

**TRANSNEFT**

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

**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 30 September 2020 and results of operations for the nine months ended 30 September 2020, compared to the nine months ended 30 September 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 nine months ended 30 September 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

	Nine months ended		Change, %
	30 September 2020	30 September 2019	
Revenue	716,375	792,735	(9.6)
Profit for the period	109,738	157,683	(30.4)
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	341,889	376,697	(9.2)
Oil transportation to consignees, mln tonnes	334.8	362.0	(7.5)
including:			
Russian oil refineries, mln tonnes	176.4	183.0	(3.6)
other consignees, including transshipment into the CPC-R system, mln tonnes	0.1	0.2	(50.0)
exports to neighboring countries, mln tonnes	9.3	13.9	(33.1)
exports to other countries, mln tonnes	148.9	165.0	(9.8)
Petroleum products transportation to consignees, mln tonnes	29.0	28.4	2.1,
including:			
Russia's domestic market, mln tonnes	7.3	8.0	(8.8)
exports to the Customs Union member countries, mln tonnes	0.2	0.1	100.0
exports to other countries, mln tonnes	21.4	20.3	5.4

\* 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 nine months ended 30 September 2020 and the relative period of the previous year are disclosed in the table below:

	Note	Nine months ended		Absolute change	Change, %
		30 September 2020	30 September 2019		
<b>Profit for the period</b>		<b>109,738</b>	<b>157,683</b>	<b>(47,945)</b>	<b>(30.4)</b>
Net (gain)/loss from foreign exchange differences	3.5.2	(13,684)	5,571	(19,255)	x
Share of loss/(profit) from associates and jointly controlled entities	3.3	5,556	(2,299)	7,855	x
Changes in impairment provision of property, plant and equipment	3.4	21,118	3,210	17,908	6.6X
Profit from disposal of NGT	3	-	(16,192)	16,192	x
Provision for reimbursement to consignors of material losses	1	5,414	23,031	(17,617)	(76.5)
Fair value remeasurement of financial assets and liabilities and other adjustments		(2,907)	69	(2,976)	x
Effect on the income tax expense of the mentioned factors		(1,988)	(6,376)	4,388	(68.8)
<b>Adjusted profit for the period</b>		<b>123,247</b>	<b>164,697</b>	<b>(41,450)</b>	<b>(25.2)</b>



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

Public Joint Stock Company "Transneft" was incorporated by the Resolution of the Council of Ministers - Russian Government dated 14 August 1993 № 810, hereinafter named 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 30 September 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 nine months ended 30 September 2020 the Group transported about 83% of oil produced in Russia and about 30% of light petroleum products produced in Russia, as well as significant volume of hydrocarbons and petroleum products from CIS countries.

Transneft's key competitive advantages include:

- a monopoly position in the oil pipeline transport market;
- a low ratio of operating costs to total oil transportation volume compared to railway or water transport;
- lower 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.

During the nine months ended 30 September 2020 due to the growth of the US Dollar exchange rate additionally recognised provision amounted to RUB 5,414; in accordance with extrajudicial settlements reimbursement to consignors of RUB 5,215 was paid out.

The provision expenses were recognised in Other loss 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.

Investment projects fulfilled by Transneft provided development of the trunk pipelines system and now allow to redistribute operationally export flows to both the Western and the Eastern directions depending on the market situation.

Because of a completion of the main investment projects in 2019, the next investment priority is modernization and reconstruction of the existing infrastructure. In the following 5 years the Company will be prioritizing maintenance of the sufficient level of technical reliability of the operating facilities and systems ensuring transportation of oil and petroleum products in compliance with adopted safety rules, including the following:

- reconstruction of trunk pipelines;
- bringing of storage tanks in compliance with safety requirements;
- reconstruction of energy facilities of pumping stations;
- replacement of pumping equipment, replacement of valves;
- replacement of technological pipelines of pumping stations;
- reconstruction of automation and telemechanic systems aimed at replacing of obsolete and outdated relay systems with modern microprocessor systems;
- introduction of a unified dispatch control system (ESDU);
- reconstruction and construction of new facilities for metering quantity and quality indicators of oil and petroleum products to improve quality and accuracy of commodity transport operations.

### **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 is 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 nine months ended 30 September 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 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 Ukhta - Yaroslavl trunk pipeline through Urdoma – Privodino provided to AO NK Neftisa;
  - Order of the FAS of Russia of 29.08.2016 No. 1217/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via 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.



