

TRANSNEFT

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

FOR THE YEAR ENDED 31 DECEMBER 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 31 December 2018 and results of operations for the year ended 31 December 2018, compared to the year ended 31 December 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 consolidated financial statements prepared in accordance with International financial reporting standards (hereinafter – “IFRS”) for the year ended 31 December 2018.

All financial information in this analysis is presented with rounding, this may lead to that some of the rounded amounts may differ from the rounded amount of actual indicators.

Key financial and operating results

	Year ended 31 December 2018	Year ended 31 December 2017	Change, %
Revenue	979,958	884,337	10.8
Profit for the year	225,413	191,805	17.5
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	433,436	408,694	6.1
Oil delivered to consignees, mln tons	479.8	477.5	0.5
including:			
Russian oil refineries, mln tons	249.3	243.7	2.3
transshipment into the CPC-R system, mln tons	-	0.02	x
exports to neighboring countries, mln tons	19.0	18.6	2.2
exports to other countries, mln tons	211.5	215.2	(1.7)
Oil products delivered to consignees, mln tons	39.2	33.1	18.4
including:			
Russia's domestic market, mln tons	10.6	9.6	10.4
exports to the Customs Union member countries, mln tons	0.4	0.6	(33.3)
exports to other countries, mln tons	28.2	22.9	23.1

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

The main one-time and non-cash factors which influenced the profit for the year are disclosed in the table below:

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Profit for the year	225,413	191,805	33,608	17.5
Net gain from foreign exchange differences	(23,092)	(9,301)	(13,791)	2.5 times
Share of profit from associates and jointly controlled entities	(10,231)	(15,847)	5,616	(35.4)
Changes in impairment provision of property, plant and equipment	382	23,533	(23,151)	(98.4)
Fair value remeasurement of financial assets and liabilities and other adjustments	(25,225)	(11,024)	(14,201)	2.3 times
Effect of adoption of IFRS 15	17,062	-	17,062	x
Gain from remeasurement of defined benefit obligation due to increase of retirement age in Russia	(13,831)	-	(13,831)	x
Adjusted profit for the year	170,478	179,166	(8,688)	(4.8)



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

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

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 compounding, crude oil sales, connection of facilities to the trunk oil and oil products pipeline system.

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.

Among activities of the Group are provision of stevedoring, additional port services and fleet services.

The Group as at 31 December 2018 possesses an extensive network of trunk oil pipelines with a total length of approximately 51.6 thousand km and trunk oil products pipelines with a total length of some 16.7 thousand km.

During the year ended 31 December 2018 the Group transported more than 83% of oil produced in Russia and more than 30% 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 of Russia;
 - 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. Information about some of them as per 100 tons-kilometers as at 31 December 2018 is presented below:
- average tariff through oil trunk pipelines of Transneft – USD 0.76/100 tkm;
 - average tariff of AO KazTransOil (Kazakhstan) – USD 1.39/100 tkm (USD 1.66/100 tkm for export, USD 1.12/100 tkm – domestic);
 - tariff of TAL Pipeline for transportation of oil through Trieste – Ingolstadt direction (Italy, Austria, Germany) – USD 0.94/100 tkm;
 - tariff of Transpetrol (Slovakia) – USD 1.69/100 tkm;
 - tariff of MERO (Czech) – USD 2.87/100 tkm;
 - average tariff of AO Ukrtransnafta for transportation of oil in the direction of Hungary, Slovakia – USD 1.41/100 tkm;
 - average tariff Przyjaźń (Poland) – 1.05 USD/100 tkm;
 - average tariff of OAO Gomeltransneft Druzhba – USD 0.69/100 tkm;
 - average tariff of OAO Polotsktransneft Druzhba – USD 0.59/100 tkm;
 - average tariff of Transnafta (Serbia) – USD 2.55/100 tkm;
 - average tariff of JANAF (Croatia) – USD 3.42/100 tkm;
 - average tariff for transportation of oil through CPC oil pipeline (Caspian pipeline consortium) – USD 1.87/100 tkm.



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 Eastern directions depending on the market situation.

