanent) disability of some personnel. Delays in performance/non-performance of contracts by suppliers and contractors. Project schedule slips.	<ul style="list-style-type: none"> <li>Monitoring the public health situation in the Company and Transneft subsidiaries, as well as the dynamics of critical risk;</li> <li>Vaccinal prevention;</li> <li>Individual protection of employees;</li> <li>Disinfection and sanitisation;</li> <li>Changing the work and rest patterns of employees;</li> <li>Monitoring employees for signs of illness;</li> <li>Limiting unnecessary employee travel, as well as social distancing at the Company's events;</li> <li>Health centres switched to intensive operations mode;</li> <li>Preparation of the OTP (PPTP) facilities of Transneft subsidiaries for transition to autonomous work in complete isolation.</li> </ul>	The risk materialised in 2020. Given the significant impact of the new coronavirus infection COVID-19 on the Company's operations, the planned values of a number of key performance indicators (KPI) and indicative performance indicators (IPI) were updated. The updated planned values of KPI for 2020 were approved by the resolution of the Board of Directors of Transneft dated 19 October 2020 (Minutes No. 18).
<b>2. State regulation of oil and petroleum products transportation tariffs</b>		
Restrictions on oil and petroleum products transportation tariffs below the level required for the development of the Transneft system or below the level required to ensure reliable operation of the Transneft system in the long term. Dependence of petroleum products transportation tariffs upon the Russian Railways tariffs or any changes thereof at the same transportation routes, which, in turn, affects the tariff-based revenue of the Company.		
Project schedule fallout. Reduced efficiency of certain transportation routes. Insufficient revenue to cover the costs required for reliability maintenance of the Transneft system.	<ul style="list-style-type: none"> <li>Interaction with the Federal Antimonopoly Service (FAS) of Russia on the matters of scheduled (or, where necessary, unscheduled) review of oil and petroleum products transportation tariffs, as well as on setting and abolishing oil and petroleum products transportation tariffs. <ul style="list-style-type: none"> <li>Interaction with the FAS of Russia in setting (review, abolishment) of approved oil and petroleum products transportation tariffs.</li> </ul> </li> </ul>	The risk did not materialise in 2020.
<b>3. Fiscal risks</b>		
Changes to tax, customs, social security and pension insurance laws and regulations.		
Unbudgeted costs. Claims by tax authorities.	<ul style="list-style-type: none"> <li>Determining the level of tax burden on revenue and monitoring its change.</li> <li>Tracking changes in the tax law, studying bills submitted to the State Duma.</li> <li>Monitoring specialised press and other information resources.</li> <li>Monitoring the legislation and arbitration practices.</li> <li>Adjusting budget items, based on changes to the law, taxation, customs regulations, social and pension insurance.</li> <li>Analysing certain aspects of operational activities and projects for taking tax risks into account.</li> <li>Adjusting the accounting policy and other methodological documents.</li> <li>Collecting information on the number of tax disputes and the sum in dispute.</li> </ul>	The partial risk materialisation in 2020 did not substantially affect the Company's financial performance.

