

TRANSNEFT

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

FOR THE SIX MONTHS ENDED 30 JUNE 2019





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

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1.	General information and overview of the Group's activities .....	4
1.1.	Key investment projects of the Group .....	4
1.2.	Environmental policy .....	5
2.	Tariffs and key macroeconomic factors affecting the Group's performance .....	5
2.1.	Oil and petroleum products transportation tariffs .....	5
2.2.	The rouble's exchange rate against foreign currencies .....	8
2.3.	Inflation rates .....	8
2.4.	Taxation .....	8
3.	Analysis of the Group's performance .....	9
3.1.	Revenue .....	10
3.1.1.	Revenue breakdown by type of activities .....	10
3.1.2.	Oil and petroleum products transportation .....	10
3.1.3.	Revenue from sales of crude oil .....	11
3.1.4.	Revenue from oil compounding .....	11
3.1.5.	Revenue from stevedoring, additional port services and fleet services .....	11
3.1.6.	Other revenue .....	11
3.2.	Operating expenses net of depreciation and amortisation .....	12
3.2.1.	Depreciation and amortisation .....	14
3.2.2.	Salaries, insurance contributions and social expenses .....	14
3.2.3.	Pension expense .....	15
3.2.4.	Energy .....	15
3.2.5.	Cost of sales of crude oil and petroleum products .....	15
3.2.6.	Taxes (other than income tax) .....	15
3.2.7.	Other operating expenses .....	15
3.3.	Share of results from associates and jointly controlled entities .....	16
3.4.	Finance income and costs .....	16
3.4.1.	Interest income and expenses recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income .....	16
3.4.2.	Foreign currency exchange gains and losses recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income .....	17
3.5.	Reconciliation of profit and earnings before interest, income tax, depreciation and amortisation (EBITDA) .....	18
4.	Cash flow analysis .....	18
4.1.	Operating activities .....	18
4.2.	Investing activities .....	19
4.3.	Financing activities .....	19
4.4.	Disclosure of cash flows from operating activities using indirect method .....	20
5.	Liquidity analysis .....	21



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The following analysis provides an overview of the financial position of Transneft and its subsidiaries (hereinafter – the “Group”) as at 30 June 2019 and results of operations for the six months ended 30 June 2019, compared to the six months ended 30 June 2018, 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* for the six months ended 30 June 2019.

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

### Key financial and operating results

	Six months ended		Change, %
	30 June 2019	30 June 2018	
Revenue	520,284	463,306	12.3
Profit for the period	112,728	92,070	22.4
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	247,991	208,214	19.1
Oil delivered to consignees, mln tons	235.2	235.3	-
including:			
Russian oil refineries, mln tons	118.6	122.8	(3.4)
other consignees, including transshipment into the CPC-R system, mln tons	0.1	-	x
exports to neighboring countries, mln tons	8.8	9.5	(7.4)
exports to other countries, mln tons	107.7	103.0	4.6
Petroleum products delivered to consignees, mln tons	19.1	19.7	(3.0)
including:			
Russia's domestic market, mln tons	4.8	5.0	(4.0)
exports to the Customs Union member countries, mln tons	0.1	0.2	(50.0)
exports to other countries, mln tons	14.3	14.5	(1.4)

\* 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:

	Note	Six months ended		Absolute change	Change, %
		30 June 2019	30 June 2018		
<b>Profit for the period</b>		<b>112,728</b>	<b>92,070</b>	<b>20,658</b>	<b>22.4</b>
Net loss/(gain) from foreign exchange differences	3.4.1	7,330	(12,959)	20,289	x
Share of (profit)/loss from associates and jointly controlled entities	3	(2,258)	33	(2,291)	x
Profit from disposal of NGT	3	(16,192)	-	(16,192)	x
Fair value remeasurement of financial assets and liabilities and other adjustments		(152)	(83)	(69)	83.1
Income tax expense from the mentioned factors		5,203	2,602	2,601	100.0
<b>Adjusted profit for the period</b>		<b>106,659</b>	<b>81,663</b>	<b>24,996</b>	<b>30.6</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 petroleum products via trunk pipelines in the Russian Federation as well as outside of Russia including interstate and intergovernmental agreements;
- rendering of stevedoring, additional port services and fleet services;
- raising of and making investments in development of the oil trunk pipeline and petroleum products trunk pipeline network including production of goods, works and services for servicing trunk oil pipeline and trunk petroleum 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 petroleum products trunk pipeline transport, sale of and storage of oil and petroleum 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 petroleum 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.

The Group as at 30 June 2019 possesses an extensive network of trunk oil pipelines with a total length of approximately 51.5 thousand km and trunk petroleum products pipelines with a total length of some 16.7 thousand km.

During the six months ended 30 June 2019 the Group transported about 81% of oil produced in Russia and about 30% of light petroleum products produced in Russia, as well as significant volume of hydrocarbons and petroleum 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 petroleum products. The main subsidiaries of PJSC NCSP are located in the eastern sector of the Black sea, in the Leningrad and Kaliningrad Districts. The NCSP Group's results are disclosed in para 3.