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

- Expansion of the ESPO pipeline system in the GNPS Taishet – NPS Skovorodino section to 80 mln tons annually;
- Expansion of the ESPO pipeline system in the NPS Skovorodino – SMNP Kozmino to 50 mln tons annually;
- Development of the trunk pipeline system for increase of deliveries of oil products to Primorsk Sea Port to 25 mln tons (Project “Sever”);
- Reconstruction of the trunk pipeline system for increase of transportation volumes of oil products to the Moscow area.

1.2. Environmental policy

The Group is aware of the potential danger of its technologically challenging production activities to the environment, will develop and operate the oil and petroleum products transportation main system, carry out related activities in such a way as to not cause harm to the environment and ensure the highest level of environmental safety of its activities. The Group, being a key element of the energy industry of the Russian Federation and ensuring the final results of its activities, determines environmental protection as the highest and most constant priority, ensuring a 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. All subsidiaries of the Company have received the international certificates of conformity to the standard ISO 14001-2004.



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 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)¹:
- Order of 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 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 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 Grushovaya industrial site of the transshipment complex Sheskhari;
 - Order of 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 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 FAS of Russia of 13.09.2016 No. 1289/16 Concerning the amendments to the order of 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 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 Il'skiy NPZ;
 - Order of 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 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 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 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 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 via route Chikshino - Zelenoborsk of the trunk pipeline system Usa - Ukhta, provided to OOO Zarubezhneft – oil production 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;
 - 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;

¹ FAS of Russia is a successor of 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. 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 Grushovaya industrial site of the transshipment complex Sheskhari from trunk pipeline system of Transneft;
 - 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 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 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 11.12.2017 No. 1659/17 Concerning the setting of tariff for services of Transneft for transportation of oil via trunk pipelines;
 - Order of FAS of Russia of 11.12.2017 No. 1660/17 Concerning the setting of tariff for services of Transneft for transportation of oil through Tikhoretsk – Tuapse-2 trunk pipeline provided to Rosneft;
 - Order of FAS of Russia of 12.02.2018 No. 157/18 Concerning the setting of tariff for services of Transneft-Terminal for loading of oil to railroad transport on the territory of the industrial site Grushovaya of PK Sheskhari from trunk pipeline system of Transneft;
 - Order of FAS of Russia of 04.04.2018 No. 427/18 Concerning the amendments to Adendum 2 of the Order of FAS of Russia of 11.12.2017 No. 1659/17 Concerning the setting of tariff for services of Transneft for transportation of oil via trunk pipelines;
 - Order of FAS of Russia of 07.06.2018 No. 780/18 Concerning the setting of tariff rate for the services of Transneft for oil delivery from trunk pipeline system to OOO RN-Komsomolskiy NPZ and about amendments to the Order of FAS of Russia of 11.12.2017 No. 1659/17 amendments to Adendum 2 of the Order of FAS of Russia of 11.12.2017 No. 1659/17 Concerning the setting of tariff for services of Transneft for transportation of oil via trunk pipelines.
- b) of transporting oil products, by charging fees for its services in accordance with fee rates approved by Transneft in accordance with orders of FTS of Russia, FAS of Russia:
- Order of 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 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 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 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 FTS of Russia of 07.10.2014 No.223-e/1;
 - Order of 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 FTS of Russia of 07.10.2014 No.223-e/1;
 - Order of 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 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 the FST 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;



2.1. Oil and oil products transportation tariffs (continued)

- Order of 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 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 FAS of Russia of 14.04.2017 No. 501/17 Concerning the setting of tariff for the services of Transneft for transportation of oil products through PSP Antipinskiy NPZ-DT (loading from AO Antipinskiy NPZ) – MP Primorsk;
- Order of 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 FAS of Russia of 12.02.2018 No. 156/18 Concerning the setting of 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 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 FAS of Russia of 11.04.2018 No. 461/18 Concerning the setting of tariff for the services of Transneft for transportation of oil products through OOO KINEP-MF Primorsk pipeline for Surgutneftegaz;
- Order of FAS of Russia of 08.06.2018 No. 782/18 About cancellation of the order of FST 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 FAS of Russia of 12.11.2018 No. 1521/18 About cancellation of the order of FAS of Russia of 11.04.2018 No. 461/18 Concerning the setting of tariff for the services of Transneft for transportation of oil products through OOO KINEF-MP Primorsk pipeline for Surgutneftegaz.

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 Kazakhstani tenge established by the Bank of Russia on the payment date.

Fluctuations of US Dollar and Kazakhstani 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.