Possible consequences	Measures taken to reduce risk materialisation likelihood and to mitigate the impact of materialised risks	Actual materialisation of risks in 2020
<b>4. Shutdown of external power supply to Transneft's facilities</b>		
Interruption of external power supply to the Company's facilities through no fault of "in-house" reasons.		
Pipeline downtime. Unbudgeted costs. Emergency.	<ul style="list-style-type: none"> <li>Conducting joint investigations into shutdowns of external power supply to facilities run by Transneft subsidiaries, as per the signed cooperation agreements with SO UPS, Rosseti, Rosseti FGC UES and other power engineering companies. Participating in the development of measures to prevent blackouts at Transneft's facilities;</li> <li>Ensuring that Transneft subsidiaries coordinate requests for changing the operational condition of electrical equipment in keeping with the Company's sectoral rules of procedure based on the analysis of the operation mode of the adjacent grid;</li> <li>Updating Transneft subsidiaries on the decreased reliability of power supply, based on the analysis of monthly maintenance and repair schedules for 220–500 kV class power supply equipment.</li> <li>Cooperating with Rosseti personnel to inspect overhead transmission lines (OTL) providing external power supply to Transneft subsidiaries' facilities.</li> <li>Cooperating with technical security equipment personnel to inspect overhead transmission lines (OTL) providing external power supply to Transneft subsidiaries' facilities.</li> <li>Monitoring the checks of Transneft subsidiaries' stable operation when one source is disconnected.</li> </ul>	The risk did not materialise in 2020. Failure to implement the plan in the field of oil/petroleum products pumping for 2020, caused by the shutdown of external power supply, was not allowed.
<b>5. The risk of new technical standards or changes to the existing ones, which may affect the technological processes related to design, construction and operation of the trunk pipeline system (including environmental and industrial safety requirements)</b>		
Adoption of new or amendment of existing standardisation documents, other documents of federal executive authorities that require mandatory consideration in Transneft regulatory documents (organisation standards) and updating of the regulatory and technical base of technical control in the field of Transneft's oil and petroleum products trunk pipeline transportation.		
Unbudgeted costs. Project schedule slips. Suspension of operations.	<ul style="list-style-type: none"> <li>Monitoring approved standardisation documents, other documents of federal executive authorities that establish technical standards, which may affect the technological processes related to design, construction and operation of the trunk pipeline system (including environmental and industrial safety requirements).</li> </ul>	The risk did not materialise in 2020.
<b>6. Non-compliance of oil (petroleum products characteristics) quality indicators with established standards</b>		
Non-compliance of quality indicators during acceptance, transportation and delivery of oil to the final consignee with the established standards in terms of requirements for oil indicators of the Technical Regulations on Safety of Oil Prepared for Transportation and (or) Utilisation (TR EAEU 045/2017) and characteristics of petroleum products in terms of the requirements of the Technical Regulations of the Customs Union On Requirements for Automobile and Aviation Gasoline, Diesel and Marine Fuel, Jet Fuel and ATB Heating Oil (TR CU 013/2011).		
Unbudgeted costs. Pipeline downtime. Reputational losses. Decision of the main shareholder (the Russian Federation represented by the Federal Agency for State Property Management) on the payment of dividends to Transneft for 2019, excluding the Company's expenses related to the contamination in 2019 of the Druzhba pipeline by organochlorine compounds.	<ul style="list-style-type: none"> <li>Interaction on timely provision of oil/petroleum products testing laboratories (OTL) with materials and equipment for quality control.</li> <li>Inspection of OTLs at Transneft subsidiaries to check their compliance with the requirements of the Quality Management System (QMS), risk management approach and impartiality.</li> <li>Interaction on minimising oil batches that do not meet the requirements of the Rational (Process) Routing Scheme.</li> <li>Cooperation on issues related to minimisation of oil batches not meeting the requirements of GOST R 51858.</li> <li>Interaction on oil blending to improve its quality after the repairs.</li> <li>Interaction on implementation of the approved Road Map for Measures to Replace Oil with Excess Organic Chloride Mass Fraction.</li> <li>Interaction on minimisation of off-spec petroleum products and implementation of measures to improve the quality of petroleum products by blending them with fuel with a quality reserve.</li> <li>Interaction on minimisation of volumes of off-spec petroleum products.</li> <li>Interaction on improving the quality of petroleum products by sedimentation and filtering.</li> </ul>	In April 2019, an incident at the Druzhba oil trunk pipeline was caused by third parties' illegal actions, when a release of high concentrations of organochlorine compounds into the transported oil happened. The operability of the Druzhba oil trunk pipeline was restored. On 21 May 2020, the activities were completed under the updated and approved by Transneft Road Map for Measures to Replace Oil with Excess Organic Chloride Mass in the Fraction at Boiling Point of 204 °C under GOST R 51858 in Transneft's OTP system. Transneft Druzhba tried to bring into compliance oil residues with a high content of organochlorine compounds in accordance with separately developed measures.