In July 2019 the Board of Directors considered the agenda item "On mitigation of the accident related to ingress of oil not complying with the GOST standards into the Druzhba oil trunk pipeline in April 2019" and made the decision on the procedure for making payments to shippers to reimburse their losses from illegal third party actions, which resulted into the ingress of substandard oil into the system, provided that shippers give documentary evidence of the incurred losses.

At the moment there are no documentary evidenced claims or requests related to the agreements with shippers for provision of oil transportation services for 2019.

As the incident settlement requires a significant amount of factors and circumstances to be yet considered and confirmed by documentary evidence, the amount of liability for the incurred losses reimbursement cannot be estimated with a sufficient degree of reliability, therefore a provision was not recognized

### 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.



### 1.1. Key investment projects of the Group (continued)

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.

### 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 petroleum 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 petroleum products transportation tariffs

Transneft provides tariff-based oil and petroleum 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 oil and petroleum products transportation 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 oil transportation 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 petroleum 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 2018 and six months ended 30 June 2019 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 oil transportation via the Ephimoffka – OOO LUKOIL-Volgogradneftepererabotka route rendered for OAO LUKOIL;
  - 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;

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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 petroleum products transportation tariffs (continued)

- 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 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 Sheskharis 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 oil transportation through Sindor-Mikun route of Uhta-Yaroslavl pipeline provided to OOO TSNPSEI;
  - Order of FAS of Russia of 11.12.2017 No. 1659/17 Concerning the setting of tariff for the services of Transneft for oil transportation 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 oil transportation 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 Sheskharis from Transneft's trunk pipeline system;
  - Order of FAS of Russia of 04.04.2018 No. 427/18 Concerning the making amendments to appendix 2 of the Order of FAS of Russian No.1659/17 of 11.12.2017 Concerning the setting of tariff for the services of Transneft for oil transportation via 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 oil transportation via trunk pipeline system;
  - Order of FAS of Russia of 16.11.2018 No. 1567/18 Concerning the setting of tariff for the services of Transneft for oil transportation through trunk pipeline system;
  - Order of FAS of Russia of 19.12.2018 No. 1816/18 Concerning the setting of tariff for the services of Transneft for oil transportation through Tikhoretsk – Tuapse-2 rendered to Rosneft;
  - Order of FAS of Russia of 13.03.2019 No. 299/19 Concerning the setting of tariff for the services of Transneft for oil transportation through Tikhoretsk – Tuapse-2 rendered to Rosneft.
- b) of transporting petroleum 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 petroleum 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 petroleum products transportation through the route “LUKOIL – Nizhegorodnefteorgsynthet” – 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 petroleum products transportation 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 petroleum products from trunk pipeline system and making amendments to the Order of the FTS of Russia No.223-e/1 of 07.10.2014;
  - Order of the FTS of Russia of 10.02.2015 No.19-e/2 Concerning the setting of maximum rate of tariff for the services of OAO AK Transneft and making amendments to appendix 1 of the Order of the FTS of Russian No.223-e/1 of 07.10.2014;
  - Order of the FTS of Russia of 11.06.2015 No. 234-e/4 Concerning the setting of tariff for the services rendered by OAO AK Transneft for petroleum products transportation through OOO KINEF – MP “Primorsk” route for OAO Surgutneftegaz;
  - 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 petroleum 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 petroleum products transportation by trunk pipelines;



