

TRANSNEFT

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019





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

1.	General information and overview of the Group's activities	4
1.1.	Key investment projects of the Group	5
1.2.	Environmental policy	5
2.	Tariffs and key macroeconomic factors affecting the Group's performance	6
2.1.	Oil and petroleum products transportation tariffs	6
2.2.	The rouble's exchange rate against foreign currencies	9
2.3.	Inflation rates	9
2.4.	Taxation	9
3.	Analysis of the Group's performance	10
3.1.	Revenue	11
3.1.1.	Revenue breakdown by type of activities	11
3.1.2.	Oil and petroleum products transportation	11
3.1.3.	Revenue from sales of crude oil	12
3.1.4.	Revenue from oil compounding	12
3.1.5.	Other revenue	12
3.2.	Operating expenses net of depreciation and amortisation	13
3.2.1.	Depreciation and amortisation	15
3.2.2.	Salaries, insurance contributions and social expenses	15
3.2.3.	Pension expense	16
3.2.4.	Energy	16
3.2.5.	Cost of sales of crude oil and petroleum products	16
3.2.6.	Taxes (other than income tax)	16
3.2.7.	Other operating expenses	16
3.3.	Share of results from associates and jointly controlled entities	17
3.4.	Finance income and costs	17
3.4.1.	Interest income and expenses	17
3.4.2.	Foreign currency exchange gains and losses	18
3.5.	Reconciliation of profit and earnings before interest, income tax, depreciation and amortisation (EBITDA)	19
4.	Cash flow analysis	19
4.1.	Operating activities	19
4.2.	Investing activities	20
4.3.	Financing activities	20
4.4.	Disclosure of cash flows from operating activities using indirect method	21
5.	Liquidity analysis	22



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

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

	Nine months ended		Change, %
	30 September 2019	30 September 2018	
Revenue	792,735	716,012	10.7
Profit for the period	157,683	170,996	(7.8)
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	376,697	314,637	19.7
Oil delivered to consignees, mln tons	362.1	357.5	1.3
including:			
Russian oil refineries, mln tons	183.0	187.2	(2.2)
other consignees, including transshipment into the CPC-R system, mln tons	0.2	-	x
exports to neighboring countries, mln tons	13.9	14.1	(1.4)
exports to other countries, mln tons	165.0	156.2	5.6
Petroleum products delivered to consignees, mln tons	28.4	30.2	(6.0)
including:			
Russia's domestic market, mln tons	8.0	8.3	(3.6)
exports to the Customs Union member countries, mln tons	0.1	0.3	(66.7)
exports to other countries, mln tons	20.3	21.6	(6.0)

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



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

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

	Note	Nine months ended		Absolute change	Change, %
		30 September 2019	30 September 2018		
Profit for the period		157,683	170,996	(13,313)	(7.8)
Net loss/(gain) from foreign exchange differences	3.4.2	5,571	(18,891)	24,462	x
Share of profit from associates and jointly controlled entities	3	(2,299)	(6,294)	3,995	(63.5)
Profit from disposal of subsidiaries	3	(16,192)	-	(16,192)	x
Provision for reimbursement to consignors of material losses	1	23,031	-	23,031	x
Fair value remeasurement of the previously held share of PJSC NCSP at the date of acquisition	3	-	(25,371)	25,371	x
Fair value remeasurement of financial assets and liabilities and other adjustments		(1,769)	443	(2,212)	x
Effect on the income tax expense of the mentioned factors		(4,907)	6,217	(11,124)	x
Adjusted profit for the period		161,118	127,100	34,018	26.8

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 September 2019 possesses an extensive network of trunk oil pipelines with a total length of approximately 51.8 thousand km and trunk petroleum products pipelines with a total length of some 16.7 thousand km.

During the nine months ended 30 September 2019 the Group transported about 83% of oil produced in Russia and about 29% 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:



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

- 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 (hereinafter – *Incident*).

