

TRANSNEFT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF THE GROUP'S FINANCIAL POSITION  
AND RESULTS OF ITS OPERATIONS

FOR THE SIX MONTHS ENDED 30 JUNE 2018





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**(in millions of Russian roubles, if not stated otherwise)**

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The following analysis provides an overview of the financial position of Transneft and its subsidiaries (hereinafter – the “Group”) as at 30 June 2018 and results of operations for the six months ended 30 June 2018, compared to the six months ended 30 June 2017, as well as, other important factors which could affect the future results of the Group. This analysis should be read in conjunction with the condensed consolidated interim financial statements prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (hereinafter – “IFRS”) for the six months ended 30 June 2018.

All numbers in this document are presented with a rounding, and therefore the sum of rounded figures may differ from the rounded amount of actual numbers.

### Key financial and operating results

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change, %
Revenue	463,306	438,250	5.7
Profit for the period	92,070	113,879	(19.2)
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	208,214	215,727	(3.5)
Oil delivered to consignees, mln tons	235.3	237.4	(0.9)
including:			
Russian oil refineries, mln tons	122.8	119.8	2.5
transshipment into the CPC-R system, mln tons	-	0.002	X
exports to neighboring countries, mln tons	9.5	9.2	3.3
exports to other countries, mln tons	103.0	108.4	(5.0)
Oil products delivered to consignees, mln tons	19.7	16.6	18.7
including:			
Russia's domestic market, mln tons	5.0	4.2	19.0
exports to the Customs Union member countries, mln tons	0.2	0.2	-
exports to other countries, mln tons	14.5	12.2	18.9

\* Less crude oil sale and purchase operations under contracts with Rosneft and China National United Oil Corporation.

The main non-operating factors which influenced the profit for the period are disclosed in the table below:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
<b>Profit for the period</b>	<b>92,070</b>	<b>113,879</b>	<b>(21,809)</b>	<b>(19.2)</b>
Net gain from foreign exchange differences	(12,959)	(5,422)	(7,537)	2.4 times
Net interest expense	22,631	14,738	7,893	53.6
Net gain from operations with financial instruments	(83)	(296)	213	(72.0)
Share of loss/ (profit) from associates and jointly controlled entities	33	(9,476)	9,509	x
<b>Adjusted profit for the period</b>	<b>101,692</b>	<b>113,423</b>	<b>(11,731)</b>	<b>(10.3)</b>



## 1. General information and overview of the Group's activities

Public joint stock company Transneft was incorporated in accordance the Russian Government Resolution No. 810 dated 14 August 1993, hereinafter the "Company".

According to its Charter Transneft was established for the purpose of generating profit.

The main areas of Transneft's and its subsidiaries' operations are as follows:

- providing services of transporting oil and oil products via trunk pipelines in the Russian Federation as well as outside of Russia including interstate and intergovernmental agreements;
- raising of and making investments in development of the oil trunk pipeline and oil products trunk pipeline network including production of goods, works and services for servicing trunk oil pipeline and trunk oil products pipeline system to maintain its working condition, increase efficiency and safety of its operations;
- performing of scientific, technical, production, financial and foreign economic activities including mediating activity in the territory of the Russian Federation and outside of Russia;
- carrying out works relating to use of information constituting state secrets (protection of state secrets), provision of services for keeping state secrets safe;
- operating of oil and oil products trunk pipeline transport, sale of and storage of oil and oil products;
- carrying out activities to organize departmental protection of fuel and energy complex facilities owned by the Company and (or) companies, more than 50 percent of voting shares (stakes in the authorized capital) of which are owned by the Company and (or) companies, whose decisions the Company has the ability to determine, and the products supplied under the state contract.

The Group also provides services of oil storage, oil compounding, crude oil sales.

Transneft is also responsible for oil transportation planning and management on foreign territory, for exercising control of oil storage at and delivery to foreign oil receipt-and-delivery facilities, and for data collection and summarizing.

The Group as at 30 June 2018 possesses an extensive network of trunk oil pipelines with a total length of approximately 51.7 thousand km and trunk oil products pipelines with a total length of some 16.7 thousand km.

During the six months ended 30 June 2018 the Group transported about 84% of oil produced in Russia and about 31% of light oil products produced in Russia, as well as significant volume of hydrocarbons and oil products from CIS countries.

Transneft's key competitive advantages include:

- a monopoly position in the oil pipeline transport market;
- a low ratio of operating costs to total oil transportation volume compared to railway or water transport;
- average level of oil transportation tariffs, compared to those in the CIS and Europe.



### **1.1. Key investment projects of the Group**

Transneft pays considerable attention to comprehensive development of its trunk pipeline network, promotion of scientific and technical progress, and implementation of new equipment and technology. Transneft's capital investment policy is aimed at achieving system-wide targets for production base development, as well as expansion, reconstruction, and technical upgrades of pipeline transport facilities.

Fulfillment by Transneft of investment projects provides development of the system of trunk pipelines that allows to redistribute operationally export flows to both the Western and the Eastern directions depending on the market situation.

The largest investment projects for construction and expansion of pipeline systems under realization are:

- Extension of the ESPO pipeline system the Tayshet IPS (initial pumping station) – Skovorodino oil pumping station section up to 80 mln tons per annum;
- Extension of the ESPO pipeline system at the Skovorodino oil pumping station – Kozmino SSOP up to 50 mln tons per annum;
- Construction of oil pipeline ESPO – Komsomolskiy Refinery;
- Development of the trunk pipeline system for increase of petroleum products supplies to Primorsk Sea Port up to 25 mln tons per annum (the Sever Project);
- Reconstruction of the trunk pipeline system for increase of petroleum product transportation to the Moscow region.

### **1.2. Environmental policy**

The Group's management is fully aware of potential danger of a possible negative impact of technologically complex production activities on the environment, will develop and operate the oil and oil products trunk pipeline system, take adjacent works so that not to harm environment and ensure the most higher level of ecological safety of its activities. The Group, being the key element of energy industry of the Russian Federation and providing final results of its activities, sets as its superior and permanent priority protection of environment, provision of high level of environmental safety of the Group's production facilities.

The Group's management is fully informed of the conditions of all fixed assets and the pace of their wear and tear, and uses these data to plan reconstruction or building of new facilities.

