

**TRANSNEFT**

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

**FOR THE THREE MONTHS ENDED 31 MARCH 2020**





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

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The following analysis provides an overview of the financial position of Transneft and its subsidiaries (hereinafter – the “Group”) as at 31 March 2020 and results of operations for the three months ended 31 March 2020, compared to the three months ended 31 March 2019, 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 financial reporting standards (hereinafter – “IFRS”) for the three months ended 31 March 2020.

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**

	Three months ended		Change, %
	31 March 2020	31 March 2019	
Revenue	263,343	260,098	1.2
Profit for the period	55,258	53,857	2.6
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	133,684	129,751	3.0
Oil delivered to consignees, mln tonnes	120.2	119.1	0.9
including:			
Russian oil refineries, mln tonnes	63.1	60.7	4.0
exports to neighboring countries, mln tonnes	1.3	4.7	(72.3)
exports to other countries, mln tonnes	55.8	53.7	3.9
Petroleum products delivered to consignees, mln tonnes	10.5	9.7	8.2
including:			
Russia's domestic market, mln tonnes	2.1	1.9	10.5
exports to the Customs Union member countries, mln tonnes	0.1	-	X
exports to other countries, mln tonnes	8.3	7.8	6.4

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

The main non-operating factors and one-off effects which influenced the profit for the three months ended 31 March 2020 and the relative period of the previous year are disclosed in the table below:

	Note	Three months ended		Absolute change	Change, %
		31 March 2020	31 March 2019		
<b>Profit for the period</b>		<b>55,258</b>	<b>53,857</b>	<b>1,401</b>	<b>2.6</b>
Net (gain)/loss from foreign exchange differences	3.4.2	(11,319)	5,085	(16,404)	x
Share of loss/(profit) from associates and jointly controlled entities	3.3	9,767	(4,694)	14,461	x
Provision for reimbursement to consignors of material losses	1	4,870	-	4,870	x
Fair value remeasurement of financial assets and liabilities and other adjustments		(1,394)	(92)	(1,302)	15.2X
Effect on the income tax expense of the mentioned factors		(385)	(60)	(325)	6.4X
<b>Adjusted profit for the period</b>		<b>56,797</b>	<b>54,096</b>	<b>2,701</b>	<b>5.0</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 oil pipelines and petroleum products 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 organise 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 31 March 2020 possesses an extensive network of trunk oil pipelines with a total length of approximately 50.8 thousand km and trunk petroleum products pipelines with a total length of some 16.4 thousand km.

During the three months ended 31 March 2020 the Group transported about 83% of oil produced in Russia and about 31% 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 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).

During 2019 in accordance with IFRS requirements Group recognised provision at initial amount RUB 26,066. The provision represents the management's estimate of probable expenditure necessary to settle the Incident consequences with shippers for the 2019 oil transportation contracts provided shippers' losses (including relevant negative consequences and their amounts) are confirmed by documentary evidence. The provision is not the Group's unconditional legal obligation to reimburse shippers. Recognition of provision does not mean that Transneft admits its responsibility for third parties actions, which resulted in the ingress of oil not complying with the GOST standards into the "Druzhba" oil trunk pipeline in April 2019.

In accordance with signed agreements for extrajudicial settlement of the Incident consequences the Group performed reimbursement to consignors in the amount of RUB 3,322 during the fourth quarter 2019. In January-March 2020 the Group accrued the provision in the amount of RUB 4 870 and in accordance with signed agreements for extrajudicial settlement of the Incident consequences the Group performed reimbursement to consignors in the amount of RUB 4,900.

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



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

According to the management, the extrajudicial settlement of the Incident consequences within the framework approved by the Board of Directors is not expected to take more than a year, provided the shippers are interested in implementing the proposed mechanism and are ready to provide 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 most significant directions for investing in construction, reconstruction and technical upgrades of pipeline transport facilities are as follows:

- Technical upgrade and reconstruction of the current trunk pipeline system including replacement of sections of the trunk pipelines, construction and reconstruction of storage tanks;
- Reconstruction of trunk pipelines for oil transportation to refineries of the Krasnodar territory;
- Development of the corporate network for data transfer for construction of unified information system.

