

TRANSNEFT

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 September 2018 and results of operations for the nine months ended 30 September 2018, compared to the nine months ended 30 September 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 nine months ended 30 September 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

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change, %
Revenue	716,012	657,802	8.8
Profit for the period	170,996	166,845	2.5
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	314,637	317,718	(1.0)
Oil delivered to consignees, mln tons	357.5	356.9	0.2
including:			
Russian oil refineries, mln tons	187.2	181.8	3.0
transshipment into the CPC-R system, mln tons	-	0.002	X
exports to neighboring countries, mln tons	14.1	13.9	1.4
exports to other countries, mln tons	156.2	161.3	(3.2)
Oil products delivered to consignees, mln tons	30.2	25.0	20.8
including:			
Russia's domestic market, mln tons	8.3	7.3	13.7
exports to the Customs Union member countries, mln tons	0.3	0.4	(25.0)
exports to other countries, mln tons	21.6	17.4	24.1

\* 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:

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
<b>Profit for the period</b>	<b>170,996</b>	<b>166,845</b>	<b>4,151</b>	<b>2.5</b>
Net gain from foreign exchange differences	(18,891)	(7,779)	(11,112)	2.4 times
Net interest expense	31,948	22,165	9,783	44.1
Net loss from operations with financial instruments	443	7	436	63.3 times
Share of profit from associates and jointly controlled entities	(6,294)	(14,775)	8,481	(57.4)
Fair value remeasurement of the previously held share of PJSC NCSP (Omirico Limited) at the date of acquisition	(25,371)	-	(25,371)	x
Effect of adoption of IFRS 15	16,332	-	16,332	x
<b>Adjusted profit for the period</b>	<b>169,163</b>	<b>166,463</b>	<b>2,700</b>	<b>1.6</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 September 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 nine months ended 30 September 2018 the Group transported about 84% of oil produced in Russia and more than 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.

In September 2018 the Group acquired control over PJSC NCSP. PJSC NCSP and its subsidiaries are established and operate mainly in the territory of the Russian Federation. The NCSP Group consists of stevedoring companies with different activities, including transshipment of oil and oil products. The main subsidiaries of PJSC NCSP are located in the eastern sector of the Black sea, in the Leningrad and Kaliningrad Districts.



### **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 2017 and nine months ended 30 September 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-Volgohradneftepererabotka 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;
  - Order of FAS of Russia of 07.06.2018 No. 780/18 Concerning the setting of tariff for the services of Transneft for loading of oil from trunk pipeline system to OOO RN-Komsomolskiy NPZ and concerning changes in the 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.
- 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 Russia 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;



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

- 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;
- 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;
- Order of the FAS of Russia of 12.02.2018 No. 156/18 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 the FAS 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 FAS of Russia of 11.04.2018 No. 461/18 Concerning the setting of tariff for services of Transneft for oil products transportation services through OOO KINEF – MP Primorsk for OAO Surgutneftegaz;
- Order of the FAS of Russia of 08.06.2018 No. 782/18 About cancelling of the order of the FAS 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.

## 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 USD and Kazakhstan tenge do not significantly affect the Group's operating results as the portion of revenue which is paid for in these currencies in the total revenue is relatively small.

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change, %
Change in the rouble's exchange rate against the US dollar for the reporting period, %	13.9	(4.4)	x
Average exchange rate for the period (RUB per US dollar)	61.44	58.33	5.3
Exchange rate at the end of the period (RUB per US dollar)	65.59	58.02	13.1
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:

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change, pp
Rouble inflation (CPI), %	2.5	1.7	0.8





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## 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:

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change, %
Current income tax	36,515	44,738	(18.4)
Property tax	28,543	22,174	28.7
Other taxes and levies	554	829	(33.2)

### 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.

### Property tax

The amount of property tax increased by RUB 6,369 or by 28.7%. The increase was a result of putting into use of new facilities, 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.



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### 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 nine months ended 30 September 2018 and the relative period of 2017.