The amount of funding of the ecological safety program, building and reconstruction of environmental facilities and acquisition of environmental protection equipment enable Transneft to meet the strictest Russian and international environmental standards.

As at today all subsidiaries of Transneft have developed, introduced and certified the environmental management System, the international certificates of conformity to the standard ISO 14001-2004 were received.



## 2. Tariffs and key macroeconomic factors affecting the Group's performance

### 2.1. Oil and oil products transportation tariffs

Transneft provides tariff-based oil and oil products transportation services to consignors.

Tariff rates are currently calculated in accordance with the Rules of state regulation of tariffs or their maximum limits for services of natural monopolies with respect to transportation of oil and oil products via trunk pipelines, approved by a Decree of the Government of the Russian Federation of 29.12.2007 No. 980, as well as in accordance with the Regulations on setting fees for services of transportation of oil via trunk pipelines, approved by an Order of the Federal Tariff Service of Russia of 17.08.2005 No. 380-e/2, the Methodology of setting tariffs on oil products transportation via trunk pipelines of the Russian Federation approved by Federal Energy Commission of Russia of 16.10.2002 No. 70-e/5, as well as, by the Decree of the Government of the Russian Federation of 14.03.2014 No. 377-r.

During the year ended 31 December 2017 and six months ended 30 June 2018 Transneft was performing its core operations:

- a) of transporting oil, by charging fees for its services in accordance with oil transportation tariff rates approved by orders of the state regulatory body for natural monopolies – the Federal Tariff Service of Russia (FTS of Russia) and Federal Antimonopoly Service (FAS of Russia)<sup>1</sup>:
  - Order of the FTS of Russia of 22.12.2009 No. 455-t/1 Concerning the setting of fees for sea port services provided to OOO Specialized Oil Loading Sea Port Kozmino;
  - Order of the FTS of Russia of 31.10.2014 No. 240-e/2 Concerning the setting of fee for the service of OAO AK Transneft for transportation of oil via the Ephimoffka – OOO LUKOIL-Volgogradneftepererabotka route rendered for OAO LUKOIL;
  - Order of the FAS of Russia of 07.09.2015 No. 814/15 Concerning the setting of tariff for the service of AO Transneft-Terminal for filling oil from trunk pipelines of OAO AK Transneft into railway tank cars on the territory of Grushevaya industrial site of the transshipment complex Sheskharis;
  - Order of the FAS of Russia of 15.10.2015 No. 964/15 Concerning the setting of tariff for the service of OAO AK Transneft for delivery of oil to AO NNK-Khabarovskiy NPZ;
  - Order of the FAS of Russia of 22.10.2015 No. 991/15 Concerning the setting of tariff for the service of OAO AK Transneft for delivery of oil by oil trunk pipeline system (with amendments included by the order of the FAS of Russia of 13.09.2016 No. 1289/16 Concerning the amendments to the order of the FAS of Russia of 22.10.2015 No. 991/15 Concerning the setting of tariff for the services of OAO AK Transneft for transportation of oil through trunk pipeline system);
  - Order of the FAS of Russia of 30.12.2015 No. 1359/15 Concerning the setting of tariff for the service of OAO AK Transneft for delivery of oil to OOO Ilskiy NPZ;
  - Order of the FAS of Russian of 26.05.2016 No. 666/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Uhta – Yaroslavl trunk pipeline through Uhta – OOO Lukoil – UNP route provided to PJSC LUKOIL;
  - Order of the FAS of Russia of 26.05.2016 No. 667/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Uhta – Yaroslavl trunk pipeline through Synya – Pechora route provided to OOO SK Rusvietpetro;
  - Order of the FAS of Russia of 01.07.2016 No. 876/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Uhta – Yaroslavl trunk pipeline through Pechora – Chickshino provided to AO NNK – Pechoraneft;
  - Order of the FAS of Russia of 29.08.2016 No. 1216/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via Uhta – Yaroslavl trunk pipeline through Urdoma – Privodino provided to AO NK – Neftisa;
  - Order of the FAS of Russia of 29.08.2016 No. 1217/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via Uhta – Yaroslavl trunk pipeline through Uhta - Sindor provided to OOO Nizhneomrinskaya neft;
  - Order of FAS of Russia of 09.12.2016 No. 1742/16 Concerning the setting of tariff for the services of Transneft for delivery of oil through Chikshino-Zelenoborsk route via Usa – Uhta trunk pipeline provided to OOO ZARUBEZHNEFT – dobitcha Kharyaga;
  - Order of FAS of Russia of 23.12.2016 No. 1825/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via trunk pipeline system;

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<sup>1</sup> the FAS of Russia is a successor of the FTS of Russia. Decree of the President of the Russian Federation of 21.07.2015 No.373 Concerning different issues on state administration and control in antimonopoly and tariff regulation.