### **1.2. Environmental policy**

Transneft sets as its highest and constant priority the protection of environment and maintenance of the high level of ecological safety of its facilities. Transneft has approved policy for occupational safety, energy efficiency, industrial and environmental safety. All industrial facilities of the Company established an efficient system of industrial environmental control for atmospheric air, water and soil. The control is carried out by ecology analysis certified laboratories. The labs are staffed by highly qualified specialists and equipped with modern analytical equipment. Environmental and analytical control is carried out in accordance with schedules agreed with regulatory authorities. Implementation of measures for construction and revamping of environmental facilities and procurement of environmental equipment ensures that Transneft production facilities comply with international agreements of the Russian Federation, legislative requirements of the Russian Federation, standards and rules in the field of environmental management, protection and safety.

Company measures:

- ecological monitoring of environment;
- additional biomonitoring of marine areas;
- decrease in specific emissions of air pollutants;
- discharge elimination of insufficiently treated wastewater into water basins;
- implementation of biodiversity programs within the areas of Transneft Group operation.

As of today, the Environmental Management System (EMS) is developed, adopted and certified in the Company. Back in 2004, Transneft subsidiaries were certified internationally for the compliance with ISO 14001 standard. The EMS were audited annually for compliance with the requirements of the ISO 14001 standard at Transneft and all of its subsidiaries.



## 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 2019 and three months ended 31 March 2020 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 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 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 NNN – 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 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. 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 16.11.2018 No. 1567/18 Concerning the setting of tariff for the services of Transneft for oil transportation via 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 provided 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 provided 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;
  - Order of FAS of Russia of 01.10.2019 No. 1285/19 Concerning the setting of tariff for the services of Transneft for oil transportation via trunk pipeline system;
  - Order of FAS of Russia of 27.01.2020 No. 47/20 Concerning the setting of tariff for the services of Transneft for oil transportation through Tikhoretsk – Tuapse-2 provided to Rosneft.

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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)

- 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 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 Russia No.223-e/1 of 07.10.2014;
  - 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;
  - 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-Permnefteorgsintez) – MP Primorsk and through petroleum products pipeline PSP Andreevka (loading from OOO Lukoil-Permnefteorgsintez) – MP Primorsk into direction of RPC Vysotsk;



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

- 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. 654/19 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;
- Order of the FAS of Russia of 06.09.2019 No. 1186/19 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 PAO Gazprom Neft;
- Order of the FAS of Russia of 19.09.2019 No. 1230/19 Concerning the setting of tariff for services of Transneft for petroleum products transportation through PSP GPS Nizhnekamsk-2 (loading from AO TAIF-NK) – MP Primorsk, provided to AO TAIF-NK;
- Order of the FAS of Russia of 28.10.2019 No. 1426/19 Concerning the setting of tariff for services of Transneft for petroleum products transportation through Tinguta station (loading from railroad cars at Tinguta PSP GPS) MP Novorossiysk (PK Sheskhari) provided to PAO Orsknefteorgsintez;
- Order of the FAS of Russia of 12.11.2019 No. 1491/19 Concerning the setting of tariff for Lukoil for the services of Transneft for petroleum products transportation through petroleum products pipeline PSP Kstovo (loading from OOO Lukoil-Nizhegorodnefteorgsintez) - MP Primorsk, further in the direction of RPC Vysotsk, through petroleum products pipeline PSP Andreevka-NP (loading from OOO Lukoil-Permnefteorgsintez) - MP Primorsk into direction of RPC Vysotsk.





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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, 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.

