

4.4. KEY PERFORMANCE INDICATORS (KPI) SYSTEM

The Key Performance Indicators System is used to sum up the results of Transneft's economic activities in the reporting year. The planned values of the Transneft key performance indicators for 2020 were approved by the decision of the Board of Directors dated 24 December 2019 (Minutes No. 22)

and updated by the decision of the Board of Directors of Transneft dated 19 October 2020 (Minutes No. 18).

The final assessment of all key performance indicators of Transneft's economic activity at the end of 2020 is 100%.

The System of Key Performance Indicators of Transneft's Economic Activities for 2020

Indicator (KPI)	Unit of measurement	Plan for 2020	Execution status in 2020
Integrated indicator of trunk pipeline system reliability, environmental and industrial safety	%	100	Achieved
Specific accident rate at trunk pipelines	emergency situations per 1,000 km of trunk pipelines	0.072	Achieved
Reduction of specific air pollutant emissions during oil and petroleum products transportation via trunk pipelines	%	1	Achieved
Integrated operational activity efficiency indicator	%	100	Achieved
Amount of dividends	RUB million	42,326	Achieved
Operating expenses reduction percentage	%	2	Achieved
Annual volume of direct purchases from SMEs	%	20.0	Achieved
Reduction of specific electricity consumption during oil transportation over trunk pipelines under comparable conditions	%	0.8	Achieved
Raising labour productivity in oil and petroleum products transportation	%	-9.4	Actual achieved value of -9.6
The deviation from the plan was due to the early transfer of employees of the divisions of Transneft Security Services to Transneft transport subsidiaries (reorganisation of departmental security in pursuance of the Decree of the Government of the Russian Federation dated 05 March 2020 No. 234)			
Integrated indicator of investment activities efficiency	%	100	Actual reached value 99
This is due to a deviation from the ROIC KPI plan			
Return on invested capital (ROIC)	%	5.8	Actual achieved value of 5.7
This is mainly due to a decrease in the petroleum products transportation volumes.			
Execution of the Development Programme financing plan	RUB million VAT included	195,187	Achieved
Execution of the Capital Investments Use Plan envisaged in the Development Programme	RUB mln, excluding VAT	178,613	Achieved
Execution of the Action Plan for Reduction of Capital Costs within the Development Programme	RUB mln, excluding VAT	3,871	Achieved
Keeping investment project deadlines	units	1	Achieved
Implementation of the Revamping Oil Trunk Pipelines for Transportation of Oil to Refineries in Krasnodar Territory project was postponed to 2021, as the construction of the connected facility (Afipsky Refinery) was not finished			

Indicator (KPI)	Unit of measurement	Plan for 2020	Execution status in 2020
Execution of the Pipe Replacement Plan (the line part)	km	871	Achieved
Execution of the Storage Tank Construction and Revamping Plan	units	75	Achieved
Integrated indicator of innovation activities efficiency	%	100	Achieved
Financing of innovative projects, including R&D, from own funds given as a percentage of Transneft's revenue from oil transportation services (according to RAS)	%	1.42	Achieved
Number of titles of protection for intellectual property obtained during the reporting period and two previous years	pcs.	95	Achieved
Number of titles of protection for intellectual property obtained during the reporting period	pcs.	40	Achieved
Integrated effect of in-house commercialisation of innovative projects, including R&D, for the reporting period and two previous years in terms of percentage of Transneft's revenue from oil transportation services by RAS	%	1.49	Achieved
Quality indicator for the updated Investment Development Programme/IDP (in the year of the update) / IDP execution quality indicator (in subsequent years)	%	90	n/a

The Report on the implementation of the IDP for 2019, approved at the meeting of the Board of Directors of Transneft (Minutes No. 11 dated 29 May 2020), was submitted for assessment to the Ministry of Energy of Russia, the Ministry of Education and Science of Russia and the Ministry of Economic Development of Russia. Favourable conclusions on the Report were received from the federal executive authorities. As of the date of approval of the LTDP Report, a meeting of the Interagency Task Force on Technological Development under the Government Commission for the Modernisation of the Economy and Innovative Development of Russia on the issue of setting of the value for the indicator of quality of the IDP has not been held by Transneft