Possible consequences	Measures taken to reduce risk materialisation likelihood and to mitigate the impact of materialised risks	Actual materialisation of risks in 2020
<b>7. International sanctions</b>		
Foreign economic restrictions, embargoes, freezing of accounts and settlements, US extraterritorial sanctions and sanctions retaliation.		
Ban on the import of necessary equipment into the Russian Federation. Disruptions in supply of imported components. Restrictions on settlements with foreign contractors. Restrictions on access to international markets, including stock markets. Closing accounts of foreign Transneft subsidiaries in foreign banks. Levy of execution on the assets of foreign Transneft subsidiaries. Refusal of secretarial companies to service foreign Transneft subsidiaries.	<ul style="list-style-type: none"> <li>Participation in the development of a comprehensive response to restrictive measures at the state level (including through intergovernmental committees / combined intergovernmental committees, business councils and field-specific panels and committees);</li> <li>Search for, establishment and development of contacts with relevant influencer agencies abroad and identification of opportunities to circumvent restrictions;</li> <li>Development of proposals for gaining access to services and technologies through neutral or friendly jurisdictions, or alternative suppliers.</li> <li>Monitoring and analysis of draft laws and regulations, as well as of laws that have been passed, and official press releases of the US and the EU departments in charge of sanctions.</li> </ul>	The risk did not materialise in 2020.
<b>8. Credit risk concerning partner banks</b>		
The risk of failure of partner banks to fulfill obligations to Transneft and Transneft subsidiaries.		
Financial and reputational losses. Delayed contract settlements.	<ul style="list-style-type: none"> <li>Establishing limits for transactions with partner banks;</li> <li>Monitoring compliance with the set limits;</li> <li>Monitoring partner banks' creditworthiness.</li> </ul>	The risk did not materialise in 2020.

### Risk Insurance

The Company uses the system of property risk insurance quite effectively on a par with the risk management tools introduced within the RMS framework. Insurance is an instrument of managing risks, allowing to fully or partially transfer financial losses from materialisation of risks to insurance companies and thus indemnify for losses of the Group.

The main principles of the property risk insurance system, as well as of insurance application and types used for oil and petroleum products trunk pipeline transport, are approved by the Regulations on Property Risk Insurance of Transneft and its Subsidiaries.

The objects of property insurance contracts are all types of fixed operational assets that, if damaged, may affect the operations of Transneft subsidiaries; they are insured against loss (demise) or damage on the terms of insurance "against all risks". Transneft subsidiaries also insure vehicles and civil liability for damage to third parties and the environment. In the course of operational activities, Transneft subsidiaries independently ensure cargoes and construction risks as required.

### Risk Management System Efficiency

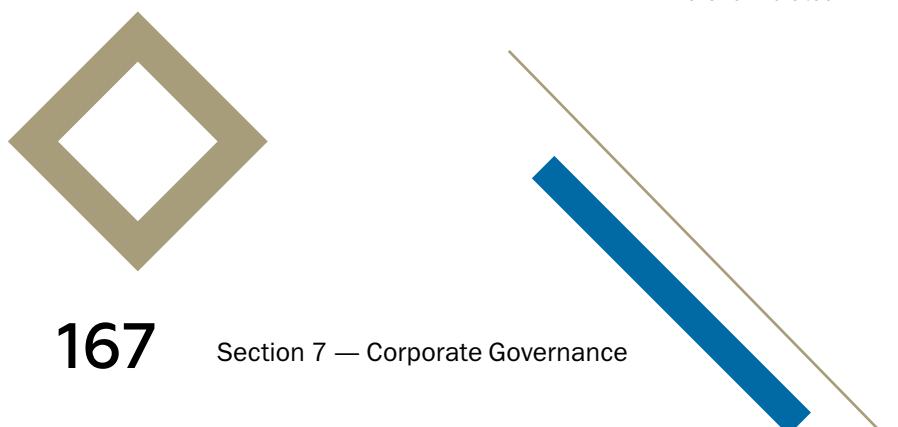
#### Assessment

The Internal Audit Unit conducts an annual assessment of the reliability and efficiency of the RMS and provides the Board of Directors of Transneft with a report on the results of the assessment.

Taking into account the internal audits conducted, the implementation of corrective action plans by the Company and its subsidiaries, comprehensive assessments, the RMS of the Company and its subsidiaries in general is recognised as effective.

The report on the results of the activities of the Internal Audit Unit of Transneft for 2020 was submitted for consideration to the Board of Directors and approved in May 2021 (Minutes No. 4 dated 19 May 2021).