	Three months ended		Change, %
	31 March 2020	31 March 2019	
Change in the RUB/USD exchange rate for the reporting period, %	25.6	(6.8)	x
<i>RUB/USD exchange rates</i>			
Average rate for the reporting period	66.38	66.13	0.4
Rate at the end of the reporting period	77.73	64.73	20.1
Rate at the end of the year preceding the reporting period	61.91	69.47	(10.9)

**2.3. Inflation rates**

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

	Three months ended		Change, pp
	31 March 2020	31 March 2019	
Rouble inflation (CPI), %	1.3	1.8	(0.5)

**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:

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
Current income tax	18,432	12,566	5,866	46.7
Property tax	9,986	9,697	289	3.0
Other taxes and levies	279	182	97	53.3

**Income tax**

The federal income tax rate during three months ended 31 March 2020 is 3.0% (for the same period of 2019 – 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 2019). The Group's international operations are taxable at rates established by the laws of countries where they took place. Certain subsidiaries of the Group are placed in the territories of special economic areas where lower income tax rates are applied.

**Property tax**

Increase of the amount of accrued property tax during the three months ended 31 March 2020 was mainly caused by growth of tax base – putting into use facilities during the year ended 31 December 2019.

**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

Consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2020 and the relative period of the preceding year are:

	Ref.	Three months ended		Absolute change	Change, %
		31 March 2020	31 March 2019		
<b>Revenue</b>	3.1	<b>263,343</b>	<b>260,098</b>	<b>3,245</b>	<b>1.2</b>
Revenue from oil transportation	3.1.2	180,898	167,522	13,376	8.0
Revenue from petroleum products transportation	3.1.2	21,498	20,454	1,044	5.1
Revenue from crude oil sales	3.1.3	40,349	49,951	(9,602)	(19.2)
Other revenue	3.1.5	20,598	22,171	(1,573)	(7.1)
Operating expenses, net of depreciation and amortisation	3.2	(129,048)	(130,547)	1,499	(1.1)
<b>Operating profit net of depreciation and amortisation</b>		<b>134,295</b>	<b>129,551</b>	<b>4,744</b>	<b>3.7</b>
Depreciation and amortisation	3.2.1	(55,688)	(55,352)	(336)	0.6
<b>Operating profit</b>		<b>78,607</b>	<b>74,199</b>	<b>4,408</b>	<b>5.9</b>
Other (expense)/income		(1,985)	2,364	(4,349)	x
Share of (loss)/ profit from associates and jointly controlled entities	3.3	(9,767)	4,694	(14,461)	x
<b>Profit before income tax and finance income/ (costs)</b>		<b>66,855</b>	<b>81,257</b>	<b>(14,402)</b>	<b>(17.7)</b>
Net finance income/ (costs)	3.4	3,651	(13,076)	16,727	x
<b>Profit before income tax</b>		<b>70,506</b>	<b>68,181</b>	<b>2,325</b>	<b>3.4</b>
Income tax expense		(15,248)	(14,324)	(924)	6.5
<b>Profit for the reporting period</b>		<b>55,258</b>	<b>53,857</b>	<b>1,401</b>	<b>2.6</b>
Other comprehensive income/ (loss), net of income tax		6,591	(1,476)	8,067	x
<b>Total comprehensive income, net of income tax</b>		<b>61,849</b>	<b>52,381</b>	<b>9,468</b>	<b>18.1</b>
<b>Profit for the reporting period attributable to:</b>					
Shareholders of Transneft		56,748	50,078	6,670	13.3
Non-controlling interests		(1,490)	3,779	(5,269)	x

The results of NCSP and its subsidiaries before elimination of operations between PJSC NCSP and its subsidiaries with PAO Transneft and other subsidiaries of Transneft were as follows:

	Three months ended	
	31 March 2020	31 March 2019
Revenue	13,281	15,845
(Loss)/profit for the reporting period	(4,000)	9,802
Earnings before interest, income tax, depreciation and amortisation (EBITDA)	8,802	11,951