	Year ended 31 December 2018	Year ended 31 December 2017	Change, %
Change in the rouble's exchange rate against USD for the reporting year, %	20.6	(5.0)	x
Average exchange rate for the year (RUB per USD)	62.71	58.35	7.5
Exchange rate at the end of the year (RUB per USD)	69.47	57.60	20.6
Exchange rate at the end of the year preceding the reporting period (RUB per USD)	57.60	60.66	(5.0)



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2.3. Inflation rates

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

	Year ended 31 December 2018	Year ended 31 December 2017	Change, pp
Rouble inflation (CPI), %	4.3	2.5	1.8

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:

	Year ended 31 December 2018	Year ended 31 December 2017	Change, %
Current income tax	46,220	49,363	(6.4)
Property tax	38,042	29,392	29.4
Other taxes and levies	846	1,178	(28.2)

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 8,650 or by 29.4%. The increase was a result of putting into use of new facilities of property, plant and equipment, 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 pipelines. 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 consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and the relative period of preceding year.

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Revenue	979,958	884,337	95,621	10.8
Revenue from oil transportation services	651,887	631,459	20,428	3.2
Revenue from oil products transportation services	72,167	66,035	6,132	9.3
Revenue from crude oil sales	206,408	150,182	56,226	37.4
Other revenue	49,496	36,661	12,835	35.0
Operating expenses net of amortisation and depreciation	(546,083)	(476,062)	(70,021)	14.7
Operating profit net of amortisation and depreciation	433,875	408,275	25,600	6.3
Amortisation and depreciation	(178,610)	(152,637)	(25,973)	17.0
Operating profit	255,265	255,638	(373)	(0.1)
Other income / (expenses)	33,519	(13,686)	47,205	x
Share of profit from associates and jointly controlled entities	10,231	15,847	(5,616)	(35.4)
Profit before income tax and net finance costs	299,015	257,799	41,216	16.0
Net finance costs	(21,304)	(15,632)	(5,672)	36.3
Profit before income tax	277,711	242,167	35,544	14.7
Income tax expense	(52,298)	(50,362)	(1,936)	3.8
Profit for the reporting year	225,413	191,805	33,608	17.5
Other comprehensive (loss)/income, net of income tax	(770)	578	(1,348)	x
Total comprehensive income, net of income tax	224,643	192,383	32,260	16.8



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3.1. Revenue

3.1.1. Revenue breakdown by type of activities

Revenue by type of operations	Year ended 31 December 2018	Share of total revenue, %	Year ended 31 December 2017	Share of total revenue, %	Absolute change	Change, %
Revenue from crude oil transportation services	651,887	66.5	631,459	71.4	20,428	3.2
export sales	391,459	39.9	374,152	42.3	17,307	4.6
domestic sales	260,428	26.6	257,307	29.1	3,121	1.2
Revenue from oil products transportation services	72,167	7.4	66,035	7.5	6,132	9.3
Revenue from stevedoring, additional port services and fleet services	14,444	1.5	-	-	14,444	x
Revenue from oil compounding services	5,849	0.6	6,201	0.7	(352)	(5.7)
Revenue from sales of crude oil in the domestic market	6,122	0.6	9,445	1.1	(3,323)	(35.2)
Revenue from sales of oil products	6,899	0.7	5,108	0.6	1,791	35.1
Other revenue	22,304	2.3	25,352	2.8	(3,048)	(12.0)
Total revenue (without revenue from export sales of crude oil)	779,672	79.6	743,600	84.1	36,072	4.9
Revenue from export sales of crude oil	200,286	20.4	140,737	15.9	59,549	42.3
Total revenue	979,958	100.0	884,337	100.0	95,621	10.8

For the year ended 31 December 2018, the Group's revenue increased by RUB 95,621 or by 10.8%, attributable mainly to an increase in revenue from crude oil transportation services, increase in revenue from export sales of crude oil and revenue from stevedoring services, additional port services and fleet services. Without taking into account revenue from export sales of crude oil, revenue for the year ended 31 December 2018 increased by RUB 36,072 or 4.9% compared to the same period of the previous year and accounted for 79.6% of total revenue as for the reporting period.

Revenue from stevedoring, additional port services and fleet services is connected with the Group's acquisition of control in the Group PJSC NCSP and LLC NMT in September 2018.