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
<b>Revenue</b>	<b>716,012</b>	<b>657,802</b>	<b>58,210</b>	<b>8.8</b>
Revenue from oil transportation services	484,260	472,443	11,817	2.5
Revenue from oil products transportation services	56,076	50,575	5,501	10.9
Revenue from crude oil sales	150,362	107,083	43,279	40.4
Other revenue	25,314	27,701	(2,387)	(8.6)
Operating expenses net of depreciation and amortisation	(401,109)	(340,385)	(60,724)	17.8
<b>Operating profit net of depreciation and amortisation</b>	<b>314,903</b>	<b>317,417</b>	<b>(2,514)</b>	<b>(0.8)</b>
Depreciation and amortisation	(132,306)	(114,397)	(17,909)	15.7
<b>Operating profit</b>	<b>182,597</b>	<b>203,020</b>	<b>(20,423)</b>	<b>(10.1)</b>
Other income	33,078	7,874	25,204	4.2 times
Share of profit from associates and jointly controlled entities	6,294	14,775	(8,481)	(57.4)
<b>Profit before income tax and finance income/ (costs)</b>	<b>221,969</b>	<b>225,669</b>	<b>(3,700)</b>	<b>(1.6)</b>
Net finance costs	(13,500)	(14,393)	893	(6.2)
<b>Profit before income tax</b>	<b>208,469</b>	<b>211,276</b>	<b>(2,807)</b>	<b>(1.3)</b>
Income tax expense	(37,473)	(44,431)	6,958	(15.7)
<b>Profit for the reporting period</b>	<b>170,996</b>	<b>166,845</b>	<b>4,151</b>	<b>2.5</b>
Other comprehensive income/ (loss), net of income tax	2,545	(768)	3,313	x
<b>Total comprehensive income, net of income tax</b>	<b>173,541</b>	<b>166,077</b>	<b>7,464</b>	<b>4.5</b>

Increase in other income during the reporting period was mainly caused by recognition of gain in the amount of RUB 25,371 as a result of fair value remeasurement of the previously held 35.57% nominal share of PJSC NCSP (Omirico Limited) as at the acquisition date.



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### 3.1. Revenue

#### 3.1.1. Revenue breakdown by type of activities

Revenue by type of activities	Nine months ended 30 September 2018	Share of total revenue, %	Nine months ended 30 September 2017	Share of total revenue, %	Absolute change	Change, %
<b>Revenue from crude oil transportation services:</b>	<b>484,260</b>	<b>67.6</b>	<b>472,443</b>	<b>71.8</b>	<b>11,817</b>	<b>2.5</b>
Domestic sales	195,694	27.3	191,620	29.1	4,074	2.1
Export sales	288,566	40.3	280,823	42.7	7,743	2.8
Revenue from oil products transportation services	56,076	7.8	50,575	7.7	5,501	10.9
Revenue from oil compounding services	4,342	0.6	4,734	0.7	(392)	(8.3)
Revenue from sales of crude oil in the domestic market	4,484	0.6	7,134	1.1	(2,650)	(37.1)
Revenue from sales of oil products	4,100	0.6	3,766	0.6	334	8.9
Other revenue	16,872	2.4	19,201	2.9	(2,329)	(12.1)
<b>Total revenue (without revenue from export sales)</b>	<b>570,134</b>	<b>79.6</b>	<b>557,853</b>	<b>84.8</b>	<b>12,281</b>	<b>2.2</b>
Revenue from export sales of crude oil	145,878	20.4	99,949	15.2	45,929	46.0
<b>Total revenue</b>	<b>716,012</b>	<b>100.0</b>	<b>657,802</b>	<b>100.0</b>	<b>58,210</b>	<b>8.8</b>

For the nine months ended 30 September 2018, the Group's revenue increased by RUB 58,210 or by 8.8%, 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 nine months ended 30 September 2018 increased by RUB 12,281 or 2.2% compared to the same period of the previous year and accounted for 79.6% of total revenue 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.



### 3.1.1. Revenue breakdown by type of activities (continued)

The table below provides data adjusted for the 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*.