## 2.1. Oil and oil products transportation tariffs (continued)

- Order of FAS of Russia of 26.12.2016 No. 1863/16 Concerning the setting of tariff for the services of Transneft for delivery of oil through Tikhoretsk – Tuapse-2 route provided to Rosneft;
- Order of FAS of Russia of 26.12.2016 No. 1842/16 Concerning the setting of tariff for the services of Transneft-Terminal for loading of oil into railway tank cars on the territory of Grushevaya industrial site of the transshipment complex Sheskhari from trunk pipeline system of Transneft;
- Order of FAS of Russia of 27.03.2017 No. 392/17 Concerning the setting of tariff for the services of Transneft for transportation of oil through Sindor-Mikun route of Uhta-Yaroslavl pipeline provided to OOO TSNPSEI;
- Order of FAS of Russia of 28.04.2017 No. 580/17 Concerning the setting of network tariff for the services of Transneft for transportation of oil via Kuyumba-Taishet trunk pipeline system and amending of the order of the FAS of Russia of 23.12.2016 No. 1825/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via trunk pipeline system;
- Order of FAS of Russia of 13.03.2017 No. 294/17 Concerning the setting of tariff for the services of Transneft for delivery of oil from trunk pipeline system to OOO Tomskneftepererabotka;
- Order of FAS of Russia of 11.12.2017 No. 1659/17 Concerning the setting of tariff for the services of Transneft for transportation of oil via trunk pipeline system;
- Order of FAS of Russia of 11.12.2017 No. 1660/17 Concerning the setting of tariff for the services of Transneft for transportation of oil through Tikhoretsk – Tuapse-2 provided to Rosneft;
- Order of FAS of Russia of 12.02.2018 No. 157/18 Concerning the setting of tariff for the services of AO Transneft-Terminal for loading of oil into railroad facilities in the territory of industrial area of Grushovaya PK Sheskhari from Transneft's trunk pipeline system.
- b) of transporting oil products, by charging fees for its services in accordance with fee rates approved by Transneft in accordance with orders of the FTS of Russia, the FAS of Russia:
  - Order of the FTS of Russia of 30.04.2013 No. 90-e/2 Concerning the setting of maximum tariff rates for services of OAO AK Transneft for execution of orders and scheduling deliveries of oil products which are in transit to LPDS Sokur and are further exported outside the customs territory of the Russian Federation and the states - members of the Customs Union;
  - Order of the FTS of Russia of 30.05.2014 No. 132-e/2 Concerning the setting of tariff for services rendered by OAO AK Transneft for transportation of oil products through the route "LUKOIL – Nizhegorodnefteorgsynthez" – MP "Primorsk" for OAO NK LUKOIL;
  - Order of the FTS of Russia of 07.10.2014 No.223-e/1 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for transportation of oil products by trunk pipelines;
  - Order of the FTS of Russia of 24.12.2014 No.307-e/1 Concerning the setting of maximum rates of tariff for the services of OAO AK Transneft and its affiliated entities for loading of oil products from trunk pipeline system and making amendments to the Order of the FTS of Russia No.223-e/1 of 07.10.2014;
  - Order of the FTS of Russia of 10.02.2015 No.19-e/2 Concerning the setting of maximum rate of tariff for the services of OAO AK Transneft and making amendments to appendix 1 of the Order of the FTS of Russian No.223-e/1 of 07.10.2014;
  - Order of the FTS of Russia of 11.06.2015 No. 234-e/4 Concerning the setting of tariff for the services rendered by OAO AK Transneft for transportation of oil products through OOO KINEF – MP "Primorsk" route for OAO Surgutneftegaz;
  - Order of the FAS of Russia of 15.10.2015 No. 965/15 Concerning the setting limit for maximum tariff rates for the services of OAO AK Transneft for filling of oil products from trunk pipeline network;
  - Order of the FAS of Russia of 01.07.2016 No. 875/16 Concerning the setting limit for maximum tariff rates for the services of OAO AK Transneft and its affiliated parties for filling of oil products from trunk pipeline network and making amendments to the order of 07.10.2014 of the FST of Russia No. 223-e/1 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for transportation of oil products by trunk pipelines;
  - Order of the FAS of Russia of 26.12.2016 No. 1843/16 Concerning the setting limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of oil products from trunk pipeline network and making amendments to the order of 07.10.2014 of the FST of Russia No. 223-e/1 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for transportation of oil products by trunk pipelines;
  - Order of the FAS of Russia of 26.12.2016 No. 1844/16 Concerning the setting limit for maximum tariff rates for the services of Transneft for filling of oil products from trunk pipeline network;



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**2.1. Oil and oil products transportation tariffs (continued)**

- Order of the FAS of Russia of 14.04.2017 No. 501/17 Concerning the setting of tariff for transportation of oil products through PSP Antipinskiy NPZ-DT (loading from AO Antipinskiy NPZ) – MP Primorsk;
- Order of the FAS of Russia of 01.12.2017 No. 1627/17 Concerning the setting of tariff for services of Transneft for oil products transportation services through PSP Volgograd (loading from OOO LUKOIL-VOLGOGRADNEFTEPERERABOTKA) – MP Novorossiysk (PK Sheskhari) provided to PJSC LUKOIL.

**2.2. The rouble's exchange rate against foreign currencies**

Services for transportation of oil through trunk oil pipelines which are located in the territory of the Russian Federation are paid for in Russian roubles.

Oil products transportation services are paid for in the following main currencies:

- in the Russian Federation - Russian roubles;
- in the Republic of Belarus - US dollars;
- in the Republic of Kazakhstan - the rouble equivalent calculated at the exchange rate of the Kazakhstan tenge established by the Bank of Russia on the payment date.

Fluctuations of US Dollar and Kazakhstan tenge do not significantly affect the Group's operating results as the portion of revenue which is paid for in US Dollars or rouble equivalent, calculated at the Kazakhstan tenge exchange rate, established by Bank of Russia at the date of payment, in the total revenue is relatively small.

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change, %
Change in the rouble's exchange rate against the US dollar for the reporting period, %	8.95	(2.59)	x
Average exchange rate for the period (RUB per US dollar)	59.35	57.99	2.4
Exchange rate at the end of the period (RUB per US dollar)	62.76	59.09	6.2
Exchange rate at the end of the year preceding the reporting period (RUB per US dollar)	57.60	60.66	(5.0)

**2.3. Inflation rates**

Russia's inflation rates as per Federal state statistics service during the period in question were as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change, pp
Rouble inflation (CPI), %	2.1	2.3	(0.2)

**2.4. Taxation**

Most of the Group's companies are incorporated in the Russian Federation and subject to taxation under the Tax Code of the Russian Federation.

The amount of taxes accrued by the Group (except for taxes and contributions accrued in connection with salaries) was as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change, %
Current income tax	22,984	33,782	(32.0)
Property tax	18,949	14,763	28.4
Other taxes and levies	379	741	(48.9)

**Income tax**

The federal income tax rate in 2018 is 3.0% (for the same period of 2017 – 3.0%), while the regional tax rates range from 12.5% to 17.0% (from 12.5% to 17.0% for the same period of 2017). The Group's international operations are taxable at rates established by the laws of countries where they took place.





## 2.4. Taxation (continued)

### Property tax

The amount of property tax increased by RUB 4,186 or by 28.4%. The increase was a result of putting into use of fixed assets, revaluation of property, plant and equipment at replacement cost in accounting under Russian accounting standards which was held at 31 December 2017, increase of a tax rate applied to trunk pipelines as well as constructions which are integral technological part of these facilities. These properties are taxed at the rates set locally by regions of the Russian Federation and cannot be more than 1.6% during 2017, 1.9% during 2018.