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### 3.1. Revenue

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

Revenue by type of operations	Ref.	Three months ended				Absolute change	Change, %
		31 March 2020	Share of total, %	31 March 2019	Share of total, %		
<b>Revenue from oil transportation</b>	3.1.2	<b>180,898</b>	<b>68.7</b>	<b>167,522</b>	<b>64.4</b>	<b>13,376</b>	<b>8.0</b>
for export		109,611	41.6	110,499	42.5	(888)	(0.8)
for domestic		71,287	27.1	57,023	21.9	14,264	25.0
Revenue from petroleum products transportation	3.1.2	21,498	8.2	20,454	7.9	1,044	5.1
Revenue from oil compounding	3.1.4	1,390	0.5	1,603	0.6	(213)	(13.3)
Revenue from domestic sales of crude oil	3.1.3	-	-	3,403	1.3	(3,403)	x
Revenue from sales of petroleum products	3.1.3	1,510	0.6	1,623	0.6	(113)	(7.0)
Revenue from export sales of crude oil	3.1.3	40,349	15.3	46,548	17.9	(6,199)	(13.3)
Other revenue	3.1.5	17,698	6.7	18,945	7.3	(1,247)	(6.6)
<b>Total revenue</b>		<b>263,343</b>	<b>100.0</b>	<b>260,098</b>	<b>100.0</b>	<b>3,245</b>	<b>1.2</b>
adjusted for:							
Revenue from export sales of crude oil		(40,349)	(15.3)	(46,548)	(17.9)	6,199	(13.3)
<b>Adjusted revenue</b>		<b>222,994</b>	<b>84.7</b>	<b>213,550</b>	<b>82.1</b>	<b>9,444</b>	<b>4.4</b>

For the three months ended 31 March 2020, the Group's revenue increased by RUB 3,245 or by 1.2%, attributable mainly to increase in revenue from oil transportation. The adjusted revenue for the three months ended 31 March 2020 increased by RUB 9,444 or 4.4% to the same period of preceding year mainly due to effect of the same factor.

#### 3.1.2. Oil and petroleum products transportation

Increase in revenue from oil transportation amounted to RUB 13,376 or by 8.0% for the three months ended 31 March 2020 comparable to the same period of 2019 and was attributable to change of tariffs, change in oil transportation volumes and turnover.

Increase in revenue from petroleum products transportation by RUB 1,044 or by 5.1% for the three months ended 31 March 2020 compared to the three months ended 2019 was driven by change of tariffs, change in petroleum products transportation volumes and turnover.

#### 3.1.3. Revenue from sales of crude oil and petroleum products

Revenue from export sales of crude oil was driven by oil sales to the People's Republic of China under a 20-year contract to supply 6 mln tonnes 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. The respective oil volumes are being purchased from Rosneft.

Decrease in revenue from export sales of crude oil by RUB 6,199 or 13.3% for the three months ended 31 March 2020 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 during the reporting period compared to the same period of preceding year.

During the reporting period there were no operations for sale of oil in domestic market which resulted in decrease in revenue from domestic sales of crude oil amounting to RUB 3,403 as for the three months ended 31 March 2020 compared to the three months ended 31 March 2019.

Decrease in revenue from sales of petroleum products for the three months ended 31 March 2020 by RUB 113 or by 7.0% compared to the same period of preceding year was a result of decline of sale volumes with increase of the average selling price.



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### 3.1.4. Revenue from oil compounding

Decrease in revenue from oil compounding by RUB 213 or by 13.3% for the three months ended 31 March 2020 compared to the same period of preceding year was a result of decrease in oil compounding volumes by 13.2%.

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
Oil compounding volumes, thousand tonnes	9,071	10,448	(1,377)	(13.2)

### 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.

Decrease in other revenue of the Group as for the three months ended 31 March 2020 compared to the similar period of 2019 was mainly influenced by decline in revenue from provision of stevedoring services caused by the sale in April 2019 of the subsidiary NGT which was part of the NCSP Group of companies.