	Nine months ended 30 September 2018	Nine months ended 30 September 2018 (without IFRS 15 impact)	Absolute change	Change, %
Revenue from oil transportation services	484,260	493,278	(9,018)	(1.8)
Revenue from crude oil sales	150,362	150,362	-	-
Revenue from oil products transportation services	56,076	57,267	(1,191)	(2.1)
Other revenue	25,314	35,520	(10,206)	(28.7)
<b>Total revenue</b>	<b>716,012</b>	<b>736,427</b>	<b>(20,415)</b>	<b>(2.8)</b>

### 3.1.2. Oil and oil products transportation services

Increase in revenue from oil transportation services amounted to RUB 11,817 or by 2.5% for the nine months ended 30 September 2018 comparable to the same period of 2017 and was attributable to growth of tariffs with simultaneous decline in revenue from change in turnover and the effect of adoption of requirements of the new IFRS 15 *Revenue from contracts with customers* (ref. to 3.1.1).

Increase in revenue from oil products transportation services by RUB 5,501 or by 10.9% for the nine months ended 30 September 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 3.1.1).

### 3.1.3. 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 loan obtained from the China Development Bank was paid off fully during the nine months ended 30 September 2018 (ref. to 4.2). The respective oil volumes are being purchased from Rosneft.

Increase in revenue from export sales of crude oil by RUB 45,929 or 46.0% for the nine months ended 30 September 2018 compared to the nine months ended 30 September 2017 was mainly a result of growth in average oil market price per barrel set in USD and a simultaneous growth of the average USD exchange rate as during the reporting period compared to the same period of preceding year.

Decrease in revenue from domestic sales of crude oil for the nine months ended 30 September 2018 by RUB 2,650 or by 37.1% compared to the same period of the preceding year was a result of decrease of sale volumes of crude oil.

### 3.1.4. Revenue from oil compounding services

Decline in revenue from oil compounding services by RUB 392 or by 8.3% for the nine months ended 30 September 2018 compared to the nine months ended 30 September 2017 was a result of decrease in oil compounding volumes by 11.1% (29,761.5 thousand tons for the nine months ended 30 September 2018; 33,471.8 thousand tons for the nine months ended 30 September 2017).

### 3.1.5. Other revenue

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

Decrease in other revenue for the nine months ended 30 September 2018 compared to the relative period of the previous year by RUB 2,329 or 12.1% was mainly driven by decrease of revenue from services of technological connection to the trunk pipelines as a result of adoption of the new IFRS 15 *Revenue from contracts with customers* (ref. to 3.1.1).



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

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

Operating expense line items	Nine months ended 30 September 2018	Share of total expenses, %	Nine months ended 30 September 2017	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	117,960	29.4	106,585	31.3	11,375	10.7
Energy	32,364	8.1	30,946	9.1	1,418	4.6
Materials	22,302	5.6	23,002	6.8	(700)	(3.0)
Repair and maintenance of relevant technical condition of pipeline	12,162	3.0	11,695	3.4	467	4.0
Insurance expenses	4,680	1.2	4,527	1.3	153	3.4
Taxes (other than income tax)	27,394	6.8	21,500	6.3	5,894	27.4
Pension expense	5,220	1.3	4,531	1.3	689	15.2
Cost of export crude oil sales (including export custom duties)	145,612	36.3	100,250	29.5	45,362	45.2
Cost of crude oil sold in the domestic market	3,839	1.0	6,579	1.9	(2,740)	(41.6)
Cost of oil products sold	3,750	0.9	3,427	1.0	323	9.4
Cost of other goods for resale sold	2,803	0.7	1,682	0.5	1,121	66.6
Other operating expenses	23,023	5.7	25,661	7.6	(2,638)	(10.3)
<b>Operating expenses net of depreciation and amortisation</b>	<b>401,109</b>	<b>100.0</b>	<b>340,385</b>	<b>100.0</b>	<b>60,724</b>	<b>17.8</b>
Adjustments for:						
Taxes (other than income tax)	(27,394)	(6.8)	(21,500)	(6.3)	(5,894)	27.4
Cost of export crude oil sales (including export custom duties)	(145,612)	(36.3)	(100,250)	(29.5)	(45,362)	45.2
<b>Operating expenses net of depreciation and amortisation, taxes and export crude oil sales</b>	<b>228,103</b>	<b>56.9</b>	<b>218,635</b>	<b>64.2</b>	<b>9,468</b>	<b>4.3</b>

For the nine months ended 30 September 2018, compared to the nine months ended 30 September 2017, the amount of operating expenses net of depreciation and amortisation increased by RUB 60,724 or by 17.8%.