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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3.1.1. 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*.

	Year ended 31 December 2018	Year ended 31 December 2018 (without IFRS 15 impact)	Absolute change	Change, %
Revenue from oil transportation services	651,887	663,791	(11,904)	(1.8)
Revenue from crude oil sales	206,408	206,408	-	-
Revenue from oil products transportation services	72,167	73,697	(1,530)	(2.1)
Revenue from stevedoring, additional port services and fleet services	14,444	14,444	-	-
Other revenue	35,052	42,946	(7,894)	(18.4)
Total revenue	979,958	1,001,286	(21,328)	(2.1)

3.1.2. Oil and oil products transportation services

Increase in revenue from oil transportation services amounted to RUB 20,428 or by 3.2% for the year ended 31 December 2018 comparable to the same period of 2017 and was attributable to change in tariffs, change in oil transportation turnover and turnover volumes.

Increase in revenue from oil products transportation services by RUB 6,132 or by 9.3% for the year ended 31 December 2018 compared to the same period of 2017 was driven by changes in tariffs, as well as, changes in turnover volumes and turnover.

3.1.3. Revenue from sales of crude oil and oil products

Revenue from export sales of crude oil was driven by oil sales to the People's Republic of China under a 20-year contract with China National United Oil Corporation 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 59,549 or 42.3% as for the year ended 31 December 2018 compared to the relative period of the previous year was mainly a result of growth in average oil market price per barrel set in USD during the year ended 31 December 2018 compared to the same period of 2017 and with a simultaneous increase of average USD/RUB exchange rate during the reporting period as compared to the same period of the previous year (ref. to 2.2).

Decrease in revenue from domestic sales of crude oil as for the year ended 31 December 2018 by RUB 3,323 or by 35.2% compared to the relative period of the previous year was a result of decrease of sale volumes of crude oil.

Increase in revenue from sales of oil products by RUB 1,791 or 35.1% as for the year ended 31 December 2018 compared to the relative period of the previous year was a result of growth of market prices of oil products and the acquisition of control in Group PJSC NCSP in September 2018.

3.1.4. Revenue from oil compounding services

Decline in revenue from oil compounding services by RUB 352 or by 5.7% as for the year ended 31 December 2018 compared to the year ended 31 December 2017 was a result of decrease in oil compounding volumes by 8.8% (39,883.6 thousand tons for the year ended 31 December 2018, 43,729.3 thousand tons for the year ended 31 December 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 cargos, revenue from provision of other services.

Decrease in other revenue as for the year ended 31 December 2018 compared to the relative period of the previous year by RUB 3,048 or 12.0% 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 amortisation and depreciation for the year ended 31 December 2018, and the year ended 31 December 2017, are detailed in the table below:

Operating expense line items	Year ended 31 December 2018	Share of total expenses, %	Year ended 31 December 2017	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	163,591	30.0	149,878	31.5	13,713	9.1
Energy	44,058	8.1	41,718	8.8	2,340	5.6
Materials	33,297	6.1	33,851	7.1	(554)	(1.6)
Repair and maintenance of relevant technical condition of pipeline	19,175	3.5	17,790	3.7	1,385	7.8
Insurance expenses	6,359	1.2	6,070	1.3	289	4.8
Taxes (other than income tax)	36,843	6.7	28,494	6.0	8,349	29.3
Pension expense	(9,367)	(1.7)	5,412	1.1	(14,779)	x
Cost of export crude oil sales (including export custom duties)	199,847	36.6	141,156	29.7	58,691	41.6
Cost of crude oil sold in the domestic market	5,873	1.1	8,497	1.8	(2,624)	(30.9)
Cost of oil products sold	6,350	1.2	4,639	1.0	1,711	36.9
Cost of other goods for resale sold	3,902	0.7	2,513	0.5	1,389	55.3
Other operating expenses	36,155	6.5	36,044	7.5	111	0.3
Operating expenses net of depreciation and amortisation	546,083	100.0	476,062	100.0	70,021	14.7
adjusted for:						
Cost of export crude oil sales (including export custom duties)	(199,847)	(36.6)	(141,156)	(29.7)	(58,691)	41.6
Taxes (other than income tax)	(36,843)	(6.7)	(28,494)	(6.0)	(8,349)	29.3
Operating expenses net of depreciation and amortization, taxes and export crude oil sales	309,393	56.7	306,412	64.3	2,981	1.0

For the year ended 31 December 2018, compared to the year ended 31 December 2017, the amount of operating expenses net of depreciation and amortization, taxes and export crude oil sales increased by RUB 2,981 or by 1.0%.