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

- Order of FAS of Russia of 02.03.2020 No. 209/20 Concerning the amendments to the 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 04.06.2020 No. 527/20 Concerning the setting of tariff for the services of AO Energoterminal for loading of oil from trunk pipeline system of Transneft into railroad vehicles at transshipment point Skovorodino and making amendments to the 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
- 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 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 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 Sheskharis) provided to PJSC LUKOIL;
  - Order of the FAS of Russia of 12.02.2018 No. 156/18 Concerning the setting limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum products from trunk pipeline network and making amendments to the order of the FAS of Russia of 07.10.2014 No. 223-e/1 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for petroleum products transportation by trunk pipelines;
  - Order of the FAS of Russia of 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;



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

- Order of the FAS of Russia of 14.12.2018 No. 1786/18 Concerning the setting of tariff for PJSC 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. 654/19 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 PJSC LUKOIL for the services of Transneft for petroleum products transportation through petroleum products pipeline PSP Kstovo (loading from OOO Lukoil-Nizhegorodnefteorgsintez) - MP Primorsk, 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 and through petroleum products pipeline PSP Andreevka-NP (loading from OOO Lukoil-Permnefteorgsintez) - MP Primorsk further in the direction of RPC Vysotsk;
- Order of the FAS of Russia of 12.05.2020 No. 456/20 Concerning the setting of limit of maximum tariff for services of Transneft and its affiliates for loading of petroleum products from trunk pipeline system;
- Order of the FAS of Russia of 12.05.2020 No. 458/20 Concerning the setting of tariff for services of Transneft for petroleum products transportation through petroleum products pipeline for long term.



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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.

	Nine months ended		Change, %
	30 September 2020	30 September 2019	
Change in the RUB/USD exchange rate for the reporting period, %	28.7	(7.3)	x
<i>RUB/USD exchange rates</i>			
Average rate for the reporting period	70.78	65.08	8.8
Rate at the end of the reporting period	79.68	64.42	23.7
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:

	Nine months ended		Change, pp
	30 September 2020	30 September 2019	
Rouble inflation (CPI), %	2.9	2.3	0.6

## 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 2020	30 September 2019		
Current income tax	39,126	42,517	(3,391)	(8.0)
Property tax	29,637	28,464	1,173	4.1
Other taxes and levies	623	544	79	14.5

Income tax expense as for the nine months ended 30 September 2020 and comparative period of 2019 was as follows:

	Nine months ended		Absolute change	Change, %
	30 September 2020	30 September 2019		
Current income tax	40,129	44,047	(3,918)	(8.9)
Deferred income tax	(7,358)	(7,216)	(142)	2.0
<b>Income tax expense</b>	<b>32,771</b>	<b>36,831</b>	<b>(4,060)</b>	<b>(11.0)</b>

### Income tax

The federal income tax rate during nine months ended 30 September 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 nine months ended 30 September 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.



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

Consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2020 and the relative period of the preceding year are:

	Ref.	Nine months ended		Absolute change	Change, %
		30 September 2020	30 September 2019		
<b>Revenue</b>	3.1	<b>716,375</b>	<b>792,735</b>	<b>(76,360)</b>	<b>(9.6)</b>
Revenue from crude oil transportation	3.1.2	501,660	522,858	(21,198)	(4.1)
Revenue from petroleum products transportation	3.1.2	55,855	53,559	2,296	4.3
Revenue from crude oil sales	3.1.3	103,578	149,534	(45,956)	(30.7)
Other revenue	3.1.5	55,282	66,784	(11,502)	(17.2)
Operating expenses, net of depreciation and amortisation	3.2	(373,765)	(416,315)	42,550	(10.2)
<b>Operating profit net of depreciation and amortisation</b>		<b>342,610</b>	<b>376,420</b>	<b>(33,810)</b>	<b>(9.0)</b>
Depreciation and amortisation	3.2.1	(163,287)	(154,702)	(8,585)	5.5
<b>Operating profit</b>		<b>179,323</b>	<b>221,718</b>	<b>(42,395)</b>	<b>(19.1)</b>
Other loss	3.4	(24,163)	(6,503)	(17,660)	3.7X
Share of (loss)/ profit from associates and jointly controlled entities	3.3	(5,556)	2,299	(7,855)	x
<b>Profit before income tax and finance income/ (costs)</b>		<b>149,604</b>	<b>217,514</b>	<b>(67,910)</b>	<b>(31.2)</b>
Net finance costs	3.5	(7,095)	(23,000)	15,905	(69.2)
<b>Profit before income tax</b>		<b>142,509</b>	<b>194,514</b>	<b>(52,005)</b>	<b>(26.7)</b>
Income tax expense		(32,771)	(36,831)	4,060	(11.0)
<b>Profit for the reporting period</b>		<b>109,738</b>	<b>157,683</b>	<b>(47,945)</b>	<b>(30.4)</b>
Other comprehensive income/ (loss), net of income tax		7,010	(3,888)	10,898	x
<b>Total comprehensive income, net of income tax</b>		<b>116,748</b>	<b>153,795</b>	<b>(37,047)</b>	<b>(24.1)</b>
<b>Profit for the reporting period attributable to:</b>					
Shareholders of Transneft		110,054	144,039	(33,985)	(23.6)
Non-controlling interests		(316)	13,644	(13,960)	x