### Other taxes and levies

Other taxes and levies mainly include land tax, transport tax and other taxes and levies.

## 3. Analysis of the Group's performance

The table below presents condensed consolidated interim statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 and the relative period of 2017.

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
<b>Revenue</b>	<b>463,306</b>	<b>438,250</b>	<b>25,056</b>	<b>5.7</b>
Revenue from oil transportation services	318,596	315,466	3,130	1.0
Revenue from oil products transportation services	36,809	34,960	1,849	5.3
Revenue from crude oil sales	92,710	70,983	21,727	30.6
Other revenue	15,191	16,841	(1,650)	(9.8)
Operating expenses net of amortisation and depreciation	(254,980)	(222,772)	(32,208)	14.5
<b>Operating profit net of amortisation and depreciation</b>	<b>208,326</b>	<b>215,478</b>	<b>(7,152)</b>	<b>(3.3)</b>
Amortisation and depreciation	(86,960)	(75,830)	(11,130)	14.7
<b>Operating profit</b>	<b>121,366</b>	<b>139,648</b>	<b>(18,282)</b>	<b>(13.1)</b>
Other income	3,918	7,100	(3,182)	(44.8)
Share of (loss)/ profit from associates and jointly controlled entities	(33)	9,476	(9,509)	x
<b>Profit before income tax and finance income/ costs</b>	<b>125,251</b>	<b>156,224</b>	<b>(30,973)</b>	<b>(19.8)</b>
Net finance costs	(9,589)	(9,020)	(569)	6.3
<b>Profit before income tax</b>	<b>115,662</b>	<b>147,204</b>	<b>(31,542)</b>	<b>(21.4)</b>
Income tax expense	(23,592)	(33,325)	9,733	(29.2)
<b>Profit for the reporting period</b>	<b>92,070</b>	<b>113,879</b>	<b>(21,809)</b>	<b>(19.2)</b>
Other comprehensive loss, net of income tax	(29)	(693)	664	(95.8)
<b>Total comprehensive income, net of income tax</b>	<b>92,041</b>	<b>113,186</b>	<b>(21,145)</b>	<b>(18.7)</b>



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**3.1. Revenue**

Revenue by type of operations	Six months ended 30 June 2018	Share of total revenue, %	Six months ended 30 June 2017	Share of total revenue, %	Absolute change	Change, %
<b>Revenue from crude oil transportation services:</b>	<b>318,596</b>	<b>68.8</b>	<b>315,466</b>	<b>72.0</b>	<b>3,130</b>	<b>1.0</b>
Domestic sales	128,835	27.8	127,047	29.0	1,788	1.4
Export sales	189,761	41.0	188,419	43.0	1,342	0.7
Revenue from oil products transportation services	36,809	7.9	34,960	8.0	1,849	5.3
Revenue from oil compounding services	2,880	0.6	3,227	0.7	(347)	(10.8)
Revenue from sales of crude oil in the domestic market	4,484	1.0	5,229	1.2	(745)	(14.2)
Revenue from sales of oil products	2,369	0.5	2,328	0.5	41	1.8
Other revenue	9,942	2.2	11,286	2.6	(1,344)	(11.9)
<b>Total revenue (without revenue from export sales of crude oil)</b>	<b>375,080</b>	<b>81.0</b>	<b>372,496</b>	<b>85.0</b>	<b>2,584</b>	<b>0.7</b>
Revenue from export sales of crude oil	88,226	19.0	65,754	15.0	22,472	34.2
<b>Total revenue</b>	<b>463,306</b>	<b>100.0</b>	<b>438,250</b>	<b>100.0</b>	<b>25,056</b>	<b>5.7</b>

For the six months ended 30 June 2018, the Group's revenue increased by RUB 25,056 or by 5.7%, attributable mainly to an increase in revenue from export sales of crude oil and crude oil transportation services. Without taking into account revenue from export sales of crude oil, revenue for the six months ended 30 June 2018 increased by RUB 2,584 or 0.7% compared to the same period of the previous year. Such dynamic resulted to decline of share of revenue without export sales of crude oil from 85.0% for the six months of preceding year to 81.0% for the reporting period.

The Group's revenue dynamics was also affected by adoption of the new IFRS 15 *Revenue from Contracts with Customers* starting 1 January 2018. The adoption of the IFRS 15 changes recognition of the revenue from provision of oil and oil products transportation services in accordance with long-term (agreed) tariffs and revenue from provision of services for technological connection to the trunk pipeline system.

Under previously effective IAS 18 *Revenue* revenue from provision of oil and oil products transportation services in accordance with long-term (agreed) tariffs was recognised as revenue from transportation services of crude oil and oil products during the term of these tariffs.

Under previously effective IFRIC 18 *Transfer of Assets from Customers* revenue from provision of services for technological connection to the trunk pipeline system was recognised as other revenue as costs were incurred for construction of assets financed in accordance with such agreements.

Because of the adoption of the requirements of the new IFRS 15 *Revenue from Contracts with Customers* starting from the financial statements for the three months ended 31 March 2018 revenue from provision of oil and oil products transportation services under long-term (agreed) tariffs and revenue from provision of services for technological connection to the trunk pipeline system are recognised based on the useful life of facilities which have been financed from cash received under respective agreements.



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### 3.1. Revenue (continued)

The table below provides data adjusted for requirements of the new IFRS 15 *Revenue from Contracts with Customers* compared to the previous requirements of IAS 18 *Revenue* and IFRIC 18 *Transfer of Assets from Customers*.

	Six months ended 30 June 2018	Six months ended 30 June 2018 (without IFRS 15 impact)	Absolute change	Change, %
Revenue from oil transportation services	318,596	324,561	(5,965)	(1.8)
Revenue from crude oil sales	92,710	92,710	-	-
Revenue from oil products transportation services	36,809	37,676	(867)	(2.3)
Other revenue	15,191	25,022	(9,831)	(39.3)
<b>Total revenue</b>	<b>463,306</b>	<b>479,969</b>	<b>(16,663)</b>	<b>(3.5)</b>

#### 3.1.1. Oil and oil products transportation services

Increase in revenue from oil transportation services amounted to RUB 3,130 or by 1.0% for the six months ended 30 June 2018 comparable to the same period of 2017 and was attributable to change in tariffs with simultaneous decrease of revenue from change in oil transportation turnover and turnover volumes and adoption of requirements of the new IFRS 15 *Revenue from contracts with customers* (ref. to 3.1).