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

Operating expenses net of depreciation and amortisation for the three months ended 31 March 2020, and the three months ended 31 March 2019, are detailed in the table below:

Operating expense line items	Ref.	Three months ended				Absolute change	Change, %
		31 March 2020	Share of total expenses, %	31 March 2019	Share of total expenses, %		
Salaries, insurance contributions and social expenses	3.2.2	43,097	33.4	38,480	29.5	4,617	12.0
Energy	3.2.4	12,446	9.6	11,694	9.0	752	6.4
Materials		6,766	5.2	7,356	5.6	(590)	(8.0)
Repair and maintenance of relevant technical condition of pipeline		2,835	2.2	2,424	1.9	411	17.0
Insurance expenses		1,583	1.2	1,623	1.2	(40)	(2.5)
Taxes (other than income tax)	3.2.6	9,915	7.7	9,360	7.2	555	5.9
Pension expense	3.2.3	1,451	1.1	524	0.4	927	2.8X
Cost of export sales of crude oil (including export custom duties)	3.2.5	39,738	30.8	46,748	35.8	(7,010)	(15.0)
Cost of domestic sales of crude oil	3.2.5	-	-	3,108	2.4	(3,108)	x
Cost of sales of petroleum products		1,520	1.2	1,445	1.1	75	5.2
Cost of sales of other goods for resale		2,341	1.8	1,452	1.1	889	61.2
Other operating expenses		7,356	5.8	6,333	4.8	1,023	16.2
<b>Operating expenses net of depreciation and amortisation</b>		<b>129,048</b>	<b>100.0</b>	<b>130,547</b>	<b>100.0</b>	<b>(1,499)</b>	<b>(1.1)</b>
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)		(39,738)	(30.8)	(46,748)	(35.8)	7,010	(15.0)
Taxes (other than income tax)		(9,915)	(7.7)	(9,360)	(7.2)	(555)	5.9
<b>Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil</b>		<b>79,395</b>	<b>61.5</b>	<b>74,439</b>	<b>57.0</b>	<b>4,956</b>	<b>6.7</b>

Decrease in the amount of operating expenses net of depreciation and amortisation by RUB 1,499 or by 1.1% for the three months ended 31 March 2020, and for the three months ended 31 March 2019 was mainly caused by the following factors:

- decrease of the cost of export sales of crude oil (ref. to 3.2.5);
- decrease of the cost of domestic sales of crude oil and petroleum products (ref. to 3.2.5).



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

Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil increased by RUB 4,956 or by 6.7% mainly because of by the following factors:

- increase of salaries, insurance contributions and social expenses (ref. to 3.2.2);
- increase of pension expense (ref. to 3.2.3);
- increase of energy expense (ref. to 3.2.4).

After applying inflation rates\*, operating expenses net of depreciation and amortisation were as follows:

Operating expense line items	Three months ended						
	31 March 2020	Share of total expenses, %	Inflation rates (forecast 2020 to 2019),%*	31 March 2019 (inflated to 2020)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	43,097	33.4	3.0	39,634	29.7	3,463	8.7
Energy	12,446	9.6	3.2	12,068	9.0	378	3.1
Materials	6,766	5.2	4.2	7,665	5.7	(899)	(11.7)
Repair and maintenance of relevant technical condition of pipeline	2,835	2.2	3.6	2,511	1.9	324	12.9
Insurance expenses	1,583	1.2	3.0	1,672	1.3	(89)	(5.3)
Taxes (other than income tax)	9,915	7.7	4.2	9,753	7.3	162	1.7
Pension expense	1,451	1.1	3.0	540	0.4	911	2.7X
Cost of export sales of crude oil (including export custom duties)	39,738	30.8	0.2	46,841	35.1	(7,103)	(15.2)
Cost of domestic sales of crude oil	-	-	0.2	3,114	2.3	(3,114)	x
Cost of sales of petroleum products	1,520	1.2	(0.4)	1,439	1.1	81	5.6
Cost of sales of other goods for resale	2,341	1.8	4.2	1,513	1.1	828	54.7
Other operating expenses	7,356	5.8	4.2	6,599	5.1	757	11.5
<b>Operating expenses net of depreciation and amortisation</b>	<b>129,048</b>	<b>100.0</b>	<b>X</b>	<b>133,349</b>	<b>100.0</b>	<b>(4,301)</b>	<b>(3.2)</b>
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)	(39,738)	(30.8)	0.2	(46,841)	(35.1)	7,103	(15.2)
Taxes (other than income tax)	(9,915)	(7.7)	4.2	(9,753)	(7.3)	(162)	1.7
<b>Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil</b>	<b>79,395</b>	<b>61.5</b>	<b>X</b>	<b>76,755</b>	<b>57.6</b>	<b>2,640</b>	<b>3.4</b>