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

- increase of 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 depreciation and amortisation (continued)**

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

Operating expense line items	Nine months ended 30 September 2018	Share of total expenses, %	Inflation rates (2018 to 2017), %*	Nine months ended 30 September 2017 (inflated to 2018)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	117,960	29.4	2.7	109,463	29.1	8,497	7.8
Energy	32,364	8.1	4.4	32,308	8.6	56	0.2
Materials	22,302	5.6	4.1	23,945	6.4	(1,643)	(6.9)
Repair and maintenance of relevant technical condition of pipeline	12,162	3.0	4.9	12,268	3.3	(106)	(0.9)
Insurance expenses	4,680	1.2	2.7	4,649	1.2	31	0.7
Taxes (other than income tax)	27,394	6.8	4.1	22,382	5.9	5,012	22.4
Pension expense	5,220	1.3	2.7	4,653	1.2	567	12.2
Cost of export crude oil sales (including export custom duties)	145,612	36.3	25.8	126,115	33.5	19,497	15.5
Cost of crude oil sold in the domestic market	3,839	1.0	25.8	8,276	2.2	(4,437)	(53.6)
Cost of oil products sold	3,750	0.9	22.1	4,184	1.1	(434)	(10.4)
Cost of other goods for resale sold	2,803	0.7	4.1	1,751	0.5	1,052	60.1
Other operating expenses	23,023	5.7	4.1	26,713	7.0	(3,690)	(13.8)
<b>Operating expenses net of depreciation and amortisation</b>	<b>401,109</b>	<b>100.0</b>	<b>X</b>	<b>376,707</b>	<b>100.0</b>	<b>24,402</b>	<b>6.5</b>
Adjustments for:							
Taxes (other than income tax)	(27,394)	(6.8)	(4.1)	(22,382)	(5.9)	(5,012)	22.4
Cost of export crude oil sales (including export custom duties)	(145,612)	(36.3)	(25.8)	(126,115)	(33.5)	(19,497)	15.5
<b>Operating expenses net of depreciation and amortisation, taxes and export crude oil sales</b>	<b>228,103</b>	<b>56.9</b>	<b>X</b>	<b>228,210</b>	<b>60.6</b>	<b>(107)</b>	<b>(0.0)</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.



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

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.

<b>Oil transportation services</b>	<b>Nine months ended 30 September 2018</b>	<b>Nine months ended 30 September 2017</b>	<b>Absolute change</b>	<b>Change, %</b>
Turnover, mln tons x km	904,438	905,942	(1,504)	(0.2)
Unit costs per 100 tons x km (2017 figures inflated to 2018), RUB	18.25	18.41	(0.16)	(0.9)
Unit costs per 100 tons x km net of new facilities expenditure (2017 figures inflated to 2018), RUB	17.99	18.41	(0.43)	(2.3)
<b>Oil products transportation services</b>	<b>Nine months ended 30 September 2018</b>	<b>Nine months ended 30 September 2017</b>	<b>Absolute change</b>	<b>Change, %</b>
Volume turnover, mln of tons	30.2	25.0	5.2	20.8
Unit costs per ton (2017 figures inflated to 2018), RUB	728.49	752.02	(23.53)	(3.1)
Unit costs per ton net of new facilities expenditure (2017 figures inflated to 2018), RUB	655.80	752.02	(96.22)	(12.8)

#### 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 nine months ended 30 September 2018 salaries, insurance contributions and social expenses increased by RUB 11,375 or by 10.7% comparable to the same period of 2017 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.

	<b>Nine months ended 30 September 2018</b>	<b>Nine months ended 30 September 2017</b>	<b>Absolute change</b>	<b>Change, %</b>
Employers' contributions to JSC "NPF "Transneft" in favor of employees	3,345	3,458	(113)	(3.3)



### 3.2.3. Energy

Energy expenses for the nine months ended 30 September 2018 increased by RUB 1,418 or 4.6% compared to the same period of the previous year. The increase of energy (power) expenses was caused by increase 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:

	<b>Nine months ended 30 September 2018</b>	<b>Nine months ended 30 September 2017</b>	<b>Absolute change</b>	<b>Change, %</b>
Consumption of energy, mln kW*h	10,692	10,689	3	-

### 3.2.4. Materials

Expenses on materials for the nine months ended 30 September 2018 as compared to the same period of 2017 decreased by RUB 700 or 3.0%.