Increase in revenue from oil products transportation services by RUB 1,849 or by 5.3% for the six months ended 30 June 2018 compared to the same period of 2017 was driven by changes in oil products transportation tariffs, changes in turnover volumes with simultaneous decrease of revenue from adoption of requirements of the new IFRS 15 *Revenue from contracts with customers* (ref. to 3.1).

#### 3.1.2. Revenue from sales of crude oil

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

Increase in revenue from export sales of crude oil by RUB 22,472 or 34.2% for the six months ended 30 June 2018 compared to the six months ended 30 June 2017 was mainly a result of growth in average oil market price per barrel set in USD as well as increase of average USD/RUB exchange rate during the reporting period as compared to the same period of the previous year which resulted in the growth of average oil price per barrel set in RUB for the six months ended 30 June 2018 as compared to the same period of preceding year.

Decrease in revenue from domestic sales of crude oil for the six months ended 30 June 2018 by RUB 745 or by 14.2% compared to the same period of the preceding year was a result of decrease of sale volumes of crude oil.

#### 3.1.3. Revenue from oil compounding services

Decline in revenue from oil compounding services by RUB 347 or by 10.8% for the six months ended 30 June 2018 compared to the six months ended 30 June 2017 was a result of decrease in oil compounding volumes by 13.3% (19,755.5 thousand tons for the six months ended 30 June 2018; 22,793.7 thousand tons for the six months ended 30 June 2017).

#### 3.1.4. Other revenue

Other revenue includes revenue from oil and oil products storage services, communication services, diagnostic services, construction services, information services related to oil transportation, rent services, resale of goods, organisation of transporting of cargos, revenue from provision of other services.

Decrease in other revenue for the six months ended 30 June 2018 compared to the relative period of the previous year by RUB 1,344 or 11.9% was mainly driven by recognition of revenue from services of providing of access to pipeline system in the six months ended 30 June 2017 (ref. to 3.1).



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### 3.2. Operating expenses net of depreciation and amortisation

Operating expenses net of amortisation and depreciation for the six months ended 30 June 2018, and the six months ended 30 June 2017, are detailed in the table below:

Operating expense line items	Six months ended 30 June 2018	Share of total expenses, %	Six months ended 30 June 2017	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	76,890	30.2	68,304	30.7	8,586	12.6
Energy	21,665	8.5	21,341	9.6	324	1.5
Materials	14,263	5.6	14,543	6.5	(280)	(1.9)
Repair and maintenance of relevant technical condition of pipeline	6,295	2.5	6,050	2.7	245	4.0
Insurance expenses	3,068	1.2	3,061	1.4	7	0.2
Taxes (other than income tax)	18,112	7.1	14,481	6.5	3,631	25.1
Pension expense	4,028	1.6	3,464	1.6	564	16.3
Cost of crude oil sold in the domestic market	3,839	1.5	4,822	2.2	(983)	(20.4)
Cost of oil products sold	2,157	0.8	2,182	1.0	(25)	(1.1)
Cost of other goods for resale sold	1,995	0.8	913	0.4	1,082	2.2 times
Other operating expenses	14,554	5.6	17,608	7.8	(3,054)	(17.3)
<b>Operating expenses (net of export crude oil sales)</b>	<b>166,866</b>	<b>65.4</b>	<b>156,769</b>	<b>70.4</b>	<b>10,097</b>	<b>6.4</b>
Cost of export crude oil sales (including export custom duties)	88,114	34.6	66,003	29.6	22,111	33.5
<b>Operating expenses net of depreciation and amortisation</b>	<b>254,980</b>	<b>100.0</b>	<b>222,772</b>	<b>100.0</b>	<b>32,208</b>	<b>14.5</b>

For the six months ended 30 June 2018, compared to the six months ended 30 June 2017, the amount of operating expenses net of depreciation and amortisation increased by RUB 32,208 or by 14.5%.

Insignificant increase of the operating expenses net of amortisation and depreciation was driven by the following factors:

- increase in the cost of export crude oil sales (ref. to 3.2.6);
- increase of salaries, insurance contributions and social expenses (ref. to 3.2.1);
- increase of other taxes (ref. to 3.2.7).



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**3.2 Operating expenses net of amortisation and depreciation (continued)**

After applying inflation rates\*, operating expenses net of amortisation and depreciation for the six months ended 30 June 2018, and for the six months ended 30 June 2017, were as follows:

Operating expense line items	Six months ended 30 June 2018	Share of total expenses, %	Inflation rates (2018 to 2017), %*	Six months ended 30 June 2017 (inflated to 2018)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	76,890	30.2	2.6	70,080	29.2	6,810	9.7
Energy	21,665	8.5	5.9	22,600	9.4	(935)	(4.1)
Materials	14,263	5.6	2.7	14,936	6.2	(673)	(4.5)
Repair and maintenance of relevant technical condition of pipeline	6,295	2.5	4.9	6,346	2.7	(51)	(0.8)
Insurance expenses	3,068	1.2	2.6	3,141	1.3	(73)	(2.3)
Taxes (other than income tax)	18,112	7.1	2.7	14,872	6.2	3,240	21.8
Pension expense	4,028	1.6	2.6	3,554	1.5	474	13.3
Cost of crude oil sold in the domestic market	3,839	1.5	16.5	5,618	2.3	(1,779)	(31.7)
Cost of oil products sold	2,157	0.8	18.1	2,577	1.1	(420)	(16.3)
Cost of other goods for resale sold	1,995	0.8	2.7	938	0.4	1,057	2.1 times
Other operating expenses	14,554	5.6	2.7	18,083	7.6	(3,529)	(19.5)
<b>Operating expenses (net of export crude oil sales)</b>	<b>166,866</b>	<b>65.4</b>	<b>X</b>	<b>162,745</b>	<b>67.9</b>	<b>4,121</b>	<b>2.5</b>
Cost of export crude oil sales (including export custom duties)	88,114	34.6	16.5	76,893	32.1	11,221	14.6
<b>Operating expenses net of amortisation and depreciation</b>	<b>254,980</b>	<b>100.0</b>	<b>X</b>	<b>239,638</b>	<b>100.0</b>	<b>15,342</b>	<b>6.4</b>

\*The inflation rates used are based on the prepared by the Ministry of Economic Development forecast of social-economic development of the Russian Federation for 2018 and forecast periods of 2019 and 2020.