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

In accordance with IFRS requirements as at 30 September 2019 a provision was recognised which presents the management's estimate of probable expenditure for settlement of incident consequences with consignors within the agreements for rendering of services for transportation of oil during 2019 confirmed by documentary evidence of shippers' losses and confirmation of relevant negative consequences and their amount. The provision is not an unconditional legal obligation of the Group to shippers for reimbursements. Recognition of provision does not result in acknowledgement by Transneft of responsibility for third parties actions, which resulted into the ingress of substandard oil into the system into "Druzhba" pipeline in April 2019.

The provision expenses were recognised in *Other (expense)/income* in the condensed consolidated interim statement of profit or loss and other comprehensive income.

According to the management, the expected term for extrajudicial settlement of the Incident consequences within the framework approved by the Board of Directors is not more than a year, being subject to the consignors' interest in implementing the proposed mechanism and documentary evidence of material losses.

1.1. Key investment projects of the Group

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

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

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

- Extension of the ESPO pipeline system the Tayshet IPS (initial pumping station) – Skovorodino oil pumping station section up to 80 mln tons per annum;
- Extension of the ESPO pipeline system at the Skovorodino oil pumping station – Kozmino SSOP up to 50 mln tons per annum.

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 nine months ended 30 September 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)¹:
- 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 Russia of 26.05.2016 No. 666/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Ukhta – Yaroslavl trunk pipeline through Ukhta – 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 Ukhta – 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 Ukhta – Yaroslavl trunk pipeline through Pechora – Chickshino provided to AO NNK – Pechoraneft;
 - Order of the FAS of Russia of 29.08.2016 No. 1216/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via Udoma – Privodino trunk pipeline through Ukhta - Sindor provided to AO NK Neftisa;
 - Order of the FAS of Russia of 29.08.2016 No. 1217/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via Ukhta – Yaroslavl trunk pipeline through Ukhta - 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 – Ukhta 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 Ukhta-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;

¹ 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 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;
- Order of FAS of Russia of 20.06.2019 No. 801/19 Concerning the setting of tariff for the services of Transneft for oil transportation through the branch oil pipeline ESPO – Komsomolskiy NPZ 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 – Nizhegorodnefteorgsynthez” – MP “Primorsk” for OAO NK LUKOIL;
 - Order of the FTS of Russia of 07.10.2014 No.223-e/1 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for 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;
 - 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 Sheskhari) provided to PJSC LUKOIL;
 - Order of the FAS of Russia of 12.02.2018 No. 156/18 Concerning the setting limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of 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;



2.1. Oil and petroleum products transportation tariffs (continued)

- 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 – Nizhegorodnefteorgsynthez” – 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-Permnefteorgsintez) – MP Primorsk and through petroleum products pipeline PSP Andreevka (loading from OOO Lukoil-Permnefteorgsintez) – 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;
- Order of the FAS of Russia of 24.05.2019 No. 654/97 Concerning the setting of tariff for services of Transneft for petroleum products transportation through PSP Volgograd (loading from OOO LUKOIL-VOLGOGRADNEFTEPERERABOTKA) – MP Novorossiysk (PK Sheskhari) provided to PJSC LUKOIL;
- Order of the FAS of Russia of 05.06.2019 No. 728/19 Concerning the setting of tariff for services of Transneft for petroleum products transportation through Tinguta station (loading from railroad cars at Tinguta IPS) – MP Novorossiysk (PK Sheskhari) provided to PJSC LUKOIL;
- Order of the FAS of Russia of 11.07.2019 No. 947/19 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.



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, Euro and Kazakhstan tenge did not significantly affected the Group's operating results as operating activities executed in these currencies do not make a significant additional financial result related with changes of currency rates.

	Nine months ended		Change, %
	30 September 2019	30 September 2018	
Change in the RUB/USD exchange rate for the reporting period, %	(7.3)	13.9	x
<i>RUB/USD exchange rates</i>			
Average rate for the reporting period	65.08	61.44	5.9
Rate at the end of the reporting period	64.42	65.59	(1.8)
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:

	Nine months ended		Change, pp
	30 September 2019	30 September 2018	
Rouble inflation (CPI), %	2.3	2.5	(0.2)

2.4. Taxation

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

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

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Current income tax	42,517	36,515	6,002	16.4
Property tax	28,464	28,543	(79)	(0.3)
Other taxes and levies	544	554	(10)	(1.8)

Income tax

The federal income tax rate in 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 nine months ended 30 September 2019 and the relative period of 2018.