## 2.1. Oil and petroleum 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 petroleum 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 petroleum products transportation 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 petroleum products from trunk pipeline network;
- Order of the FAS of Russia of 14.04.2017 No. 501/17 Concerning the setting of tariff for petroleum products transportation 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 petroleum products transportation through PSP Volgograd (loading from OOO LUKOIL-VOLGOGRADNEFTEPERERABOTKA) – MP Novorossiysk (PK Sheskharis) 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 petroleum 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 petroleum products transportation 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 petroleum products transportation 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 petroleum products transportation through the route “LUKOIL – Nizhegorodnefteorgsintez” – MP “Primorsk” for OAO NK LUKOIL;
- Order of the FAS of Russia of 12.11.2018 No. 1521/18 About cancelling of the order of the FAS of Russia of 11.04.2018 No. 461/18 Concerning the setting of tariff for services of Transneft for petroleum products transportation through OOO KINEF – MP Primorsk for OAO Surgutneftegaz;
- Order of the FAS of Russia of 23.11.2018 No. 1631/18 Concerning the setting limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum 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 petroleum products transportation by trunk pipelines;
- Order of the FAS of Russia of 14.12.2018 No. 1785/18 Concerning the setting of tariff for petroleum products transportation through PSP Antipinskiy NPZ-DT (loading from AO Antipinskiy NPZ) – MP Primorsk;
- Order of the FAS of Russia of 14.12.2018 No. 1786/18 Concerning the setting of tariff for Lukoil for the services of Transneft for petroleum products transportation through petroleum products pipeline PSP Lukoil-NORSI (loading from OOO Lukoil-Nizhegorodnefteorgsintez) – MP Primorsk, through petroleum products pipeline PSP Lukoil-NORSI (loading from OOO Lukoil-Nizhegorodnefteorgsintez) – MP Primorsk, further in the direction of RPC Vysotsk, through petroleum products pipeline PSP Andreevka (loading from OOO Lukoil-Nizhegorodnefteorgsintez) – MP Primorsk and through petroleum products pipeline PSP Andreevka (loading from OOO Lukoil-Nizhegorodnefteorgsintez) – MP Primorsk into direction of RPC Vysotsk;
- Order of the FAS of Russia of 03.12.2018 No. 1672/18 Concerning the setting of limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum products from trunk pipeline network into car tank facilities and amending the order of FST of Russia of 07.10.2014 No. 223-e/1 Concerning the setting of tariff for the services of Transneft and its affiliated parties for petroleum products transportation by trunk pipelines;
- Order of the FAS of Russia of 26.03.2019 No. 375/19 Concerning the setting of limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum products from trunk pipeline network into car tank facilities and amending the order of FST of Russia of 07.10.2014 No. 223-e/1 Concerning the setting of tariff for the services of Transneft and its affiliated parties for petroleum products transportation by trunk pipelines;
- Order of the FAS of Russia of 28.03.2019 No. 392/19 About cancelling of the order of the FAS of Russia of 14.12.2018 No. 1785/18 Concerning the setting of tariff for services of Transneft for petroleum products transportation through PSP Antipinskiy NPZ-DT (loading from AO Antipinskiy NPZ) – MP Primorsk.



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

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

Petroleum products transportation is 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.

	Six months ended		Change, %
	30 June 2019	30 June 2018	
Change in the RUB/USD exchange rate for the reporting period, %	(9.2)	9.0	x
<i>RUB/USD exchange rates</i>			
Average rate for the reporting period	65.34	59.35	10.1
Rate at the end of the reporting period	63.08	62.76	0.5
Rate at the end of the year preceding the reporting period	69.47	57.60	20.6

## 2.3. Inflation rates

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

	Six months ended		Change, pp
	30 June 2019	30 June 2018	
Rouble inflation (CPI), %	2.5	2.1	0.4

## 2.4. Taxation

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

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

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Current income tax	27,313	22,984	4,329	18.8
Property tax	19,319	18,949	370	2.0
Other taxes and levies	375	379	(4)	(1.1)

### Income tax

The federal income tax rate in the first half of 2019 is 3.0% (for the same period of 2018 – 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 2018). The Group's international operations are taxable at rates established by the laws of countries where they took place.

### Other taxes and levies

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





### 3. Analysis of the Group's performance

The table below presents condensed consolidated interim statement of profit or loss and other comprehensive income for the six months ended 30 June 2019 and the relative period of 2018.

	Ref.	Six months ended		Absolute change	Change, %
		30 June 2019	30 June 2018		
<b>Revenue</b>		<b>520,284</b>	<b>463,306</b>	<b>56,978</b>	<b>12.3</b>
Revenue from oil transportation	3.1.2	336,840	318,596	18,244	5.7
Revenue from petroleum products transportation	3.1.2	35,622	36,809	(1,187)	(3.2)
Revenue from crude oil sales	3.1.3	101,544	92,710	8,834	9.5
Revenue from stevedoring, additional port and fleet services	3.1.5	29,222	-	29,222	x
Other revenue	3.1.6	17,056	15,191	1,865	12.3
Operating expenses net of depreciation and amortisation	3.2	(272,571)	(254,980)	(17,591)	6.9
<b>Operating profit net of depreciation and amortisation</b>		<b>247,713</b>	<b>208,326</b>	<b>39,387</b>	<b>18.9</b>
Depreciation and amortisation	3.2.1	(105,372)	(86,960)	(18,412)	21.2
<b>Operating profit</b>		<b>142,341</b>	<b>121,366</b>	<b>20,975</b>	<b>17.3</b>
Other income		18,454	3,918	14,536	4.7 times
Share of profit/(loss) from associates and jointly controlled entities	3.3	2,258	(33)	2,291	X
<b>Profit before income tax and finance income/ (costs)</b>		<b>163,053</b>	<b>125,251</b>	<b>37,802</b>	<b>30.2</b>
Net finance costs	3.4	(21,007)	(9,589)	(11,418)	2.2 times
<b>Profit before income tax</b>		<b>142,046</b>	<b>115,662</b>	<b>26,384</b>	<b>22.8</b>
Income tax expense		(29,318)	(23,592)	(5,726)	24.3
<b>Profit for the reporting period</b>		<b>112,728</b>	<b>92,070</b>	<b>20,658</b>	<b>22.4</b>
Other comprehensive loss, net of income tax		(4,742)	(29)	(4,713)	163.5 times
<b>Total comprehensive income, net of income tax</b>		<b>107,986</b>	<b>92,041</b>	<b>15,945</b>	<b>17.3</b>

The results of NCSP and its subsidiaries were recognised in the consolidated figure of the Group starting the date of acquisition and amounted to:

	Six months ended 30 June 2019
Revenue	30,824
Profit for the period*	25,047
Earnings before interest, income tax, depreciation and amortisation (EBITDA)*	22,387

\* before elimination of intragroup operations

The share of profit in the NCSP Group for the six months ended 30 June 2018 was recognised in *Share of profit/(loss) from associates and jointly controlled entities*.