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

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
<b>Oil transportation</b>				
Turnover, mln tonnes x km	310,539	299,510	11,029	3.7
Unit costs per 100 tonnes x km (2019 figures inflated to 2020), RUB	19.60	19.16	0.44	2.3
Unit costs per 100 tonnes x km net of new facilities expenditure (2019 figures inflated to 2020), RUB	19.10	19.16	(0.06)	(0.3)

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
<b>Petroleum products transportation</b>				
Volume turnover, mln of tonnes	10.5	9.7	0.8	8.2
Unit costs per ton (2019 figures inflated to 2020), RUB	613.31	646.87	(33.56)	(5.2)
Unit costs per ton net of new facilities expenditure (2019 figures inflated to 2020), RUB	605.00	646.87	(41.87)	(6.5)

#### 3.2.1. Depreciation and amortisation

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
Depreciation of PPE	52,108	51,725	383	0.7
Amortisation of intangible assets	1,292	2,105	(813)	(38.6)
Depreciation of rights-of-use assets	2,288	1,522	766	50.3
	55,688	55,352	336	0.6

#### 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 three months ended 31 March 2020 by RUB 4,617 or by 12.0% comparable to the relevant period of the previous year was mainly caused by improvement of payroll system of oil transportation subsidiaries in order of compliance with the labor legislation regarding minimal wage.

#### 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 and long-term labor relations with staff.

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

The increase in pension accruals as for the three months ended 31 March 2020 compared to the previous year was caused by the following:

- beginning from 2020 salary proportion of the vast majority of workers has changed, specifically the fixed payment (salary) has increased and the variable payment (bonus) has decreased;
- consolidation of changes in pension liabilities of JSC "NPF" Transneft.



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### 3.2.3 Pension expense (continued)

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.

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
Employers' contributions to JSC "NPF "Transneft" in favor of employees	1,121	894	227	25.4

### 3.2.4. Energy

Energy expenses for the three months ended 31 March 2020 increased by RUB 752 or 6.4% compared to the previous year. The increase of energy (power) expenses was mainly 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 3.7%.

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

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
Consumption of energy, mln kW*h	3,962	3,677	285	7.8

### 3.2.5. Cost of sales of crude oil

The cost of export sales of crude oil for the three months ended 31 March 2020 in the amount of RUB 39,738 includes cost of sales in the amount of RUB 32,747 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 6,991. This figure is a result of oil supplies to the People's Republic of China (ref. to 3.1.3).

Decrease in cost of domestic sales of crude oil for the three months ended 31 March 2020 amounted to RUB 3,108 as compared to the same period of 2019 and was caused by lack of sales.

### 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 (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 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.

Loss recognised by the Group in *Share of (loss) / profit from associates and jointly controlled entities* for the three months ended 31 March 2020 amounted to RUB 9,767 as compared to profit of RUB 4,694 during the same period of 2019, and was mainly caused by the results of AO Ust-Luga Oil, AO CPC-R, AO CPC-K, OOO NTK and the closed-end mutual investment fund "Gazprombank – Finansoviy".



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**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.