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 other taxes (ref. to 3.2.7);
- increase of salaries (ref. to 3.2.1).



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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 year ended 31 December 2018, and for the year ended 31 December 2017, were as follows:

Operating expense line items	Year ended 31 December 2018	Share of total expenses, %	Inflation rates (2018 to 2017), %*	Year ended 31 December 2017 (inflated to 2018)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	163,591	30.0	2.7	153,925	29.2	9,666	6.3
Energy	44,058	8.1	4.0	43,387	8.2	671	1.5
Materials	33,297	6.1	4.1	35,239	6.7	(1,942)	(5.5)
Repair and maintenance of relevant technical condition of pipeline	19,175	3.5	4.9	18,662	3.5	513	2.7
Insurance expenses	6,359	1.2	2.7	6,234	1.2	125	2.0
Taxes (other than income tax)	36,843	6.7	4.1	29,662	5.6	7,181	24.2
Pension expense	(9,367)	(1.7)	2.7	5,558	1.1	(14,925)	x
Cost of export crude oil sales (including export custom duties)	199,847	36.6	25.8	177,574	33.7	22,273	12.5
Cost of crude oil sold in the domestic market	5,873	1.1	25.8	10,689	2.0	(4,816)	(45.1)
Cost of oil products sold	6,350	1.2	22.1	5,664	1.1	686	12.1
Cost of other goods for resale sold	3,902	0.7	4.1	2,615	0.5	1,287	49.2
Other operating expenses	36,155	6.5	4.1	37,523	7.2	(1,368)	(3.6)
Operating expenses net of depreciation and amortisation adjusted for:	546,083	100.0	X	526,732	100.0	19,351	3.7
Cost of export crude oil sales (including export custom duties)	(199,847)	(36.6)	25.8	(177,574)	(33.7)	(22,273)	12.5
Taxes (other than income tax)	(36,843)	(6.7)	4.1	(29,662)	(5.6)	(7,181)	24.2
Operating expenses net of depreciation and amortization, taxes and export crude oil sales	309,393	56.7	X	319,496	60.7	(10,103)	(3.2)

*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.

Unit costs for transportation of oil as per 100 tons-kilometers as for the year ended 31 December 2018 and for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Oil transportation services				
Turnover, mln tons x km	1,217,397	1,211,230	6,167	0.5
Unit costs per 100 tons x km, RUB (2017 figures inflated to 2018)	18.92	19.32	(0.40)	(2.1)
Unit costs per 100 tons x km net of new facilities expenditure, RUB (2017 figures inflated to 2018)	18.64	19.32	(0.68)	(3.5)



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3.2 Operating expenses net of amortisation and depreciation (continued)

Unit costs for oil products transportation per ton as for the year ended 31 December 2018 and as for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Oil products transportation services				
Volume turnover, mln of tons	39.2	33.1	6.1	18.4
Unit costs per ton, RUB (2017 figures inflated to 2018)	751.26	854.23	(102.97)	(12.1)
Unit costs per ton net of new facilities expenditure, RUB (2017 figures inflated to 2018)	675.94	854.23	(178.28)	(20.9)

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.

The increase in salaries, insurance contributions and social expenses for the year ended 31 December 2018 compared to the year ended 31 December 2017 in the amount of RUB 13,713 or 9.1% was mainly 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 caused by 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.

The decrease in pension accruals as for the year ended 31 December 2018 compared to the same period of the previous year was caused by a change in legislation since 2019, according to which the retirement age at which the right to a state pension is obtained increases from 55 to 60 years for women and from 60 to 65 years for men, which resulted in a one-time recognition gain amounting to RUB 13,831 as a result of decrease in defined benefit obligation plan.

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:

- pension liabilities of JSC "NPF "Transneft" are included 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.

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Employers' contributions to JSC "NPF "Transneft" in favor of employees	3,841	4,295	(454)	(10.6)

Decrease in pension contributions for the year ended 31 December 2018 compared to the relative period of the previous year was caused by actual requirement which depends on the number of employees who has the right for appointment of a corporate non-state pension, their salary and estimated number of years.