The result from sale of 99.9968% of share of NGT, which operates transshipment of grain and oil seeds, in the amount of RUB 16,192 before income tax expense was shown in *Other income* for the six months ended 30 June 2019.



**TRANSNEFT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION**  
**AND RESULTS OF ITS OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
(in millions of Russian roubles, if not stated otherwise)

### 3.1. Revenue

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

Revenue by type of operations	Six months ended				Absolute change	Change, %
	30 June 2019	Share of total, %	30 June 2018	Share of total, %		
<b>Revenue from oil transportation</b>	<b>336,840</b>	<b>64.8</b>	<b>318,596</b>	<b>68.8</b>	<b>18,244</b>	<b>5.7</b>
for export	224,086	43.1	189,761	41.0	34,325	18.1
for domestic	112,754	21.7	128,835	27.8	(16,081)	(12.5)
Revenue from petroleum products transportation	35,622	6.8	36,809	7.9	(1,187)	(3.2)
Revenue from oil compounding	3,041	0.6	2,880	0.6	161	5.6
Revenue from domestic sales of crude oil	6,848	1.3	4,484	1.0	2,364	52.7
Revenue from sales of petroleum products	4,776	0.9	2,369	0.5	2,407	2.0 times
Revenue from stevedoring, additional port services and fleet services	29,222	5.6	-	-	29,222	x
Revenue from export sales of crude oil	94,696	18.2	88,226	19.0	6,470	7.3
Other revenue	9,239	1.8	9,942	2.2	(703)	(7.1)
<b>Total revenue</b>	<b>520,284</b>	<b>100.0</b>	<b>463,306</b>	<b>100.0</b>	<b>56,978</b>	<b>12.3</b>
adjusted for:						
Revenue from stevedoring, additional port services and fleet services	(29,222)	(5.6)	-	-	(29,222)	x
Revenue from export sales of crude oil	(94,696)	(18.2)	(88,226)	(19.0)	(6,470)	7.3
<b>Adjusted revenue</b>	<b>396,366</b>	<b>76.2</b>	<b>375,080</b>	<b>81.0</b>	<b>21,286</b>	<b>5.7</b>

For the six months ended 30 June 2019, the Group's revenue increased by RUB 56,978 or by 12.3%, attributable mainly to recognition of consolidated figures of the NCSP Group and NFT, increase in revenue from oil transportation and revenue from export sales of crude oil. The adjusted revenue for the six months ended 30 June 2019 increased by RUB 21,286 or 5.7% to the comparable period mainly due to increase in revenue from oil transportation.

#### 3.1.2. Oil and petroleum products transportation

Increase in revenue from oil transportation amounted to RUB 18,244 or by 5.7% for the six months ended 30 June 2019 comparable to the same period of 2018 and was attributable to change of tariffs, change in oil transportation volumes and turnover.

Decrease in revenue from petroleum products transportation by RUB 1,187 or by 3.2% for the six months ended 30 June 2019 compared to the same period of 2018 was driven by decline in transportation volumes and changes in turnover.



### 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 in 2018 (ref. to 4.3). The respective oil volumes are being purchased from Rosneft.

Increase in revenue from export sales of crude oil by RUB 6,470 or 7.3% for the six months ended 30 June 2019 compared to the same period of preceding year 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.

Increase in revenue from domestic sales of crude oil for the six months ended 30 June 2019 by RUB 2,364 or by 52.7% compared to the same period of the preceding year was a result of increase of sale volumes of crude oil and average selling price growth.

### 3.1.4. Revenue from oil compounding

Increase in revenue from oil compounding by RUB 161 or by 5.6% for the six months ended 30 June 2019 compared to the six months ended 30 June 2018 was a result of decrease in oil compounding volumes.

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Oil compounding volumes, thousand tons	19,776	19,756	20	0.1

### 3.1.5. Revenue from stevedoring, additional port services and fleet services

The Group's revenue from provision of stevedoring, additional port services and fleet services for the six months ended 30 June 2019 was recognised because of acquisition of control in the NCSP Group and NFT in September 2018.

### 3.1.6. Other revenue

Other revenue includes revenue from oil and petroleum products storage services, communication services, diagnostic services, construction services, services of technological connection 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.