Unit costs are analysed by Oil transportation and Oil products transportation activities based on indicators developed under the Russian Accounting Standards

Unit costs are calculated using operating expenses indicator based on aggregated RAS data which considers the previous year data adjusted for conditions of the reporting period.

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
<b>Oil transportation services</b>				
Turnover, mln tons x km	595,032	604,935	(9,903)	(1.6)
Unit costs per 100 tons x km, RUB (2017 figures inflated to 2018)	18.11	17.87	0.24	1.3
Unit costs per 100 tons x km net of new facilities expenditure, RUB (2017 figures inflated to 2018)	17.79	17.87	(0.07)	(0.4)



### 3.2 Operating expenses net of amortisation and depreciation (continued)

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
<b>Oil products transportation services</b>				
Volume turnover, mln of tons	19.7	16.6	3.1	18.7
Unit costs per ton (2017 figures inflated to 2018), RUB	700.96	689.26	11.70	1.7
Unit costs per ton net of new facilities expenditure (2017 figures inflated to 2018), RUB	622.56	689.26	(66.70)	(9.7)

#### 3.2.1. Salaries, insurance contributions and social expenses

Salaries comprise wages, accrual of provision for annual bonus, provision for unused vacation and other remuneration in accordance with IAS 19 *Employee benefits*.

For the six months ended 30 June 2018 salaries, insurance contributions and social expenses increased by RUB 8,586, or by 12.6% due to increase of insurance contributions to non-state funds because of growth in accrual limit, indexation of salaries held in the second half of 2017, increase in the number of employees connected to construction and putting into use of new trunk pipeline facilities.

#### 3.2.2. Pension expense

Transneft has set the protection of the life and health of its employees as well as the creation of safe working conditions for them as its highest priority. One of the key tasks of social policy is to create conditions for effective work and social protection of workers.

An important area of social protection of employees of the industry is a non-state pension system providing various options for pension plans.

Pension expenses changed under following factors which influence expenses:

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

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
Employers' contributions to JSC "NPF "Transneft" in favor of employees	2,611	2,800	(189)	(6.8)

#### 3.2.3. Energy

Energy expenses for the six months ended 30 June 2018 decreased by RUB 324 or 1.5% compared to the same period of the previous year. The decrease of energy (power) expenses was caused by decline of weighted-average tariff for energy (power) and putting into use of new trunk pipeline facilities.

The movement of energy consumption for oil transporting and oil products transporting subsidiaries of the Group is presented in the table below:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
Consumption of energy, mln kW*h	7,143	7,253	(110)	(1.5)

#### 3.2.4. Materials

Expenses on materials for the six months ended 30 June 2018 as compared to the same period of 2017, decreased by RUB 280 or 1.9%.

#### 3.2.5. Repair and maintenance of relevant technical condition of pipeline

The amount of expense for repair and maintenance of relevant technical condition of pipeline decreased for the reporting period by RUB 245 or by 4.0% as compared to the relative period of the previous year.



### 3.2 Operating expenses net of amortisation and depreciation (continued)

#### 3.2.6. Cost of crude oil sold

The cost of export crude oil sales for the six months ended 30 June 2018 in the amount of RUB 88,114 includes cost of sales in the amount of RUB 68,238 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 19,876. This figure is a result of oil supplies to the People's Republic of China (ref. to 3.1.2.).

Decrease in cost of oil sold in the domestic market for the six months ended 30 June 2018 amounted to RUB 983 or 20.4% as compared to the relative period of 2017 and was caused by decrease in sale volumes of oil by the Group's subsidiaries.

#### 3.2.7. Taxes (other than income tax)

The amount of the Group's other taxes recognised in operating expenses primarily contains property tax, tax on land and transport tax. The increase of these items by RUB 3,631 or 25.1% was mainly caused by the increase of the property tax expense (ref. to 2.4).

#### 3.2.8. Other operating expenses

Other expenses include communication services, rent expenses, transportation services, business trip expenses, the summarized gains and losses relating to disposal of property, plant and equipment and other assets, changes in provision for bad debts, fines and penalties received and paid, as well as other income and expenses.

### 3.3. Share of results from associates and jointly controlled entities

The Group holds a number of financial investments in associated and jointly controlled entities reported on an equity method basis. The main activities of those entities are stevedoring operations, towing services, ship repair and the provision of additional port services, cargo handling, transport of oil products, wholesale of electric and heat power.

The change of the amount recognised by the Group in "Share of (loss)/profit from associates and jointly controlled entities" for the six months ended 30 June 2018 as compared to the relative period of 2017 amounted to RUB 9,509 and was mainly caused by the results of the closed combined mutual fund "Gazprombank-Finansoviy".

### 3.4. Finance income and costs

#### Interest income and expenses

Interest income is generated from depositing available cash in bank accounts, deposits as well as investing in fixed-income securities.