3.2.3. Energy

Energy expenses for the year ended 31 December 2018 increased by RUB 2,340 or 5.6% 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:

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change,%
Consumption of energy, mln kW*h	14,501	14,247	254.00	1.8

3.2.4. Materials

The cost of materials for the year ended 31 December 2018 as compared to the same period of 2017, decreased by RUB 554 or 1.6%.

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 as for the reporting period by RUB 1,385 or by 7.8% as compared to the relative period of the previous year because of performing planned capital repairment works.

3.2.6. Cost of crude oil and oil products sold

The cost of export crude oil sales for the year ended 31 December 2018 in the amount of RUB 58,691 includes cost of sales in the amount of RUB 151,586 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 48,261. 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 as for the year ended 31 December 2018 amounted to RUB 2,624 or 30.9% as compared to the relative period of 2017 and was caused by decrease in sale volumes of oil by the Group's subsidiaries.

Increase in cost of oil products sold in the domestic market as for the year ended 31 December 2018 by RUB 1,711 or 36.9% compared to the relative period of 2017 was caused by growth of market prices of oil products and the acquisition of Group PJSC NCSP.

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 8,349 or 29.3% 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 summarised gains and losses relating to disposal of property, plant and equipment and other assets, fines and penalties received and paid, changes in provision for bad debts, 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 decrease of the amount of profit recognised by the Group in "Share of profit from associates and jointly controlled entities" as for the year ended 31 December 2018 as compared to the relative period of 2017 amounted to RUB 5,616 or 35.4%, and was mainly caused by changes in the Group's structure including the receipt of control over the Group PJSC NCSP and OOO NMT in September 2018.



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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	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Financial assets at FVTPL	5,715	15,843	(10,128)	(63.9)
Financial assets at amortised cost	9,402	10,235	(833)	(8.1)
Cash and cash equivalents	5,053	4,675	378	8.1
Total interest receivable	20,170	30,753	(10,583)	(34.4)
Less interest income on the temporary investment of borrowings	-	(296)	296	x
Total interest income recognised in the statement of profit or loss and other comprehensive income	20,170	30,457	(10,287)	(33.8)

Accrued interest expenses and amounts of capitalized interest expenses for the relevant periods were as follows:

Interest expenses	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Interest expense on loans and borrowings	57,911	48,712	9,199	18.9
Increase of pension liabilities due to accrual of investment income	4,407	6,744	(2,337)	(34.7)
Other interest expenses	11,400	4,023	7,377	2.8 times
Total interest expenses	73,718	59,479	14,239	23.9
Less finance costs to be capitalised	(9,298)	(3,755)	(5,543)	2.5 times
Total interest expense recognised in the statement of profit or loss and other comprehensive income	64,420	55,724	8,696	15.6

The amount of interest expenses was composed of:

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

The dynamics of interest expenses as for the year ended 31 December 2018 as compared to the similar period of 2017 was mainly driven by growth of average amount of loans and borrowings, as well as increase of loans denominated in RUB with higher interest rate compared to loans denominated in USD.

Increase of other interest expenses and interest on loans and borrowings to be capitalised for the year ended 31 December 2018 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 year ended 31 December 2018, interest in the amount of RUB 9,298 was capitalised as part of cost of assets under construction (for the year ended 31 December 2017 – RUB 3,459) including:

- interest expenses to be capitalised in the amount of RUB 9,298 (for the year ended 31 December 2017 – RUB 3,755);
- interest income to be excluded from interest expenses to be capitalised in the amount of RUB 0 (for the year ended 31 December 2017 – RUB 296).



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3.4. Finance income and costs (continued)

Foreign currency exchange gains and losses

The amount of foreign currency exchange gains and losses for the year ended 31 December 2018 and for the year ended 31 December 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 consolidated financial statements on a gross basis.