	Ref.	Nine months ended		Absolute change	Change, %
		30 September 2019	30 September 2018		
Revenue	3.1	792,735	716,012	76,723	10.7
Revenue from oil transportation	3.1.2	522,858	484,260	38,598	8.0
Revenue from petroleum products transportation	3.1.2	51,445	56,076	(4,631)	(8.3)
Revenue from crude oil sales	3.1.3	149,534	150,362	(828)	(0.6)
Other revenue	3.1.5	68,898	25,314	43,584	2.7 times
Operating expenses net of depreciation and amortisation	3.2	(416,315)	(401,109)	(15,206)	3.8
Operating profit net of depreciation and amortisation		376,420	314,903	61,517	19.5
Depreciation and amortisation	3.2.1	(154,702)	(132,306)	(22,396)	16.9
Operating profit		221,718	182,597	39,121	21.4
Other (expense)/income		(6,503)	33,078	(39,581)	x
Share of profit from associates and jointly controlled entities	3.3	2,299	6,294	(3,995)	(63.5)
Profit before income tax and finance income/ (costs)		217,514	221,969	(4,455)	(2.0)
Net finance costs	3.4	(23,000)	(13,500)	(9,500)	70.4
Profit before income tax		194,514	208,469	(13,955)	(6.7)
Income tax expense		(36,831)	(37,473)	642	(1.7)
Profit for the reporting period		157,683	170,996	(13,313)	(7.8)
Other comprehensive (loss)/income, net of income tax		(3,888)	2,545	(6,433)	x
Total comprehensive income, net of income tax		153,795	173,541	(19,746)	(11.4)

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

	Nine months ended 30 September 2019*
Revenue	43,283
Profit for the period	39,579
Earnings before interest, income tax, depreciation and amortisation (EBITDA)*	31,558

* before elimination of operations between PJSC NCSP and its subsidiaries with other subsidiaries of Transneft.

The share of profit in the NCSP Group for the nine months ended 30 September 2018 was recognised in *Share of profit from associates and jointly controlled entities*.

Changes in *Other (expense)/income* nine months ended 30 September 2019 as compared to the relative period of previous year were mainly caused by the following factors:

- recognition in the reporting period of 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;
- recognition in the reporting period of provision for reimbursement of material losses to consignors in the amount of RUB 23,031;
- recognition during the nine months ended 30 September 2018 of gain of RUB 25,371 from fair value remeasurement of the previously held share of PJSC NCSP of 35.57% at the date of acquisition.



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

3.1. Revenue

3.1.1. Revenue breakdown by type of activities

Revenue by type of operations	Nine months ended				Absolute change	Change, %
	30 September 2019	Share of total, %	30 September 2018	Share of total, %		
Revenue from oil transportation	522,858	66.0	484,260	67.6	38,598	8.0
for export	344,768	43.5	288,566	40.3	56,202	19.5
for domestic	178,090	22.5	195,694	27.3	(17,604)	(9.0)
Revenue from petroleum products transportation	51,445	6.5	56,076	7.8	(4,631)	(8.3)
Revenue from oil compounding	4,609	0.6	4,342	0.6	267	6.1
Revenue from domestic sales of crude oil	9,761	1.2	4,484	0.6	5,277	2.2 times
Revenue from sales of petroleum products	7,140	0.9	4,100	0.6	3,040	74.1
Revenue from export sales of crude oil	139,773	17.6	145,878	20.4	(6,105)	(4.2)
Other revenue	57,149	7.2	16,872	2.4	40,277	3.4 times
Total revenue	792,735	100.0	716,012	100.0	76,723	10.7
adjusted for:						
Revenue from export sales of crude oil	(139,773)	(17.6)	(145,878)	(20.4)	6,105	(4.2)
Adjusted revenue	652,962	82.4	570,134	79.6	82,828	14.5

For the nine months ended 30 September 2019, the Group's revenue increased by RUB 76,723 or by 10.7%, 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 nine months ended 30 September 2019 increased by RUB 82,828 or 14.5% to the comparable period mainly due to effect of the same factors.