Interest income	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
Interest income from cash and equivalents	3,303	2,267	1,036	45.7
Interest income from other financial assets	7,172	7,852	(680)	(8.7)
Other interest income	908	409	499	2.2 times
<b>Total interest receivable</b>	<b>11,383</b>	<b>10,528</b>	<b>855</b>	<b>8.1</b>
Less interest income on the temporary investment of borrowings	-	(247)	247	x
<b>Total interest income recognised in the statement of profit or loss and other comprehensive income</b>	<b>11,383</b>	<b>10,281</b>	<b>1,102</b>	<b>10.7</b>



### 3.4. Finance income and costs (continued)

Accrued interest expenses and amounts of interest expenses to be capitalised from loans, borrowings and liabilities for the compared periods were as follows:

Interest expenses	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
Interest expenses on loans and borrowings	30,313	23,364	6,949	29.7
Distribution of investment income to pension liabilities	2,364	2,955	(591)	(20.0)
Other interest expenses	5,340	1,992	3,348	2.7 times
<b>Total interest expenses</b>	<b>38,017</b>	<b>28,311</b>	<b>9,706</b>	<b>34.3</b>
Less interest expenses to be capitalised from loans, borrowings and liabilities	(4,003)	(3,292)	(711)	21.6
<b>Total interest expense recognised in the statement of profit or loss and other comprehensive income</b>	<b>34,014</b>	<b>25,019</b>	<b>8,995</b>	<b>36.0</b>

The amount of interest expenses was composed of:

- interest payable on the USD denominated loan obtained from the China Development Bank Corporation;
- interest payable on USD denominated Eurobonds;
- interest payable on corporate bonds issued in Russian roubles;
- interest payable on marketable bonds issued in Russian roubles;
- interest payable on loans received in Russian roubles.

The dynamics of interest expenses on loans and borrowings for the six months ended 30 June 2018 as compared to the similar period of 2017 was mainly driven by increase of total debt.

Increase of other interest expenses for the six months ended 30 June 2018 as compared to the relative period of the previous year was mainly caused by recognition of interest expense from adoption of the requirements of the new IFRS 15 *Revenue from Contracts with Customers* as part of financing of technological connection to the trunk pipelines in accordance with contracts for setting long-term (agreed) tariffs for oil transportation and long-term advance payments.

During the six months ended 30 June 2018, interest in the amount of RUB 4,003 was capitalised as part of cost of assets under construction (for the six months ended 30 June 2017 – RUB 3,045) including:

- interest expenses to be capitalised from loans, borrowings and liabilities in the amount of RUB 4,003 (for the six months ended 30 June 2017 – RUB 3,292);
- there was no interest income to be excluded from interest expenses to be capitalised (for the six months ended 30 June 2017 – RUB 247).

#### Foreign currency exchange gains and losses

The amount of foreign currency exchange gains and losses for the six months ended 30 June 2018, compared to the same period of 2017, was a result of changes in the exchange rate of the US dollar to the Russian rouble.

Due to a remeasurement of assets and liabilities denominated in foreign currency at the end of every month, foreign currency gains and losses arise, which are presented in the condensed consolidated interim financial statements on a gross basis.





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**3.4. Finance income and costs (continued)**

Foreign exchange differences by sources are disclosed in the table below:

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
Foreign exchange gains on financial assets	17,013	13,311	3,702	27.8
Foreign exchange gains on loans and borrowings	8,184	37,891	(29,707)	(78.4)
Other foreign exchange gains	18,461	3,887	14,574	4.7 times
<b>Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income</b>	<b>43,658</b>	<b>55,089</b>	<b>(11,431)</b>	<b>(20.8)</b>
Foreign exchange loss on financial assets	(6,057)	(21,928)	15,871	(72.4)
Foreign exchange loss on loans and borrowings	(21,623)	(23,665)	2,042	(8.6)
Other foreign exchange loss	(3,019)	(4,074)	1,055	(25.9)
<b>Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income</b>	<b>(30,699)</b>	<b>(49,667)</b>	<b>18,968</b>	<b>(38.2)</b>
<b>Net foreign exchange gain</b>	<b>12,959</b>	<b>5,422</b>	<b>7,537</b>	<b>2.4 times</b>

Dynamics of exchange differences presented in the table was driven by decline of RUB to USD during the six months ended 30 June 2018, as well as exceeding of financial assets over liabilities denominated in USD (ref. to 2.2). Wherein the increase of other foreign exchange gains was mainly caused by the growth of cash and cash equivalents denominated in USD.

**3.5. Reconciliation of profit and earnings before interest, income tax, depreciation and amortisation (EBITDA)**

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change, %
<b>Profit for the period</b>	<b>92,070</b>	<b>113,879</b>	<b>(19.2)</b>
Adjustments for:			
income tax expense	23,592	33,325	(29.2)
amortisation and depreciation	86,960	75,830	14.7
result of crude oil sales to China	(112)	249	x
net finance costs	9,589	9,020	6.3
share of loss/ (profit) from associates and jointly controlled entities	33	(9,476)	x
other income	(3,918)	(7,100)	(44.8)
<b>EBITDA*</b>	<b>208,214</b>	<b>215,727</b>	<b>(3.5)</b>

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

EBITDA is a useful indicator for investors, as it reflects the Group's operating performance, including its ability to finance capital expenditures, company acquisitions, and other investments, as well as its ability to raise and service borrowings and loans. Some investors, analysts, and rating agencies tend to use EBITDA as a basis for estimating and projecting the efficiency and value of oil & gas companies. This indicator should not be considered separately, as an alternative to net income, operating income, or any other of Group's performance indicators reported in its condensed consolidated interim financial statements in accordance with IFRS.



#### 4. Cash flow analysis

	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
Cash flows from operating activities	158,386	131,236	27,150	20.7
Cash flows used for purchase of property, plant and equipment, net	(126,348)	(151,572)	25,224	(16.6)
<b>Free cash flow</b>	<b>32,038</b>	<b>(20,336)</b>	<b>52,374</b>	<b>X</b>
Cash flows (used in)/ received from investing activities	(10,588)	329	(10,917)	X
Cash flows received from financing activities	76,807	21,319	55,488	3.6 times
<b>Net cash flow</b>	<b>98,257</b>	<b>1,312</b>	<b>96,945</b>	<b>74.9 times</b>
Change in cash and cash equivalents due to deviation of currency exchange rate	11,655	(93)	11,748	X
<b>Net increase in cash and cash equivalents</b>	<b>109,912</b>	<b>1,219</b>	<b>108,693</b>	<b>90.2 times</b>

Positive free cash flow for the six months ended 30 June 2018 amounted to RUB 32,038 (negative free cash flow for the six months ended 30 June 2017 amounted to RUB 20,336).

##### 4.1. Operating activities

Cash received from operating activities is the Group's main source of cash. The net cash generated from operating activities amounted to RUB 158,386 for the six months ended 30 June 2018, which is RUB 27,150 or 20.7% higher than for the six months ended 30 June 2017.