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
<b>Interest income:</b>				
From financial assets measured at FVTPL	1,395	1,249	146	11.7
From financial assets measured at amortised cost	2,516	1,984	532	26.8
From cash and cash equivalents	802	1,024	(222)	(21.7)
<b>Total interest income recognised in the statement of profit or loss and other comprehensive income</b>	<b>4,713</b>	<b>4,257</b>	<b>456</b>	<b>10.7</b>

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

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
<b>Interest expenses:</b>				
On loans and borrowings	12,252	13,533	(1,281)	(9.5)
Distribution of pension income on pension liabilities	380	1,754	(1,374)	(78.3)
On contract liabilities	2,171	2,095	76	3.6
On lease liabilities	535	468	67	14.3
Other	1,098	1,045	53	5.1
<b>Total interest expenses</b>	<b>16,436</b>	<b>18,895</b>	<b>(2,459)</b>	<b>(13.0)</b>
Less: interest expenses on loans, borrowings and liabilities to be capitalised	(5,142)	(6,555)	1,413	(21.6)
<b>Total interest expense recognised in the statement of profit or loss and other comprehensive income</b>	<b>11,294</b>	<b>12,340</b>	<b>(1,046)</b>	<b>(8.5)</b>

The amount of interest expenses on loans and borrowings for the three months ended 31 March 2020, and for the three months ended 31 March 2019, 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 three months ended 31 March 2019:
- interest payable on USD denominated Eurobonds.

The dynamics of interest expenses on loans and borrowings for the three months ended 31 March 2020 as compared to the similar period of 2019 was mainly driven by decrease of average amount of loans and borrowings.

In January 2020 the Group refinanced part of its financial liability in the amount of USD 400 mln which allowed to improve loan terms by lowering the interest rate.

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 and petroleum products transportation as well as long-term advance payments.

Decrease in capitalised interest expenses included in construction in progress by RUB 1,413 was driven mainly by the following factors:

- decrease 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;
- ceasing of and putting into use of large investment projects during the second half of 2019.



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### 3.4.2. Foreign currency exchange gains and losses

The amount of foreign currency exchange gains and losses for the three months ended 31 March 2020, compared to the same period of 2019, was a result of changes in the exchange rate of USD to RUB (ref.to 2.2). Due to a remeasurement of assets and liabilities denominated in foreign currency at the end of every month, foreign currency gains and losses arise, which are presented in the consolidated financial statements on a gross basis.

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

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
<b>Foreign exchange gains on:</b>				
– Financial assets	21,475	160	21,315	134.2X
– Loans and borrowings	-	4,764	(4,764)	x
– Cash and cash equivalents and other foreign exchange gains	6,330	4,628	1,702	36.8
<b>Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income</b>	<b>27,805</b>	<b>9,552</b>	<b>18,253</b>	<b>2.9X</b>
<b>Foreign exchange loss on:</b>				
– Financial assets	(8)	(7,196)	7,188	(99.9)
– Loans and borrowings	(15,243)	-	(15,243)	x
– Cash and cash equivalents and other foreign exchange loss	(1,235)	(7,441)	6,206	(83.4)
<b>Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income</b>	<b>(16,486)</b>	<b>(14,637)</b>	<b>(1,849)</b>	<b>12.6</b>
<b>Net foreign exchange gain/(loss)</b>	<b>11,319</b>	<b>(5,085)</b>	<b>16,404</b>	<b>x</b>

Dynamics of exchange differences presented in the table was driven by weakening of RUB to USD during the three months ended 31 March 2020 (ref. to 2.2) and the ratio of financial assets to financial liabilities denominated in USD.

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

	Three months ended		Change, %
	31 March 2020	31 March 2019	
<b>Profit for the period</b>	<b>55,258</b>	<b>53,857</b>	<b>2.6</b>
Adjustments for:			
income tax expense	15,248	14,324	6.5
depreciation and amortisation	55,688	55,352	0.6
result of crude oil sales to China	(611)	200	x
net finance (income)/costs	(3,651)	13,076	x
share of loss/(profit) from associates and jointly controlled entities	9,767	(4,694)	x
other expense/(income)	1,985	(2,364)	x
<b>EBITDA*</b>	<b>133,684</b>	<b>129,751</b>	<b>3.0</b>