**TRANSNEFT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION**  
**AND RESULTS OF ITS OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
(in millions of Russian roubles, if not stated otherwise)

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

Operating expenses net of depreciation and amortisation for the six months ended 30 June 2019, and the six months ended 30 June 2018, are detailed in the table below:

Operating expense line items	Six months ended				Absolute change	Change, %
	30 June 2019	Share of total expenses, %	30 June 2018	Share of total expenses, %		
Salaries, insurance contributions and social expenses	79,435	29.1	76,890	30.2	2,545	3.3
Energy	23,046	8.5	21,665	8.5	1,381	6.4
Materials	15,310	5.6	14,263	5.6	1,047	7.3
Repair and maintenance of relevant technical condition of pipeline	7,014	2.6	6,295	2.5	719	11.4
Insurance expenses	3,262	1.2	3,068	1.2	194	6.3
Taxes (other than income tax)	18,777	6.9	18,112	7.1	665	3.7
Pension expense	1,519	0.6	4,028	1.6	(2,509)	(62.3)
Cost of export sales of crude oil (including export custom duties)	94,974	34.8	88,114	34.6	6,860	7.8
Cost of domestic sales of crude oil	6,296	2.3	3,839	1.5	2,457	64.0
Cost of sales of petroleum products	4,377	1.6	2,157	0.8	2,220	2.0 times
Cost of sales of other goods for resale	3,025	1.1	1,995	0.8	1,030	51.6
Other operating expenses	15,536	5.7	14,554	5.6	982	6.7
<b>Operating expenses net of depreciation and amortisation</b>	<b>272,571</b>	<b>100.0</b>	<b>254,980</b>	<b>100.0</b>	<b>17,591</b>	<b>6.9</b>
Adjustments for:						
Cost of export sales of crude oil (including export custom duties)	(94,974)	(34.8)	(88,114)	(34.6)	(6,860)	7.8
Taxes (other than income tax)	(18,777)	(6.9)	(18,112)	(7.1)	(665)	3.7
<b>Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil</b>	<b>158,820</b>	<b>58.3</b>	<b>148,754</b>	<b>58.3</b>	<b>10,066</b>	<b>6.8</b>

Increase in the amount of operating expenses net of depreciation and amortisation by RUB 17,379 or by 6.8% was mainly caused by the following factors:

- increase of the cost of export sales of crude oil (ref. to 3.2.5);
- inclusion in the operating expenses of figures of the NCSP Group and NFT, which were reflected in the relevant elements of operating expenses;
- increase of the cost of domestic sales of crude oil and petroleum products (ref. to 3.2.5);
- increase of salaries, insurance contributions and social expenses (ref. to 3.2.2).



**TRANSNEFT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION**  
**AND RESULTS OF ITS OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
(in millions of Russian roubles, if not stated otherwise)

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

After applying inflation rates\*, operating expenses net of depreciation and amortisation for the six months ended 30 June 2019, and for the six months ended 30 June 2018, were as follows:

Operating expense line items	Six months ended						
	30 June 2019	Share of total expenses, %	Inflation rates (2019 to 2018), %*	30 June 2018 (inflated to 2019)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	79,435	29.1	5.0	80,735	30.2	(1,300)	(1.6)
Energy	23,046	8.5	11.4	24,135	9.0	(1,089)	(4.5)
Materials	15,310	5.6	4.4	14,891	5.6	419	2.8
Repair and maintenance of relevant technical condition of pipeline	7,014	2.6	5.1	6,616	2.5	398	6.0
Insurance expenses	3,262	1.2	5.0	3,221	1.2	41	1.3
Taxes (other than income tax)	18,777	6.9	4.4	18,909	7.1	(132)	(0.7)
Pension expense	1,519	0.6	5.0	4,229	1.6	(2,710)	(64.1)
Cost of export sales of crude oil (including export custom duties)	94,974	34.8	3.9	91,550	34.2	3,424	3.7
Cost of domestic sales of crude oil	6,296	2.3	3.9	3,989	1.5	2,307	57.8
Cost of sales of petroleum products	4,377	1.6	0.1	2,159	0.8	2,218	2 times
Cost of sales of other goods for resale	3,025	1.1	4.4	2,083	0.8	942	45.2
Other operating expenses	15,536	5.7	4.4	15,194	5.6	342	2.3
<b>Operating expenses net of depreciation and amortisation</b>	<b>272,571</b>	<b>100.0</b>	<b>X</b>	<b>267,711</b>	<b>100.0</b>	<b>4,860</b>	<b>1.8</b>
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)	(94,974)	(34.8)	3.9	(91,550)	(34.2)	(3,424)	3.7
Taxes (other than income tax)	(18,777)	(6.9)	4.4	(18,909)	(7.1)	132	(0.7)
<b>Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil</b>	<b>158,820</b>	<b>58.3</b>	<b>X</b>	<b>157,252</b>	<b>58.7</b>	<b>1,568</b>	<b>1.0</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 2020 and forecast periods of 2021 and 2022.