The main factors which influenced on the increase of cash generated from operating activities for the six months ended 30 June 2018 as compared to the similar period in 2017 were as follows:

- increase in cash received from customers by RUB 29,590;
- increase in cash paid to suppliers by RUB 27,328;
- increase in refunds of insurance contributions, VAT and other taxes from the budget by RUB 19,169;
- decrease in income tax paid amounting to RUB 12,208;
- increase in interest paid by RUB 3,578;
- increase other cash used in operating activities by RUB 2,794.

##### 4.2. Investing activities

The primary factors resulting in an decrease in cash used in investing activities disclosed in condensed consolidated interim cash flow statement by RUB 14,307 or 9.5% for the six months ended 30 June 2018 compared to the same period of 2017 were:

- decrease in the net amount of purchase of property, plant and equipment by RUB 25,224 as compared to the relative period of the previous year;
- increase of cash used in other investing activities amounted to RUB 10,917 because of the following operations:
  - increase in cash used in purchase-and-sale transactions of debt securities, equity securities and allocation-closure of deposits in the amount of RUB 51,361 compared to the relative period of the previous year;
  - decrease in cash outflow for the six months ended 30 June 2018 comparing to the same period of the preceding year paid for acquisition of share of associates and jointly controlled entities by RUB 59,845 which was a result of acquisition of 57.41% share in closed combined mutual investment fund "Gazprombank – Finansoviy" for RUB 60,000 for the six months ended 30 June 2017;
  - decrease in cash received from dividends and other cash received from associates and jointly controlled entities by 27,142 for the six months ended 30 June 2018 comparing to the same period of the preceding year;
  - cash inflow in the result of obtaining ownership over 100% of shares of CPC Company and CPC Investments Company for the amount of RUB 5,203 during the six months ended 30 June 2018;
  - increase in interest received by RUB 1,775 as compared to the relative period of the previous year.



#### **4.3. Financing activities**

The main factors which influenced on the increase of cash inflow from financing activities for the six months ended 30 June 2018 in the amount of RUB 55,488 as compared to the relative periods of the previous year were:

- net proceeds in the amount of RUB 160,783 from issuance of bonds and loans received in for the six months ended 30 June 2018 and as compared to the relative period of the previous year;
- increase of cash flows used for repayment of bonds, loans and borrowings for the six months ended 30 June 2018 as compared to the relative period of 2017 by RUB 105,252 which was a result of the following operations:
  - for the six months ended 30 June 2018 monthly repayments and early repayments of the loan to China Development Bank in the total amount of USD 2,902.2 mln (RUB 166,140 at the rate of Central Bank of the Russian Federation on the dates of operations) as compared to the monthly payments of USD 883.3 mln (RUB 50,747 at the rate of Central Bank of the Russian Federation on the dates of operations) for the same period of the previous year;
  - RUB denominated bonds were repaid (repurchased) in the amount of RUB 12 (RUB 10 billion for the relative period of the previous year).



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**4.4. Disclosure of cash flows from operating activities using indirect method**

Cash flows received from operating activities using the indirect method are disclosed in the table below in addition to the condensed consolidated interim statement of cash flows prepared using the direct method and disclosed in the condensed consolidated interim financial statements prepared in accordance with IFRS for the six months ended 30 June 2018.

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

- (a) changes during the reporting period in inventories and operating receivables and payables;
- (b) non-cash items such as amortisation and depreciation, provisions, unrealized foreign currency gains and losses, interest income and expenses, share of profit from associates and jointly controlled entities;
- (c) all other items for which the cash effects are investing or financing cash flows.

OPERATING ACTIVITIES	Six months ended 30 June 2018	Six months ended 30 June 2017	Absolute change	Change, %
<b>Profit before income tax</b>	<b>115,662</b>	<b>147,204</b>	<b>(31,542)</b>	<b>(21.4)</b>
<b>Adjustments for:</b>				
Amortisation and depreciation	86,960	75,830	11,130	14.7
(Gain)/ loss from disposal of property, plant and equipment	(156)	323	(479)	x
Finance income	(55,229)	(66,028)	10,799	(16.4)
Finance costs	64,818	75,048	(10,230)	(13.6)
Share of loss/ (profit) from associates and jointly controlled entities	33	(9,476)	9,509	x
Other	(8,665)	(8,597)	(68)	0.8
<b>Operating profit before changes in working capital and reserves</b>	<b>203,423</b>	<b>214,304</b>	<b>(10,881)</b>	<b>(5.1)</b>
Changes in operating assets and liabilities:				
Changes in inventories	2,311	(780)	3,091	x
Changes in trade and other receivables relating to operating activity and VAT assets	(10,726)	(11,307)	581	(5.1)
Changes in trade and other payables, and accruals relating to operating activity	154	(22,544)	22,698	x
Changes in contract liabilities	3,148	-	3,148	x
<b>Cash flows from operating activities before payment of income tax expense and interest</b>	<b>198,310</b>	<b>179,673</b>	<b>18,637</b>	<b>10.4</b>
Income tax paid	(19,647)	(31,855)	12,208	(38.3)
Income tax refund	135	252	(117)	(46.4)
Interest paid	(20,412)	(16,834)	(3,578)	21.3
<b>Net cash flows received from operating activities</b>	<b>158,386</b>	<b>131,236</b>	<b>27,150</b>	<b>20.7</b>



## 5. Liquidity analysis

	30 June 2018	31 December 2017	Change, %
Current assets	606,974	457,864	32.6
including:			
cash and cash equivalents	186,074	76,162	2.4 times
short-term bank deposits and bonds*	301,555	265,306	13.7
Current liabilities	406,046	280,455	44.8
Net working capital	200,928	177,409	13.3
Current ratio	1.5	1.6	x
Quick ratio**	1.3	1.4	x
Debt/ EBITDA	1.9	1.7	x
Debt/ Equity	0.4	0.4	x

\* The main part of short-term bank deposits and bonds consist of deposits and bonds issued by banks and other companies with credit ratings at Ba1 – Ba2 at the Moody's adjusted scale. Thus, short-term bank deposits and bonds consist of highly reliable or reliable financial instruments issued by credit organisations and companies.

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