### 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 increased for the reporting period by RUB 467 or by 4.0%.

### 3.2.6. Cost of crude oil sold

The cost of export crude oil sales for the nine months ended 30 September 2018 in the amount of RUB 145,612 includes cost of sales in the amount of RUB 112,082 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 33,530. This figure is a result of oil supplies to the People's Republic of China (ref. to 3.1.3).

Decrease in cost of oil sold in the domestic market for the nine months ended 30 September 2018 amounted to RUB 2,740 or 41.6% 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 5,894 or 27.4% 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 and oil products, wholesale of electric and heat power.

The change of the amount recognised by the Group in "Share of profit from associates and jointly controlled entities" for the nine months ended 30 September 2018 as compared to the relative period of 2017 amounted to RUB 8,481 or by 57.4% 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 recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income

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

Interest income	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
Interest income from cash and cash equivalents	4,058	3,941	117	3.0
Interest income from other financial assets	10,360	11,557	(1,197)	(10.4)
Other interest income	1,652	660	992	2.5 times
<b>Total interest receivable</b>	<b>16,070</b>	<b>16,158</b>	<b>(88)</b>	<b>(0.5)</b>
Less interest income on the temporary investment of borrowings	-	(280)	280	x
<b>Total interest income recognised in the statement of profit or loss and other comprehensive income</b>	<b>16,070</b>	<b>15,878</b>	<b>192</b>	<b>1.2</b>

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	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
Interest expenses on loans and borrowings	43,963	36,482	7,481	20.5
Distribution of investment income to pension liabilities	3,011	3,781	(770)	(20.4)
Other interest expenses	8,424	3,061	5,363	2.8 times
<b>Total interest expenses</b>	<b>55,398</b>	<b>43,324</b>	<b>12,074</b>	<b>27.9</b>
Interest expenses on loans, borrowings and liabilities to be capitalized	(7,380)	(5,281)	(2,099)	39.7
<b>Total interest expense recognised in the statement of profit or loss and other comprehensive income</b>	<b>48,018</b>	<b>38,043</b>	<b>9,975</b>	<b>26.2</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 and US Dollars.



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

The dynamics of interest expenses on loans and borrowings for the nine months ended 30 September 2018 as compared to the similar period of 2017 was mainly driven by increase of average amount of loans and borrowings, as well as, increase of borrowed funds which were denominated in RUB and had higher interest rate as compared to borrowed funds denominated in USD.

Increase of other interest expenses and interest on loans and borrowings to be capitalised for the nine months ended 30 September 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 nine months ended 30 September 2018, interest in the amount of RUB 7,380 was capitalised as part of cost of assets under construction (for the nine months ended 30 September 2017 – RUB 5,001) including:

- interest expenses to be capitalised from loans, borrowings and liabilities in the amount of RUB 7,380 (for the nine months ended 30 September 2017 – RUB 5,281);
- there was no interest income to be excluded from interest expenses to be capitalised (for the nine months ended 30 September 2017 – RUB 280).

#### **Foreign currency exchange gains and losses recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income**

The amount of foreign currency exchange gains and losses for the nine months ended 30 September 2018, compared to the same period of 2017, was a result of changes in the exchange rate of USD to RUB.

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.

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

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
Foreign exchange gains on financial assets	24,760	15,488	9,272	59.9
Foreign exchange gains on loans and borrowings	10,972	47,331	(36,359)	(76.8)
Other foreign exchange gains	30,996	5,599	25,397	5.5 times
<b>Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income</b>	<b>66,728</b>	<b>68,418</b>	<b>(1,690)</b>	<b>(2.5)</b>
Foreign exchange loss on financial assets	(9,242)	(27,242)	18,000	(66.1)
Foreign exchange loss on loans and borrowings	(22,339)	(27,071)	4,732	(17.5)
Other foreign exchange loss	(16,256)	(6,326)	(9,930)	2.6 times
<b>Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income</b>	<b>(47,837)</b>	<b>(60,639)</b>	<b>12,802</b>	<b>(21.1)</b>
<b>Net foreign exchange gain</b>	<b>18,891</b>	<b>7,779</b>	<b>11,112</b>	<b>2.4 times</b>

Dynamics of exchange differences presented in the table was driven by decline of RUB to USD during the nine months ended 30 September 2018 (ref. to 2.2) as well as decline during the nine months ended 30 September 2018 amount of liabilities denominated in USD, caused by repayment of the loan obtained from China Development Bank and redemption of Eurobonds.