3.1.2. Oil and petroleum products transportation

Increase in revenue from oil transportation amounted to RUB 38,598 or by 8.0% for the nine months ended 30 September 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 4,631 or by 8.3% for the nine months ended 30 September 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.

Decrease in revenue from export sales of crude oil by RUB 6,105 or 4.2% for the nine months ended 30 September 2019 compared to the same period of preceding year was mainly a result of decline in average oil market price per barrel set in USD and 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 nine months ended 30 September 2019 by RUB 5,277 or in 2.2 times 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.

Increase in revenue from sales of petroleum products for the nine months ended 30 September 2019 by RUB 3,040 or by 74.1% compared to the same period of the preceding year was a result of insignificant increase of sale volumes, as well as acquisition of control over NCSP Group in September 2018.

3.1.4. Revenue from oil compounding

Increase in revenue from oil compounding by RUB 267 or by 6.1% for the nine months ended 30 September 2019 compared to the nine months ended 30 September 2018 was a result of increase in oil compounding volumes and tariffs for compounding.

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Oil compounding volumes, thousand tons	29,902	29,762	140	0.5

3.1.5. Other revenue

Other revenue includes revenue from provision of stevedoring, additional port services and fleet services, 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 cargoes, revenue from provision of other services.

Increase of other revenue for the nine months ended 30 September 2019 compared to the same period of the preceding year was mainly caused by consolidation of NCSP and its subsidiaries.



TRANSNEFT
MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION
AND RESULTS OF ITS OPERATIONS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019
(in million 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 nine months ended 30 September 2019, and the nine months ended 30 September 2018, are detailed in the table below:

Operating expense line items	Nine months ended				Absolute change	Change, %
	30 September 2019	Share of total expenses, %	30 September 2018	Share of total expenses, %		
Salaries, insurance contributions and social expenses	123,390	29.6	117,960	29.4	5,430	4.6
Energy	34,829	8.4	32,364	8.1	2,465	7.6
Materials	24,165	5.8	22,302	5.6	1,863	8.4
Repair and maintenance of relevant technical condition of pipeline	13,919	3.3	13,044	3.3	875	6.7
Insurance expenses	4,840	1.2	4,680	1.2	160	3.4
Taxes (other than income tax)	28,363	6.8	27,394	6.8	969	3.5
Pension expense	2,553	0.6	5,220	1.3	(2,667)	(51.1)
Cost of export sales of crude oil (including export custom duties)	140,050	33.6	145,612	36.3	(5,562)	(3.8)
Cost of domestic sales of crude oil	9,261	2.2	3,839	1.0	5,422	2.4 times
Cost of sales of petroleum products	6,575	1.6	3,750	0.9	2,825	75.3
Cost of sales of other goods for resale	5,359	1.3	2,803	0.7	2,556	91.2
Other operating expenses	23,011	5.6	22,141	5.4	870	3.9
Operating expenses net of depreciation and amortisation	416,315	100.0	401,109	100.0	15,206	3.8
Adjustments for:						
Cost of export sales of crude oil (including export custom duties)	(140,050)	(33.6)	(145,612)	(36.3)	5,562	(3.8)
Taxes (other than income tax)	(28,363)	(6.8)	(27,394)	(6.8)	(969)	3.5
Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil	247,902	59.6	228,103	56.9	19,799	8.7

Increase in the amount of operating expenses net of depreciation and amortisation by RUB 15,206 or by 3.8% 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 shown 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 NINE MONTHS ENDED 30 SEPTEMBER 2019
(in million 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 nine months ended 30 September 2019, and for the nine months ended 30 September 2018, were as follows:

Operating expense line items	Nine months ended						
	30 September 2019	Share of total expenses, %	Inflation rates (2019 to 2018), %*	30 September 2018 (inflated to 2019)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	123,390	29.6	4.7	123,504	28.8	(114)	(0.1)
Energy	34,829	8.4	10.8	35,859	8.4	(1,030)	(2.9)
Materials	24,165	5.8	5.4	23,506	5.5	659	2.8
Repair and maintenance of relevant technical condition of pipeline	13,919	3.3	7.4	14,009	3.3	(90)	(0.6)
Insurance expenses	4,840	1.2	4.7	4,900	1.1	(60)	(1.2)
Taxes (other than income tax)	28,363	6.8	5.4	28,873	6.7	(510)	(1.8)
Pension expense	2,553	0.6	4.7	5,465	1.3	(2,912)	(53.3)
Cost of export sales of crude oil (including export custom duties)	140,050	33.6	8.6	158,135	36.9	(18,085)	(11.4)
Cost of domestic sales of crude oil	9,261	2.2	8.6	4,169	1.0	5,092	2.2 times
Cost of sales of petroleum products	6,575	1.6	0.1	3,754	0.9	2,821	75.1
Cost of sales of other goods for resale	5,359	1.3	5.4	2,954	0.7	2,405	81.4
Other operating expenses	23,011	5.6	5.4	23,337	5.4	(326)	(1.4)
Operating expenses net of depreciation and amortisation	416,315	100.0	X	428,465	100.0	(12,150)	(2.8)
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)	(140,050)	(33.6)	8.6	(158,135)	(36.9)	18,085	(11.4)
Taxes (other than income tax)	(28,363)	(6.8)	5.4	(28,873)	(6.7)	510	(1.8)
Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil	247,902	59.6	X	241,457	56.4	6,445	2.7

*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 (RAS)

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.

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Oil transportation				
Turnover, mln tons x km	926,677	904,438	22,239	2.5
Unit costs per 100 tons x km (2018 figures inflated to 2019), RUB	18.98	19.36	(0.38)	(2.0)
Unit costs per 100 tons x km net of new facilities expenditure (2018 figures inflated to 2019), RUB	18.78	19.36	(0.58)	(3.0)

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Petroleum products transportation				
Volume turnover, mln of tons	28.4	30.2	(1.8)	(6.0)
Unit costs per ton (2018 figures inflated to 2019), RUB	655.13	768.40	(113.27)	(14.7)
Unit costs per ton net of new facilities expenditure (2018 figures inflated to 2019), RUB	647.19	768.40	(121.21)	(15.8)

3.2.1. Depreciation and amortisation

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Depreciation of PPE	147,464	129,000	18,464	14.3
Amortisation of intangibles	2,886	3,306	(420)	(12.7)
Depreciation of rights-of-use assets	4,352	-	4,352	x
	154,702	132,306	22,396	16.9

Increase in depreciation for the nine months ended 30 September 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 nine months ended 30 September 2019 by RUB 5,430 or by 4.6% 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 the state extra budgetary 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.

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Employers' contributions to JSC "NPF "Transneft" in favor of employees	2,320	3,345	(1,025)	(30.6)

3.2.4. Energy

Energy expenses for the nine months ended 30 September 2019 increased by RUB 2,465 or 7.6% 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 2.5%.

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

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Consumption of energy, mln kW*h	11,306	10,693	613	5.7

3.2.5. Cost of sales of crude oil and petroleum products

The cost of export sales of crude oil for the nine months ended 30 September 2019 in the amount of RUB 140,050 includes cost of sales in the amount of RUB 112,494 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 27,556. 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 nine months ended 30 September 2019 amounted to RUB 5,422 or 2.4 times as compared to the relative period of 2018 and was caused by increase in sale volumes of crude oil.

Increase in cost of domestic sales of petroleum products for the nine months ended 30 September 2019 in the amount of RUB 2,825 or 75.3% 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 NCSP Group 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 969 or 3.5% 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.