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

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

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

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
<b>Oil transportation</b>				
Turnover, mln tons x km	601,072	595,032	6,040	1.0
Unit costs per 100 tons x km (2018 figures inflated to 2019), RUB	19.03	19.19	(0.16)	(0.9)
Unit costs per 100 tons x km net of new facilities expenditure (2018 figures inflated to 2019), RUB	18.83	19.19	(0.36)	(1.9)

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
<b>Petroleum products transportation</b>				
Volume turnover, mln of tons	19.1	19.7	(0.6)	(3.0)
Unit costs per ton (2018 figures inflated to 2019), RUB	636.03	738.92	(102.89)	(13.9)
Unit costs per ton net of new facilities expenditure (2018 figures inflated to 2019), RUB	630.89	738.92	(108.03)	(14.6)

#### 3.2.1. Depreciation and amortisation

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Depreciation of PPE	100,332	84,466	15,866	18.8
Amortisation of intangibles	2,142	2,494	(352)	(14.1)
Depreciation of rights-of-use assets	2,898	-	2,898	x
	<b>105,372</b>	<b>86,960</b>	<b>18,412</b>	<b>21.2</b>

Increase in depreciation for the six months ended 30 June 2019 was mainly driven by construction and putting into use of new facilities during 2018.

Depreciation of rights-of-use assets was recognised because of the adoption of IFRS 16 *Leases* by the Group starting 1 January 2019. IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. As a result the Group as a lessee recognised right-of-use assets which represent the right to use underlying assets.

#### 3.2.2. 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*.

Increase of salaries, insurance contributions and social expenses for the six months ended 30 June 2019 by RUB 2,545 or by 3.3% comparable to the same period of 2018 was mainly caused by consolidation of the NCSP Group and NFT and by increase of insurance contributions to non-state funds because of growth in accrual limit.



### 3.2.3. 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 is a non-state pension system providing various options for pension plans.

Pension expenses changed under following factors which influence expenses:

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

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Employers' contributions to JSC "NPF "Transneft" in favor of employees	1,594	2,611	(1,017)	(39.0)

### 3.2.4. Energy

Energy expenses for the six months ended 30 June 2019 increased by RUB 1,381 or 6.4% compared to the same period of the previous year. The increase of energy (power) expenses was caused by increase of weighted-average price (tariff) for energy (power) and increase of volumes of purchased energy (power) due to increase in oil turnover by 1%.

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

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Consumption of energy, mln kW*h	7,302	7,143	159	2.2

### 3.2.5. Cost of sales of crude oil and petroleum products

The cost of export sales of crude oil for the six months ended 30 June 2019 in the amount of RUB 94,974 includes cost of sales in the amount of RUB 76,476 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 18,498. This figure is a result of oil supplies to the People's Republic of China (ref. to 3.1.3).

Increase in cost of domestic sales of crude oil for the six months ended 30 June 2019 amounted to RUB 2,457 or 64.0% as compared to the relative period of 2018 and was caused by increase in sale volumes of crude oil by the Group's subsidiaries.

Increase in cost of domestic sales of petroleum products for the six months ended 30 June 2019 in the amount of RUB 2,220 or in 2.0 times as compared to the relative period of 2018 was caused by the growth in average price of petroleum products, as well as acquiring of control in the Group NCSP in September 2018.

### 3.2.6. 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 665 or 3.7% was mainly caused by the increase of the property tax expense (ref. to 2.4).

### 3.2.7. Other operating expenses

Other expenses include communication services, transportation services, business trip expenses, the summarized gains and losses relating to disposal of property, plant and equipment and other assets, 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 cargo handling, transport of oil and petroleum products, wholesale of electric and heat power.

Increase of the amount recognised by the Group in *Share of profit/(loss) from associates and jointly controlled entities* for the six months ended 30 June 2019 as compared to the relative period of 2018 amounted to RUB 2,291 and was mainly caused by the results of AO Ust-Luga Oil, AO CPC-R, AO CPC-K, OOO NTK and the closed combined mutual fund "Gazprombank – Finansoviy", as well as acquisition in September 2018 of the NCSP Group and NFT.