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

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Change, %
<b>Profit for the period</b>	<b>170,996</b>	<b>166,845</b>	<b>2.5</b>
Adjustments for:			
Income tax expense	37,473	44,431	(15.6)
Depreciation and amortisation	132,306	114,397	15.7
Result of crude oil sales to China	(266)	301	x
Net finance costs	13,500	14,393	(6.2)
Share of profit from associates and jointly controlled entities	(6,294)	(14,775)	(57.4)
Other income, incl.	(33,078)	(7,874)	4.2 times
<i>Fair value remeasurement of the previously held share in PJSC NCSP (Omirico Limited) as at the date of acquisition</i>	<i>(25,371)</i>	-	x
<b>EBITDA*</b>	<b>314,637</b>	<b>317,718</b>	<b>(1.0)</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

	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
Cash flows received from operating activities	223,123	203,272	19,851	9.8
Cash flows used for purchase of property, plant and equipment, net	(192,148)	(221,404)	29,256	(13.2)
<b>Free cash flow</b>	<b>30,975</b>	<b>(18,132)</b>	<b>49,107</b>	<b>x</b>
Cash flows received from investing activities	81,284	80,973	311	0.4
Cash flows used in financing activities	(110,382)	(19,311)	(91,071)	5.7 times
<b>Net cash flow</b>	<b>1,877</b>	<b>43,530</b>	<b>(41,653)</b>	<b>(95.7)</b>
Change in cash and cash equivalents due to deviation of currency exchange rate	11,151	(399)	11,550	x
<b>Net increase in cash and cash equivalents</b>	<b>13,028</b>	<b>43,131</b>	<b>(30,103)</b>	<b>(69.8)</b>

Positive free cash flow for the nine months ended 30 September 2018 amounted to RUB 30,975 (negative free cash flow for the nine months ended 30 September 2017 amounted to RUB 18,132).

### 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 223,123 for the nine months ended 30 September 2018, which is RUB 19,851 or 9.8% higher than for the nine months ended 30 September 2017.



#### 4.1. Operating activities (continued)

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

- increase in cash received from customers by RUB 65,324;
- increase in cash paid to suppliers by RUB 62,695;
- increase in refunds of insurance contributions, VAT and other taxes from the budget by RUB 18,852;
- decrease in income tax paid amounting to RUB 9,015;
- increase in interest paid by RUB 8,527;
- increase in other cash used in operating activities by RUB 2,008.

#### 4.2. Investing activities

The primary factors resulting in a decrease in cash used in investing activities disclosed in condensed consolidated interim statement of cash flows by RUB 29,567 or 21.1% for the nine months ended 30 September 2018 compared to the same period of 2017 were:

- decrease in the net amount of purchase of property, plant and equipment by RUB 29,256 as compared to the relative period of the previous year;
- increase of cash used in other investing activities amounted to RUB 311 because of the following operations:
  - decrease in net cash proceeds from purchase-and-sale transactions of debt securities, equity securities and allocation-closure of deposits in the amount of RUB 22,436 compared to the relative period of the previous year;
  - decrease in cash paid for the acquisition of share of associates and jointly controlled entities for the nine months ended 30 September 2018 as compared to the same period of the preceding year by RUB 59,845 because of acquisition during the nine months ended 30 September 2017 of 57.41% share in closed combined mutual investment fund “Gazprombank – Finansoviy” for RUB 60,000;
  - decrease in cash received from dividends and other cash received from associates and jointly controlled entities by 26,374 for the nine months ended 30 September 2018 comparing to the same period of the preceding year;
  - usage of cash in acquisition of share in PJSC NCSP (Omirico Limited) in the amount of RUB 49,319 shown net of cash held by PJSC NCSP (Omirico Limited) and its subsidiaries as at the acquisition date in the amount of RUB 32,018;
  - 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 reporting period.