Total debt to EBITDA ratio	-	2.5	Achieved
Integrated indicator for evaluating the results of the implementation of the corporate import substitution plan	%	100	Actual achieved value of 90.9*

This is due to a deviation from the "Share of foreign equipment in total equipment procurements" and "Share of foreign goods (excluding equipment) in total goods procurements" KPI plans

Share of foreign equipment in total equipment procurements	%	3	Actual achieved value of 3.6
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The deviation is due to the consequences of the spread of the new coronavirus infection (COVID-19)

Share of foreign goods (excluding equipment) in total goods procurements	%	7.5	Actual achieved value of 7.7
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The deviation is due to the consequences of the spread of the new coronavirus infection (COVID-19)

Share of foreign software in total software procurements	%	40	Achieved
Share of foreign works and services in total works and services procurements	%	0.5	Achieved

* In connection with the organisation of remote access due to COVID-19, foreign equipment (computers, equipment for phone and video conferencing, satellite communication systems, data networks, automatic switching systems, and components for equipment) was purchased.

In accordance with the Methodological Recommendations for the Formation and Application of Key Performance Indicators of Joint Stock Companies, whose shares are owned by the Russian Federation, and certain non-profit organisations, in order to determine the amount of remuneration for their management staff (Order of the Government of the

Russian Federation No. 3579-p dated 28 December 2020) and the Directives of the Government of the Russian Federation dated 02 March 2021 No. 1891p-P13 by the decision of the Board of Directors of Transneft dated 31 March 2021 (Minutes No. 2) the list of Transneft key performance indicators for 2021 was approved.

The System of Key Performance Indicators of Transneft's Economic Activities for 2021

Area	Key Performance Indicator	Specific weight (%)	Unit of measurement	Target value for 2021
Participation in the achievement of the Decent, Effective Work and Successful Entrepreneurship national goal	Execution of the Development Programme financing plan	10	RUB million	208,836.7
Participation in the achievement of the Opportunities for Self-Fulfilment and Development of Talents national goal	Integral indicator of trunk pipelines facilities reliability	20	coefficient	10.04
	Reduction of specific electricity consumption during oil transportation over trunk pipelines under comparable conditions	10	%	0.9
Participation in the achievement of the Opportunities for Self-Fulfilment and Development of Talents national goal	The volume of products manufacture developed as a result of the implementation of research and development (R&D) plans and innovative projects of Transneft	10	RUB million	7,000
Financial and economic key performance indicators	Return on invested capital (ROIC)	10	%	6.0
	Total debt to EBITDA ratio	10	coefficient	1.5
	Decrease in specific operating expenses for oil transportation under comparable conditions	10	%	2.3
	Amount of dividends	20	RUB bn	50% of normalised consolidated IFRS net income for 2020
Bonus reduction indicator	Specific accident rate at trunk pipelines	-15	accidents per 1,000 km of line	0.069

4.5. INVESTMENT PROJECTS

After the completion of the main investment projects in 2019, Transneft focused on the modernisation and revamping of the existing infrastructure in 2020: approximately 40% of trunk pipelines operate at the limit of technical resources.

In the next 5 years, the Company will prioritise work aimed at maintaining a sufficient level of technical reliability of the equipment and systems in operation that ensure the transportation of oil and petroleum products (in compliance with the established safety standards). These include:

- revamping of the line to eliminate defects revealed by the results of in-line inspection;
- bringing storage tanks in line with regulatory requirements;
- revamping of power equipment of pumping stations to increase reliability;

- replacement of pumping equipment and stop valves to improve reliability;
- replacing process pipelines of pumping stations while taking into account their operating modes and service life;
- revamping telemechanics and automation systems to replace obsolete relay systems with modern microprocessor systems;
- introduction of a unified supervisory control system;
- revamping and construction of new oil and petroleum products' lease automatic custody transfer units (LACTs) to improve the quality and accuracy of commodity transport operations.

Within the framework of the Investment Programme, the implementation of the project on the revamping of oil trunk pipelines leading to the refineries of Krasnodar Territory and the project on a unified information system (UIS) will continue.