### 3.4. Finance income and costs

#### 3.4.1. 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.

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
<b>Interest income from:</b>				
Financial assets measured at FVTPL	2,582	2,732	(150)	(5.5)
Financial assets measured at amortised cost	3,951	5,348	(1,397)	(26.1)
Cash and cash equivalents	2,329	3,303	(974)	(29.5)
<b>Total interest income recognised in the statement of profit or loss and other comprehensive income</b>	<b>8,862</b>	<b>11,383</b>	<b>(2,521)</b>	<b>(22.1)</b>

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

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
<b>Interest expenses</b>				
Interest expenses on loans and borrowings	27,003	30,313	(3,310)	(10.9)
Distribution of investment income to pension liabilities	4,038	2,364	1,674	70.8
Interest expenses on contract liabilities	4,217	3,068	1,149	37.5
Interest expenses on lease liabilities	974	-	974	x
Other interest expenses	2,016	2,272	(256)	(11.3)
<b>Total interest expenses</b>	<b>38,248</b>	<b>38,017</b>	<b>231</b>	<b>0.6</b>
Less: interest expenses on loans, borrowings and liabilities to be capitalised	(15,066)	(4,003)	(11,063)	3.8 times
<b>Total interest expense recognised in the statement of profit or loss and other comprehensive income</b>	<b>23,182</b>	<b>34,014</b>	<b>(10,832)</b>	<b>(31.8)</b>

The amount of interest expenses on loans and borrowings for the six months ended 30 June 2019, and for the six months ended 30 June 2018, 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;

as well as, for the six months ended 30 June 2018:

- interest payable on the USD denominated loan obtained from the China Development Bank Corporation;
- interest payable on USD denominated Eurobonds.





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

The dynamics of interest expenses on loans and borrowings for the six months ended 30 June 2019 as compared to the similar period of 2018 was mainly driven by decrease of average amount of loans and borrowings.

Interest expense on contract liabilities were recognised because of the adoption of 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.

Interest expenses on lease liabilities were recognised because of the adoption of IFRS 16 *Leases* starting 1 January 2019.

Increase in capitalised interest expenses in cost of construction in progress by RUB 11,063 or in 3.8 times was driven by the following factors:

- increase in capitalised interest expenses accrued on contract liabilities for provision of services for technological connection to trunk pipelines recognised under IFRS 15 *Revenue from Contracts with Customers* where significant financing component existed in the contract;
- amendments to IAS 23 *Borrowing Costs* effective from 1 January 2019 resulting in capitalisation of interest expenses from all loans outstanding during the reporting period including borrowings specifically taken for purchase, construction or production of qualifying assets after substantially all the activities necessary to prepare qualifying asset for use are complete.

### 3.4.2. 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 six months ended 30 June 2019, compared to the same period of 2018, 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.

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Foreign exchange gains on financial assets	1,000	17,013	(16,013)	(94.1)
Foreign exchange gains on loans and borrowings	7,635	8,184	(549)	(6.7)
Foreign exchange gains from cash and cash equivalents and other foreign exchange gains	7,337	18,461	(11,124)	(60.3)
<b>Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income</b>	<b>15,972</b>	<b>43,658</b>	<b>(27,686)</b>	<b>(63.4)</b>
Foreign exchange loss on financial assets	(13,167)	(6,057)	(7,110)	2.2 times
Foreign exchange loss on loans and borrowings	(369)	(21,623)	21,254	(98.3)
Foreign exchange loss from cash and cash equivalents and other foreign exchange loss	(9,766)	(3,019)	(6,747)	3.2 times
<b>Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income</b>	<b>(23,302)</b>	<b>(30,699)</b>	<b>7,397</b>	<b>(24.1)</b>
<b>Net foreign exchange (loss)/ gain</b>	<b>(7,330)</b>	<b>12,959</b>	<b>(20,289)</b>	<b>x</b>

Dynamics of exchange differences presented in the table was driven by strengthening of RUB to USD during the six months ended 30 June 2019 (ref. to 2.2) and the share of financial assets and liabilities denominated in USD in total liabilities.



**TRANSNEFT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION**  
**AND RESULTS OF ITS OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
(in millions of Russian roubles, if not stated otherwise)

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

	Six months ended		Change, %
	30 June 2019	30 June 2018	
<b>Profit for the period</b>	<b>112,728</b>	<b>92,070</b>	<b>22.4</b>
Adjustments for:			
income tax expense	29,318	23,592	24.3
depreciation and amortisation	105,372	86,960	21.2
result of crude oil sales to China	278	(112)	x
net finance costs	21,007	9,589	2.2 times
share of (profit)/loss from associates and jointly controlled entities	(2,258)	33	X
other income (ref. to 3)	(18,454)	(3,918)	4.7 times
<b>EBITDA*</b>	<b>247,991</b>	<b>208,214</b>	<b>19.1</b>

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

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

## 4. Cash flow analysis

	Six months ended		Absolute change	Change, %
	30 June 2019	30 June 2018		
Cash flows received from operating activities	157,760	158,386	(626)	(0.4)
Cash flows used for purchase of property, plant and equipment, net	(124,975)	(126,348)	1,373	(1.1)
<b>Free cash flow</b>	<b>32,785</b>	<b>32,038</b>	<b>747</b>	<b>2.3</b>
Cash flows received from/(used in) other investing activities	7,501	(10,588)	18,089	x
Cash flows received from financing activities	5,223	76,807	(71,584)	(93.2)
<b>Net cash flow</b>	<b>45,509</b>	<b>98,257</b>	<b>(52,748)</b>	<b>(53.7)</b>
Change in cash and cash equivalents due to deviation of currency exchange rate	(3,671)	11,655	(15,326)	x
<b>Net increase in cash and cash equivalents</b>	<b>41,838</b>	<b>109,912</b>	<b>(68,074)</b>	<b>(61.9)</b>

### 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 157,760 for the six months ended 30 June 2019, which is RUB 626 or 0.4% less than for the comparable period of 2018.