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

	Nine months ended	
	30 September 2020	30 September 2019
Revenue	34,073	43,283
Profit for the reporting period*	175	39,579
EBITDA	21,190	31,558

\*profit for the nine months ended 30 September 2019 included the result from sale of share of NGT, which operated transshipment of grain and oil seeds.



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### 3.1. Revenue

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

Revenue by type of operations	Ref.	Nine months ended				Absolute change	Change, %
		30 September 2020	Share of total, %	30 September 2019	Share of total, %		
<b>Revenue from oil transportation</b>	3.1.2	<b>501,660</b>	<b>70.0</b>	<b>522,858</b>	<b>66.0</b>	<b>(21,198)</b>	<b>(4.1)</b>
for export		312,632	43.6	344,768	43.5	(32,136)	(9.3)
for domestic		189,028	26.4	178,090	22.5	10,938	6.1
Revenue from petroleum products transportation	3.1.2	55,855	7.8	53,559	6.8	2,296	4.3
Revenue from oil compounding	3.1.4	3,607	0.5	4,609	0.6	(1,002)	(21.7)
Revenue from domestic sales of crude oil	3.1.3	1,868	0.3	9,761	1.2	(7,893)	(80.9)
Revenue from sales of petroleum products	3.1.3	4,356	0.6	7,140	0.9	(2,784)	(39.0)
Revenue from export sales of crude oil	3.1.3	101,710	14.2	139,773	17.6	(38,063)	(27.2)
Other revenue	3.1.5	47,319	6.6	55,035	6.9	(7,716)	(14.0)
<b>Total revenue</b>		<b>716,375</b>	<b>100.0</b>	<b>792,735</b>	<b>100.0</b>	<b>(76,360)</b>	<b>(9.6)</b>
adjusted for:							
Revenue from export sales of crude oil		(101,710)	(14.2)	(139,773)	(17.6)	38,063	(27.2)
<b>Adjusted revenue</b>		<b>614,665</b>	<b>85.8</b>	<b>652,962</b>	<b>82.4</b>	<b>(38,297)</b>	<b>(5.9)</b>

For the nine months ended 30 September 2020, the Group's revenue decreased by RUB 76,360 or by 9.6%, attributable to significant fluctuations at the world markets caused by coronavirus outbreak and decrease in oil turnover due to OPEC+ agreement which assumes a cut in oil production in Russia.

#### 3.1.2. Oil and petroleum products transportation

Decrease in revenue from oil transportation amounted to RUB 21,198 or by 4.1% for the nine months ended 30 September 2020 comparable to the same period of 2019 and was attributable to decline in oil transportation volumes and turnover.

Increase in revenue from petroleum products transportation by RUB 2,296 or 4.3% for the nine months ended 30 September 2020 compared to the nine 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 38,063 or 27.2% for the nine months ended 30 September 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 for the reporting period compared to the average USD exchange rate for the same period of preceding year (ref. to 2.2).

Decrease in revenue from domestic sales of crude oil by RUB 7,893 or 80.9% was caused by decline in sales volume as for the nine months ended 30 September 2020 compared to the nine months ended 30 September 2019.

Decrease in revenue from sales of petroleum products for the nine months ended 30 September 2020 by RUB 2,784 or by 39.0% compared to the same period of preceding year was a result of decline of sale volumes and decrease of the average selling price.



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### 3.1.4. Revenue from oil compounding

Decrease in revenue from oil compounding by RUB 1,002 or by 21.7% for the nine months ended 30 September 2020 compared to the same period of preceding year was a result of decrease in oil compounding volumes by 21.2%.

	Nine months ended		Absolute change	Change, %
	30 September 2020	30 September 2019		
Oil compounding volumes, thousand tonnes	23,549	29,902	(6,353)	(21.2)

### 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 nine months ended 30 September 2020 compared to the similar period of 2019 was mainly influenced by decline in revenue from provision of stevedoring services caused by decrease of cargo turnover and sale in April 2019 of the subsidiary NGT.