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

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Foreign exchange gains on financial assets	33,390	17,708	15,682	88.6
Foreign exchange gains on loans and borrowings	11,230	52,459	(41,229)	(78.6)
Foreign exchange gains on cash and cash equivalents and other	35,718	7,553	28,165	4.7 times
Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income	80,338	77,720	2,618	3.4
Foreign exchange loss on financial assets	(12,049)	(30,489)	18,440	(60.5)
Foreign exchange loss on loans and borrowings	(26,663)	(30,346)	3,683	(12.1)
Foreign exchange loss on cash and cash equivalents and other	(18,534)	(7,584)	(10,950)	2.4 times
Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income	(57,246)	(68,419)	11,173	(16.3)
Net foreign exchange gain	23,092	9,301	13,791	2.5 times

Dynamics of exchange differences presented in the table was driven by decline of RUB to USD during the year ended 31 December 2018 (ref. to 2.1) as well as decline during the year ended 31 December 2018 amount of liabilities denominated in USD, caused by redemption of Eurobonds and repayment of the loan obtained from China Development Bank.



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

	Year ended 31 December 2018	Year ended 31 December 2017	Change, %
Profit for the year	225,413	191,805	17.5
Adjustments for:			
income tax expense	52,298	50,362	3.8
amortisation and depreciation	178,610	152,637	17.0
result of crude oil sales to China	(439)	419	x
net finance costs/ (income)	21,304	15,632	36.3
share of profit from associates and jointly controlled entities	(10,231)	(15,847)	(35.4)
other (income)/expenses	(33,519)	13,686	x
including <i>Fair value remeasurement of the previously held share of PJSC NCSP (Omirico Limited) at the date of acquisition</i>	(25,371)	-	x
EBITDA*	433,436	408,694	6.1

* 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 consolidated financial statements.

4. Cash flow analysis

	Year ended 31 December 2018	Year ended 31 December 2017	Absolute change	Change, %
Cash flows from operating activities	347,160	327,101	20,059	6.1
Cash flows used for purchase of property, plant and equipment (net)	(267,974)	(306,199)	38,225	(12.5)
Free cash flow	79,186	20,902	58,284	3.8 times
Cash flows from other investing activities	101,551	32,027	69,524	3.2 times
Cash flows used in financing activities	(167,520)	(51,183)	(116,337)	3.3 times
Net cash flow	13,217	1,746	11,471	7.6 times
Change in cash and cash equivalents due to deviation of currency exchange rate	12,473	(170)	12,643	X
Net increase in cash and cash equivalents	25,690	1,576	24,114	16.3 times

Positive free cash flow for the year ended 31 December 2018 amounted to RUB 79,186 (for the year ended 31 December 2017 amounted to RUB 20,902).



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 347,160 for the year ended 31 December 2018, which is RUB 20,059 or 6.1% higher than for the year ended 31 December 2017.

The main factors which influenced on increase of cash generated from operating activities for the year ended 31 December 2018 as compared to the similar period in 2017 were as follows:

- increase in cash receipts from customers by RUB 112,389;
- increase in cash paid to suppliers by RUB 102,341;
- increase in refunds of insurance contributions, VAT and other taxes from the budget by RUB 9,301;
- decrease in income tax paid amounting to RUB 8,533;
- increase in interest paid by RUB 6,947;

4.2. Investing activities

The primary factors resulting in an decrease in cash used in investing activities by RUB 107,749 or 39.3% as for the year ended 31 December 2018 compared to the same period of 2017 were:

- decrease in the net amount of purchase of property, plant and equipment by RUB 38,225 as compared to the relative period of the previous year;
- change of cash received from other investing activities amounted to RUB 69,524 because of the following operations:
 - increase in net cash inflow as for the year ended 31 December 2018 from purchase-and-sale transactions of debt securities, equity securities and allocation-closure of deposits in the amount of RUB 5,003 compared to the year ended 31 December 2017;
 - decrease in cash paid for the acquisition of share of associates and jointly controlled entities for the year ended 31 December 2018 as compared to the same period of the preceding year by RUB 98,155 because of acquisition during the year ended 31 December 2017 of 57.41% share in closed combined mutual investment fund "Gazprombank – Finansoviy" for RUB 60,000 and acquisition of 25% share in share capitals of AO Ust-Luga Oil and Sandmark Operations Limited for the amount of RUB 38,160;
 - change in dividends received and other cash proceeds from associates and jointly controlled entities for the amount of RUB 25,067 during the year ended 31 December 2018 compared to the same period of 2017;
 - 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.
 - decrease in net loans granted by RUB 1,821 as compared to the relative period of the previous year.