The decrease of cash generated from operating activities was mainly influenced by following factors:

- increase in cash received from customers by RUB 45,340;
- increase in cash paid to suppliers by RUB 38,526;
- increase in refunds of insurance contributions, VAT and other taxes from the budget by RUB 9,187;
- increase in income tax paid amounting to RUB 11,230;
- increase in interest paid by RUB 3,699;
- repayment of interest under lease liabilities by RUB 1,601.



#### **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 19,462 or 14.2% for the six months ended 30 June 2019 compared to the same period of 2018 were:

- decrease in the net amount of purchase of property, plant and equipment by RUB 1,373 as compared to the relative period of the previous year;
- decrease of cash used in other investing activities amounted to RUB 18,089 because of the following operations:
  - increase in net cash used in purchase-and-sale transactions of debt securities and allocation-closure of deposits in the amount of RUB 359 compared to the relative period of the previous year;
  - increase in cash received from dividends and other cash received from associates and jointly controlled entities by 1,259 for the six months ended 30 June 2019 compared to the relative period of the previous year;
  - recognition of cash inflow from sale of subsidiary (ref. to 3) less cash disposed of for the six months ended 30 June 2019 in the amount of RUB 35,143;
  - recognition of cash outflow for placing cash on escrow account in the state-controlled bank in the amount of RUB 12,800;
  - recognition of cash inflow from obtaining ownership over 100% of shares of CPC Company and CPC Investments Company in the amount of RUB 5,203 for the six months ended 30 June 2018.

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

The main factors which influenced on decrease of cash inflow from financing activities for the six months ended 30 June 2019 in the amount of RUB 71,584 or 93.2% as compared to the relative period of the previous year were:

- decrease of net proceeds in the amount of RUB 68,760 from attraction of loans/used for repayment of loans and issuance/repayment of RUB-denominated bonds mainly driven by:
  - during the six months ended 30 June 2018 monthly repayments and early repayments of the loan to China Development Bank were made in the total amount of USD 2,902.2 mln (RUB 166,140 at the rate of Central Bank of the Russian Federation on the dates of operations);
  - decrease of cash proceeds in the amount of RUB 228,456 from attraction of loans and issuance of RUB-denominated bonds as compared to the relative period of the previous year;
- increase of cash outflow used for payment of dividends by NCSP by RUB 1,900 as compared to the relative period of the previous year.



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

Cash flows received from operating activities using the indirect method are disclosed in the table below in addition to the condensed consolidated interim statement of cash flows prepared using the direct method and disclosed in the condensed consolidated interim financial statements prepared in accordance with IFRS for the six months ended 30 June 2019.

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

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

OPERATING ACTIVITIES	Note	Six months ended	
		30 June 2019	30 June 2018
<b>Profit before income tax</b>		<b>142,046</b>	<b>115,662</b>
<b>Adjustments for:</b>			
Depreciation and amortisation	3.2.1	105,372	86,960
Loss/ (gain) from disposal of property, plant and equipment		483	(156)
Finance income	3.4	(26,039)	(55,229)
Finance costs	3.4	47,046	64,818
Gain from disposal of subsidiary	3	(16,192)	-
Share of (profit)/loss from associates and jointly controlled entities	3	(2,258)	33
Other		(1,245)	(8,665)
<b>Operating profit before changes in working capital and reserves</b>		<b>249,213</b>	<b>203,423</b>
Changes in operating assets and liabilities:			
Changes in inventories		60	2,311
Changes in trade and other receivables relating to operating activity and VAT assets		(8,161)	(10,726)
Changes in trade and other payables, and accruals relating to operating activity		(31,169)	154
Changes in contract liabilities		2,727	3,148
<b>Cash flows from operating activities before payment of income tax expense and interest</b>		<b>212,670</b>	<b>198,310</b>
Income tax paid		(30,877)	(19,647)
Income tax refund		78	135
Interest paid		(24,111)	(20,412)
<b>Net cash flows received from operating activities</b>		<b>157,760</b>	<b>158,386</b>



## 5. Liquidity analysis

	30 June 2019	31 December 2018	Change, %
Current assets	486,977	407,071	19.6
including:			
cash and cash equivalents	143,690	101,852	41.1
short-term bank deposits and bonds*	199,847	179,069	11.6
Current liabilities	350,192	294,753	18.8
Net working capital	136,785	112,318	21.8
Current ratio	1.4	1.4	x
Quick ratio**	1.1	1.1	x
Debt/ EBITDA	1.4	1.4	x
Debt/ Equity	0.3	0.3	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 – Ba1 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