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

Operating expenses net of depreciation and amortisation for the nine months ended 30 September 2020, and the nine months ended 30 September 2019, are detailed in the table below:

Operating expense line items	Ref.	Nine months ended		Share of total expenses, %	Share of total expenses, %	Absolute change	Change, %
		30 September 2020	30 September 2019				
Salaries, insurance contributions and social expenses	3.2.2	135,618	123,390	36.3	29.6	12,228	9.9
Energy	3.2.4	30,703	34,829	8.2	8.4	(4,126)	(11.8)
Materials		21,228	24,165	5.7	5.8	(2,937)	(12.2)
Repair and maintenance of relevant technical condition of pipeline		13,399	13,919	3.6	3.3	(520)	(3.7)
Insurance expenses		4,826	4,840	1.3	1.2	(14)	(0.3)
Taxes (other than income tax)	3.2.6	29,453	28,363	7.9	6.8	1,090	3.8
Pension expense	3.2.3	5,078	2,553	1.4	0.6	2,525	98.9
Cost of export sales of crude oil (including export custom duties)	3.2.5	100,989	140,050	27.0	33.6	(39,061)	(27.9)
Cost of domestic sales of crude oil	3.2.5	1,533	9,261	0.4	2.2	(7,728)	(83.4)
Cost of sales of petroleum products	3.2.5	4,234	6,575	1.1	1.6	(2,341)	(35.6)
Cost of sales of other goods for resale		6,292	5,359	1.7	1.3	933	17.4
Other operating expenses		20,412	23,011	5.4	5.6	(2,599)	(11.3)
<b>Operating expenses net of depreciation and amortisation</b>		<b>373,765</b>	<b>416,315</b>	<b>100.0</b>	<b>100.0</b>	<b>(42,550)</b>	<b>(10.2)</b>
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)		(100,989)	(140,050)	(27.0)	(33.6)	39,061	(27.9)
Taxes (other than income tax)		(29,453)	(28,363)	(7.9)	(6.8)	(1,090)	3.8
<b>Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil</b>		<b>243,323</b>	<b>247,902</b>	<b>65.1</b>	<b>59.6</b>	<b>(4,579)</b>	<b>(1.8)</b>

Decrease in the amount of operating expenses net of depreciation and amortisation by RUB 42,550 or by 10.2% for the nine months ended 30 September 2020 comparable to the same period of preceding year 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 cost of sales of petroleum products (ref. to 3.2.5).



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

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

Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil for the nine months ended 30 September 2020 decreased by RUB 4,579 or by 1.8% comparable to the same period of the preceding year.

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

Operating expense line items	Nine months ended						
	30 September 2020	Share of total expenses ,%	Inflation rates (forecast 2020 to 2019),%*	30 September 2019 (inflated to 2020)	Share of total expenses , %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	135,618	36.3	3.6	127,832	29.0	7,786	6.1
Energy	30,703	8.2	3.9	36,187	8.2	(5,484)	(15.2)
Materials	21,228	5.7	3.3	24,962	5.7	(3,734)	(15.0)
Repair and maintenance of relevant technical condition of pipeline	13,399	3.6	5.1	14,629	3.3	(1,230)	(8.4)
Insurance expenses	4,826	1.3	3.6	5,014	1.1	(188)	(3.7)
Taxes (other than income tax)	29,453	7.9	3.3	29,299	6.7	154	0.5
Pension expense	5,078	1.4	3.6	2,645	0.6	2,433	92.0
Cost of export sales of crude oil (including export custom duties)	100,989	27.0	9.3	153,075	34.8	(52,086)	(34.0)
Cost of domestic sales of crude oil	1,533	0.4	9.3	10,122	2.3	(8,589)	(84.9)
Cost of sales of petroleum products	4,234	1.1	9.7	7,213	1.6	(2,979)	(41.3)
Cost of sales of other goods for resale	6,292	1.7	3.3	5,536	1.3	756	13.7
Other operating expenses	20,412	5.4	3.3	23,770	5.4	(3,358)	(14.1)
<b>Operating expenses net of depreciation and amortisation</b>	<b>373,765</b>	<b>100.0</b>	<b>X</b>	<b>440,284</b>	<b>100.0</b>	<b>(66,519)</b>	<b>(15.1)</b>
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)	(100,989)	(27.0)	9.3	(153,075)	(34.8)	52,086	(34.0)
Taxes (other than income tax)	(29,453)	(7.9)	3.3	(29,299)	(6.7)	(154)	0.5
<b>Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil</b>	<b>243,323</b>	<b>65.1</b>	<b>X</b>	<b>257,910</b>	<b>58.5</b>	<b>(14,587)</b>	<b>(5.7)</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.