4.3. Financing activities

The main factors which influenced on cash outflow from financing activities for the year ended 31 December 2018 in the amount of RUB 167,520 as compared to cash outflow from financing activities as for the year ended 31 December 2017 in the amount of RUB 51,183 were:

- net proceeds in the amount of RUB 90,242 from issuance of bonds and draw of loans in the amount of RUB 287,262 as for the year ended 31 December 2018 and in the amount of RUB 197,020 as for the year ended 31 December 2017;
- increase of cash flows used for repayment of bonds, loans and borrowings as for the year ended 31 December 2018 as compared to the relative period of 2017 by RUB 205,183 which was a result of the following operations:
 - for the year ended 31 December 2018 monthly repayments and early repayments of the loan to China Development Bank in the total amount of USD 4,651.1 mln (RUB 276,187 at the rate of the Central Bank of the Russian Federation on the dates of operations) compared with monthly and early repayments for the total amount of USD 2,467 mln (RUB 144,864 at the rate of the Central Bank of the Russian Federation on the dates of operations) for the same period of the previous year;
 - Eurobonds were repaid during the year ended 31 December 2018 in the amount of USD 1,050 mln (RUB 66,293);
 - RUB denominated bonds were repaid (repurchased) during the year ended 31 December 2017 in the amount of RUB 45,195.



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AND RESULTS OF ITS OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 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 consolidated statement of cash flows prepared using the direct method and disclosed in the consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 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.

	Year ended 31 December 2018	Year ended 31 December 2017
OPERATING ACTIVITIES		
Profit before income tax	277,711	242,167
Adjustments for:		
Amortisation and depreciation	178,610	152,637
Loss from disposal of property, plant and equipment	601	91
Finance income	(100,930)	(109,177)
Finance costs	122,234	124,809
Fair value remeasurement of the previously held share in PJSC NCSP (Omirico Limited) as at the date of acquisition	(25,371)	-
Gain from disposal of subsidiaries	-	(117)
Share of profit from associates and jointly controlled entities	(10,231)	(15,847)
Other	(20,710)	14,080
Operating profit before changes in working capital and reserves	421,914	408,643
Changes in operating assets and liabilities:		
Changes in inventories	(3,082)	1,266
Changes in trade and other receivables relating to operating activity and VAT assets	(3,596)	11,885
Changes in trade and other payables, and accruals relating to operating activity	10,890	3,515
Changes in contract liabilities	17,752	-
Cash flows from operating activities before payment of income tax expense and interest	443,878	425,309
Income tax paid	(43,858)	(52,391)
Income tax refund	307	403
Interest paid	(53,167)	(46,220)
Net cash flows received from operating activities	347,160	327,101



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5. Liquidity analysis

	31 December 2018	31 December 2017	Change, %
Current assets	407,071	457,864	(11.1)
including:			
cash and cash equivalents	101,852	76,162	33.7
short-term bank deposits and bonds*	179,069	265,306	(32.5)
Current liabilities	294,753	280,455	5.1
Net working capital	112,318	177,409	(36.7)
Current ratio	1.4	1.6	x
Quick ratio**	1.1	1.4	x
Debt / EBITDA	1.4	1.7	x
Debt / Equity	0.3	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 Baa3 – 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

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments at the rates actual at 31 December 2018 and 31 December 2017 accordingly, with amounts denominated in foreign currency recalculated using the Central Bank of the Russian Federation exchange rates at 31 December 2018 and 31 December 2017 accordingly (ref. to 2.2).

31 December 2018:

	Carrying amount	Contractual cash flows						More than 5 years
		Total	2019	2020	2021	2022	2023	
Loans and borrowings	672,992	871,741	136,262	87,287	89,861	81,941	88,666	387,724
Trade and other payables	66,018	66,087	64,599	1,118	253	113	-	4
	739,010	937,828	200,861	88,405	90,114	82,054	88,666	387,728

31 December 2017:

	Carrying amount	Contractual cash flows						More than 5 years
		Total	2018	2019	2020	2021	2022	
Loans and borrowings	688,910	891,421	150,491	139,811	102,263	103,022	94,422	301,412
Trade and other payables	60,459	60,630	59,259	1,195	176	-	-	-
	749,369	952,051	209,750	141,006	102,439	103,022	94,422	301,412

The debt structure as at 31 December 2017 assumes the possible redemption date for non-convertible interest-bearing documentary bonds in the amount of RUB 12,264 at the possible offer date (2018).