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

3.3. Share of results from associates and jointly controlled entities

The Group holds 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 from associates and jointly controlled entities* for the nine months ended 30 September 2019 as compared to the relative period of 2018 amounted to RUB 3,995 or by 63.5%, 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

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

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Interest income from:				
Financial assets measured at FVTPL	3,719	4,236	(517)	(12.2)
Financial assets measured at amortised cost	6,175	7,776	(1,601)	(20.6)
Cash and cash equivalents	3,704	4,058	(354)	(8.7)
Total interest income recognised in the statement of profit or loss and other comprehensive income	13,598	16,070	(2,472)	(15.4)

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

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Interest expenses				
Interest expenses on loans and borrowings	40,883	43,963	(3,080)	(7.0)
Distribution of pension income on pension liabilities	6,287	3,011	3,276	2.1 times
Interest expenses under contract liabilities	6,406	4,935	1,471	29.8
Interest expenses from lease liabilities	1,560	-	1,560	x
Other interest expenses	2,860	3,489	(629)	(18.0)
Total interest expenses	57,996	55,398	2,598	4.7
Less: interest expenses on loans, borrowings and liabilities to be capitalised	(25,200)	(7,380)	(17,820)	3.4 times
Total interest expense recognised in the statement of profit or loss and other comprehensive income	32,796	48,018	(15,222)	(31.7)

The amount of interest expenses on loans and borrowings for the nine months ended 30 September 2019, and for the nine months ended 30 September 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 nine months ended 30 September 2018:

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



3.4.1. Interest income and expenses (continued)

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

Interest expense under 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 from 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 17,820 or in 3.4 times was driven by the following factors:

- increase in capitalised interest expenses accrued under 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

The amount of foreign currency exchange gains and losses for the nine months ended 30 September 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.

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Foreign exchange gains on financial assets	7,524	24,760	(17,236)	(69.6)
Foreign exchange gains on loans and borrowings	9,323	10,972	(1,649)	(15.0)
Foreign exchange gains from cash and cash equivalents and other foreign exchange gains	9,434	30,996	(21,562)	(69.6)
Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income	26,281	66,728	(40,447)	(60.6)
Foreign exchange loss on financial assets	(22,199)	(9,242)	(12,957)	2.4 times
Foreign exchange loss on loans and borrowings	(3,463)	(22,339)	18,876	(84.5)
Foreign exchange loss from cash and cash equivalents and other foreign exchange loss	(6,190)	(16,256)	10,066	(61.9)
Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income	(31,852)	(47,837)	15,985	(33.4)
Net foreign exchange (loss)/ gain	(5,571)	18,891	(24,462)	x

Dynamics of exchange differences presented in the table was driven by strengthening of RUB to USD during the nine months ended 30 September 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 NINE MONTHS ENDED 30 SEPTEMBER 2019
(in million of Russian roubles, if not stated otherwise)

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

	Nine months ended		Change, %
	30 September 2019	30 September 2018	
Profit for the period	157,683	170,996	(7.8)
Adjustments for:			
income tax expense	36,831	37,473	(1.7)
depreciation and amortisation	154,702	132,306	16.9
result of crude oil sales to China	277	(266)	x
net finance costs	23,000	13,500	70.4
share of profit from associates and jointly controlled entities	(2,299)	(6,294)	(63.5)
other expense/(income) (ref. to 3)	6,503	(33,078)	x
EBITDA*	376,697	314,637	19.7

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

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

4. Cash flow analysis

	Nine months ended		Absolute change	Change, %
	30 September 2019	30 September 2018		
Cash flows received from operating activities	233,843	223,123	10,720	4.8
Cash flows used for purchase of property, plant and equipment, net	(186,309)	(192,148)	5,839	(3.0)
Free cash flow	47,534	30,975	16,559	53.5
Cash flows received from other investing activities	43,380	81,284	(37,904)	(46.6)
Cash flows used in financing activities	(122,003)	(110,382)	(11,621)	10.5
Net cash flow	(31,089)	1,877	(32,966)	x
Change in cash and cash equivalents due to deviation of currency exchange rate	(4,286)	11,151	(15,437)	x
Net (decrease)/increase in cash and cash equivalents	(35,375)	13,028	(48,403)	x

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 233,843 for the nine months ended 30 September 2019, which is RUB 10,720 or 4.8% higher than for the comparable period of 2018.