According to the results of an external assessment of the RMS conducted in 2020 by Ernst & Young Valuation and Advisory Services, LLC, the RMS of Transneft in general complies with the requirements and recommendations of the regulatory documents in the field of risk management. A number of key strengths of the RMS of Transneft were highlighted, and recommendations for further improvement of the RMS were formulated.



## Ensuring Security and Anti-Terror Protection of OTP Facilities

Departmental security units of Transneft subsidiaries provide physical protection of facilities of Transneft and its 15 subsidiaries located in 62 constituent entities of the Russian Federation, as well as of a corridor of more than 44 thousand km of trunk pipelines (hereinafter referred to as the line), which is about 67 thousand km if calculated as a single line.

The list of facilities to be protected in the reporting year was approved by the President of Transneft in agreement with the management of the Federal National Guard Service.

In 2020, in pursuance of Resolution of the Government of the Russian Federation No. 234 dated 5 March 2020, Transneft carried out a reform of its departmental security, liquidating Transneft Security Services. Until October 2020, this unit ensured the safety of property and production and technological complexes of the Company and its subsidiaries; from Q4 2020, the departmental security functions were transferred to the departmental security units of the security departments of Transneft subsidiaries.

In accordance with the requirements of Federal Law No. 256-FZ On Security of Fuel and Energy Facilities dated 21 July 2011, 6 facilities were classified and provided with security profiles; 163 inspections were conducted by interagency commissions and 60 safety security profiles for FES facilities were updated in 2020.

As of 31 December 2020, 316 categorised facilities of Transneft subsidiaries were included in the Register of FES Facilities of the Ministry of Energy of Russia, among them 303 facilities were categorised as low hazard class facilities and 13 as medium hazard class facilities.

The level of technical security equipment (TSE) availability at the key elements of trunk pipelines as of 31 December 2020:

- OTP – 93.5%;
- PPTP – 79%.

The total technical security equipment availability at Transneft subsidiaries' facilities is 91.5%.

The level of technical security equipment availability along the line amounted to:

- OTP – 75%;
- PPTP – 50%.

At the line sections which are most exposed to criminal interference, innovative security equipment was installed to ensure their protection.

As part of the Technical Upgrading and Revamping (TU&R) programme, 34 technical security equipment complexes were commissioned at Transneft subsidiaries in 2020.

Thefts of oil and petroleum products via illegal tappings dominate among the threats to the security of trunk pipelines, with a 55% share in all security incidents in 2020. In 2020, 141 illegal tappings were detected in oil and petroleum products trunk pipelines of the Company, which is 33.8% less than in 2019 (213), including:

- in OTP – 35, which corresponds to the indicator of 2019 (during the same period last year – 35);
- in PPTP – 106, which is 40.4% less than last year (during the same period last year – 178).

100 cases of property theft were recorded (during the same period last year – 119), including 37 cases of theft of route structures and equipment (in 2019 – 54).

In 2020, law enforcement officers, with the assistance of security units of Transneft subsidiaries and the Company's departmental security units, prevented 25 oil and petroleum products thefts, including theft attempts (-28.6% compared to the same period last year – 35), for the commission of which 113 suspects were detained (+ 22.8% to the indicator of 2019 – 92), and so were 44 vehicles (+ 9% to the indicator of the same period last year – 40), 14 of which contained stolen oil and petroleum products (-6.6% compared to 2019 – 15).

In 2020, there was a downward trend in the number of illegal tappings into trunk pipelines. The most significant decrease was achieved in Leningrad Region (from 18 to 10, or -44.4%), Nizhny Novgorod Region (from 18 to 9, or -50%), Penza Region (from 13 to 6, or -53.8%).

In 2020, in accordance with Federal Laws No. 35-FZ On Counteracting Terrorism dated 6 March 2006 and No. 256-FZ On Security of Fuel and Energy Facilities dated 21 July 2011, law enforcement agencies, local subdivisions of federal executive authorities and interagency commissions inspected firearms storage rooms and facilities of Transneft subsidiaries to ensure their protection and anti-terror security.

In the reporting period, interaction with federal legislative and executive authorities, government authorities of constituent entities of the Russian Federation, scientific organisations and economic entities was strengthened.