#### 4.2. Financing activities

The main factors which influenced on the increase of cash inflow from financing activities for the nine months ended 30 September 2018 in the amount of RUB 91,071 as compared to the relative periods of the previous year were:

- increase of cash flows used for repayment of bonds, loans and borrowings by RUB 222 798, which was a result of the following operations:
  - during the reporting period monthly repayments and early repayments of the loan to China Development Bank were made in the total amount of USD 4,651.1 mln (RUB 276,187 at the rate of Central Bank of the Russian Federation on the dates of operations) as compared to the monthly payments of USD 1,870 mln (RUB 109,689 at the rate of Central Bank of the Russian Federation on the dates of operations) for the same period of the previous year;
  - Eurobonds were repaid during the nine months ended 30 September 2018 in the amount of USD 1,050 mln (RUB 66,293);
  - decrease of cash used for repayment (repurchase) of RUB denominated bonds in the amount of RUB 10,022 (RUB 171 bonds were repaid (repurchased) during nine months ended 30 September 2018 as compared to RUB 10,193 for the relative period of the previous year);
- increase of net proceeds in the amount of RUB 154,957 from issuance of RUB-denominated bonds and loans received;
- increase of outflow of cash used for payment of dividends by RUB 24,372 as compared to the relative period of the previous year.



**TRANSNEFT**  
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**AND RESULTS OF ITS OPERATIONS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018**  
(in millions of Russian roubles, if not stated otherwise)

**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 nine months ended 30 September 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 depreciation and amortisation, provisions, unrealized foreign currency gains and losses, interest income and expenses, share of profit from associates and jointly controlled entities;
- (c) fair value remeasurement of the previously held share in PJSC NCSP (Omirico Limited) as at the date of acquisition;
- (d) all other items for which the cash effects are investing or financing cash flows.

OPERATING ACTIVITIES	Nine months ended 30 September 2018	Nine months ended 30 September 2017	Absolute change	Change, %
<b>Profit before income tax</b>	<b>208,469</b>	<b>211,276</b>	<b>(2,807)</b>	<b>(1.3)</b>
<b>Adjustments for:</b>				
Depreciation and amortisation	132,306	114,397	17,909	15.7
Loss/ (gain) from disposal of property, plant and equipment	716	(32)	748	x
Finance income	(82,986)	(84,955)	1,969	(2.3)
Finance costs	96,486	99,348	(2,862)	(2.9)
Share of profit from associates and jointly controlled entities	(6,294)	(14,775)	8,481	(57.4)
Fair value remeasurement of the previously held share in PJSC NCSP (Omirico Limited) as at the date of acquisition	(25,371)	-	(25,371)	x
Other	(15,098)	(14,388)	(710)	4.9
<b>Operating profit before changes in working capital and reserves</b>	<b>308,228</b>	<b>310,871</b>	<b>(2,643)</b>	<b>(0.9)</b>
Changes in operating assets and liabilities:				
Changes in inventories	(6,197)	(864)	(5,333)	7.2 times
Changes in trade and other receivables relating to operating activity and VAT assets	(8,083)	(7,220)	(863)	12.0
Changes in trade and other payables, and accruals relating to operating activity	(12,894)	(24,337)	11,443	(47.0)
Changes in contract liabilities	16,869	-	16,869	x
<b>Cash flows from operating activities before payment of income tax expense and interest</b>	<b>297,923</b>	<b>278,450</b>	<b>19,473</b>	<b>7.0</b>
Income tax paid	(32,168)	(41,183)	9,015	(21.9)
Income tax refund	171	281	(110)	(39.1)
Interest paid	(42,803)	(34,276)	(8,527)	24.9
<b>Net cash flows received from operating activities</b>	<b>223,123</b>	<b>203,272</b>	<b>19,851</b>	<b>9.8</b>



## 5. Liquidity analysis

	30 September 2018	31 December 2017	Change, %
Current assets	419,008	457,864	(8.5)
including:			
cash and cash equivalents	89,190	76,162	17.1
short-term bank deposits and bonds*	200,491	265,306	(24.4)
Current liabilities	296,455	280,455	5.7
Net working capital	122,553	177,409	(30.9)
Current ratio	1.4	1.6	x
Quick ratio**	1.1	1.4	x
Debt/ EBITDA	1.8	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