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

- increase in cash received from customers by RUB 63,728;
- increase in cash paid to suppliers by RUB 33,199;
- increase in refunds of insurance contributions, VAT and other taxes from the budget by RUB 1,587;
- increase in income tax paid amounting to RUB 14,970;
- increase in interest paid by RUB 1,618.



4.2. Investing activities

The primary factors resulting in a increase in cash used in investing activities disclosed in condensed consolidated interim statement of cash flows by RUB 32,065 or 28.9% for the nine months ended 30 September 2019 compared to the same period of 2018 were:

- decrease in the net amount of purchase of property, plant and equipment by RUB 5,839 as compared to the relative period of the previous year;
- increase of cash used in other investing activities amounted to RUB 37,904 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 75,818 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 2,940 for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2018;
 - usage of cash for acquisition of the share in PJSC NCSP in the amount of RUB 49,319 shown in the condensed consolidated interim statement of cash flows net of cash acquired held by PJSC NCSP and its subsidiaries in the amount of RUB 32,018.

4.3. Financing activities

The main factors which influenced on increase of cash outflow from financing activities for the nine months ended 30 September 2019 in the amount of RUB 11,621 or 10.5% as compared to the relative period of the previous year were:

- decrease of net proceeds in the amount of RUB 19,887 from attraction of loans/used for repayment of loans and issuance/repayment of RUB-denominated bonds mainly driven by:
 - repayment of bonds in the amount of RUB 58,675 during the nine months ended 30 September 2019;
 - during the nine months ended 30 September 2018 monthly repayments and early repayments of the loan to China Development Bank were made in the total amount of USD 4,651.1 mln (RUB 276,187 at the rate of Central Bank of the Russian Federation on the dates of operations);
 - repayment of eurobonds in the amount of USD 1,050 (RUB 66,293) during the nine months ended 30 September 2018;
 - decrease of cash proceeds in the amount of RUB 257,615 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 RUB 28,005 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 nine months ended 30 September 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.

	Note	Nine months ended	
		30 September 2019	30 September 2018
OPERATING ACTIVITIES			
Profit before income tax		194,514	208,469
Adjustments for:			
Depreciation and amortisation	3.2.1	154,702	132,306
Loss from disposal of property, plant and equipment		632	716
Finance income	3.4	(42,210)	(82,986)
Finance costs	3.4	65,210	96,486
Gain from disposal of subsidiary	3	(16,192)	-
Share of profit from associates and jointly controlled entities	3	(2,299)	(6,294)
Fair value remeasurement of the previously held share of PJSC NCSP at the date of acquisition		-	(25,371)
Other		22,929	(15,098)
Operating profit before changes in working capital and provision		377,286	308,228
Changes in operating assets and liabilities:			
Changes in inventories		3,109	(6,197)
Changes in trade and other receivables relating to operating activity and VAT assets		(22,529)	(8,083)
Changes in trade and other payables, and accruals relating to operating activity		(31,787)	(12,894)
Changes in contract liabilities		(848)	16,869
Cash flows from operating activities before payment of income tax expense and interest		325,231	297,923
Income tax paid		(47,203)	(32,168)
Income tax refund		236	171
Interest paid		(44,421)	(42,803)
Net cash flows received from operating activities		233,843	223,123



5. Liquidity analysis

	30 September 2019	31 December 2018	Change, %
Current assets	398,744	407,071	(2.0)
including:			
cash and cash equivalents	66,477	101,852	(34.7)
short-term bank deposits and bonds*	170,472	179,069	(4.8)
Current liabilities	225,921	294,753	(23.4)
Net working capital	172,823	112,318	53.9
Current ratio	1.8	1.4	x
Quick ratio**	1.2	1.1	x
Debt/ EBITDA	1.3	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