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

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



## 4. Cash flow analysis

	Three months ended		Absolute change	Change, %
	31 March 2020	31 March 2019		
Cash flows received from operating activities	128,326	75,546	52,780	69.9
Cash flows used for purchase of property, plant and equipment, net	(58,902)	(58,518)	(384)	0.7
<b>Free cash flow</b>	<b>69,424</b>	<b>17,028</b>	<b>52,396</b>	<b>4.1X</b>
Cash flows used in other investing activities	(27,319)	(17,570)	(9,749)	55.5
Cash flows used in financing activities	(292)	(2,632)	2,340	(88.9)
<b>Net cash inflow/(outflow)</b>	<b>41,813</b>	<b>(3,174)</b>	<b>44,987</b>	<b>x</b>
Change in cash and cash equivalents due to deviation of currency exchange rate	5,112	(2,608)	7,720	x
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>46,925</b>	<b>(5,782)</b>	<b>52,707</b>	<b>x</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 128,326 for the three months ended 31 March 2020, which is RUB 52,780 or 69.9% higher than for the comparable period of 2019.

The increase of cash was mainly influenced by increase in refunds of VAT in the amount of RUB 53.6 bn during the three months ended 31 March 2020 (RUB 1.6 bn during the three months ended 31 March 2019).

### 4.2. Investing activities

The primary factors resulting in increase in cash used in investing activities by RUB 10,133 or 13.3% shown in the condensed consolidated interim statement of cash flows for the three months ended 31 March 2020 compared to the same period of 2019 were:

- increase in the net amount cash used for purchase of property, plant and equipment by RUB 384 as compared to the relative period of the previous year;
- increase of cash used in other investing activities amounted to RUB 9,749 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 23,115 compared to the relative period of the previous year;
  - increase in interest received by RUB 851 during the three months ended 2020 as compared to the same period of 2019;
  - recognition of cash inflow from escrow account in the amount of RUB 12,800 for the three months ended 31 March 2020.

### 4.3. Financing activities

The main factors which influenced on the decrease of cash used in financing activities for the three months ended 31 March 2020 in the amount of RUB 2,340 or 88.9% as compared to the relative period of the previous year were:

- increase by RUB 273 of net proceeds from attraction of loans/used for repayment of loans and borrowings driven by attraction of the loan from associate;
- decrease of cash outflow used for payment of dividends by RUB 1,879 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 three months ended 31 March 2020.

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 results of associates and jointly controlled entities;
- all other items for which the cash effects are investing or financing cash flows.

OPERATING ACTIVITIES	Note	Three months ended	
		31 March 2020	31 March 2019
<b>Profit before income tax</b>		<b>70,506</b>	<b>68,181</b>
<b>Adjustments for:</b>			
Depreciation and amortisation	3.2.1	55,688	55,352
Loss/(gain) from disposal of property, plant and equipment, intangible assets		595	(18)
Finance income	3.4	(32,873)	(14,106)
Finance costs	3.4	29,222	27,182
Share of loss/(profit) from associates and jointly controlled entities	3.3	9,767	(4,694)
Other		(3,038)	(767)
<b>Operating profit before changes in working capital and provision</b>		<b>129,867</b>	<b>131,130</b>
Changes in operating assets and liabilities:			
Changes in inventories		676	241
Changes in trade and other receivables relating to operating activity and VAT assets		26,971	(24,832)
Changes in trade and other payables, and accruals relating to operating activity		8,894	7,677
Changes in contract liabilities		(14,011)	(14,187)
<b>Cash flows from operating activities before payment of income tax expense and interest</b>		<b>152,397</b>	<b>100,029</b>
Income tax paid		(10,259)	(10,928)
Income tax refund		148	50
Interest paid		(13,960)	(13,605)
<b>Net cash flows received from operating activities</b>		<b>128,326</b>	<b>75,546</b>



## 5. Liquidity analysis

	31 March 2020	31 December 2019	Change, %
Current assets	536,811	472,842	13.5
including:			
cash and cash equivalents	130,526	83,601	56.1
short-term bank deposits and bonds*	279,857	217,426	28.7
Current liabilities	324,572	303,993	6.8
Net working capital	212,239	168,849	25.7
Current ratio	1.7	1.6	x
Quick ratio**	1.4	1.1	x
Debt/ EBITDA	1.3	1.3	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 Baa2 – 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