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### 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 2020	30 September 2019		
<b>Oil transportation</b>				
Turnover, mln of tonnes x km	859,253	926,677	(67,424)	(7.3)
Unit costs per 100 tonnes x km (2019 figures inflated to 2020), RUB	21.40	20.01	1.39	7.0
Unit costs per 100 tonnes x km net of new facilities expenditure (2019 figures inflated to 2020), RUB	21.05	20.01	1.04	5.2

	Nine months ended		Absolute change	Change, %
	30 September 2020	30 September 2019		
<b>Petroleum products transportation</b>				
Volume turnover, mln of tonnes	29.0	28.4	0.6	2.1
Unit costs per ton (2019 figures inflated to 2020), RUB	695.81	679.41	16.40	2.4
Unit costs per ton net of new facilities expenditure (2019 figures inflated to 2020), RUB	693.13	679.41	13.72	2.0

#### 3.2.1. Depreciation and amortisation

	Nine months ended		Absolute change	Change, %
	30 September 2020	30 September 2019		
Depreciation of PPE	154,709	147,464	7,245	4.9
Amortisation of intangible assets	3,674	2,886	788	27.3
Depreciation of rights-of-use assets	4,904	4,352	552	12.7
	<b>163,287</b>	<b>154,702</b>	<b>8,585</b>	<b>5.5</b>

#### 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 2020 by RUB 12,228 or by 9.9% 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 nine months ended 30 September 2020 compared to the relevant period of 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)

The pension expense comprised under the following factors which influence the amount of expense:

- 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*.

	Nine months ended		Absolute change	Change, %
	30 September 2020	30 September 2019		
The Group's contributions to JSC "NPF "Transneft"	3,812	2,320	1,492	64.3

### 3.2.4. Energy

Energy expenses for the nine months ended 30 September 2020 decreased by RUB 4,126 or 11.8% compared to the previous year. The decrease of energy (power) expenses was mainly caused by decrease of volumes of purchased energy (power) due to decrease in oil turnover by 7.3%.

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 2020	30 September 2019		
Consumption of energy, mln kW*h	9,833	11,306	(1,473)	(13.0)

### 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 2020 in the amount of RUB 100,989 includes cost of sales in the amount of RUB 86,931 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 14,058. This figure is a result of oil supplies to the People's Republic of China (ref. to 3.1.3).

Decrease in the cost of export sales of crude oil was caused by negative changes in the oil market influenced by COVID-19 pandemic and decrease in crude oil price.

Decrease in cost of domestic sales of crude oil for the nine months ended 30 September 2020 amounted to RUB 7,728 or 83.4% as compared to the same period of 2019 and was caused by decline of sales volume and average oil price.

Decrease in cost of sales of petroleum products in the domestic market as for the nine months ended 30 September 2020 compared to the same period of 2019 by RUB 2,341 or 35.6% was caused by significant decline in sales volume and decline in average price.

### 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 crude 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 nine months ended 30 September 2020 amounted to RUB 5,556 as compared to profit of RUB 2,299 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. Other loss

Increase of Other loss by RUB 17,660 or by 3.7 times as for the nine months ended 30 September 2020 as compared to the relative period of the previous year was mainly caused by the following factors:

- recognition during the reporting period of impairment provision in the amount of RUB 21,118 as a result of taking test for impairment of assets generating cash flows from revenue from transportation of petroleum products due to unutilized capacity of certain petroleum products pipelines;
- recognition during the reporting period of provision for reimbursement to consignors of material losses in the amount of RUB 5,414 (RUB 23,031 as for the nine months ended 30 September 2019);
- recognition during the comparable period of the gain from sale of 99.9968% share of NGT which performed transshipment of grain and oil seeds, in the amount of RUB 16,192 before income tax.

### 3.5. Finance income and costs

#### 3.5.1. 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 2020	30 September 2019		
<b>Interest income:</b>				
From financial assets measured at FVTPL	4,291	3,719	572	15.4
From financial assets measured at amortised cost	7,142	6,175	967	15.7
From cash and cash equivalents	3,240	3,704	(464)	(12.5)
<b>Total interest income recognised in the statement of profit or loss and other comprehensive income</b>	<b>14,673</b>	<b>13,598</b>	<b>1,075</b>	<b>7.9</b>

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 2020	30 September 2019		
<b>Interest expenses:</b>				
On loans and borrowings	36,510	40,883	(4,373)	(10.7)
Distribution of pension income on pension liabilities	5,141	6,287	(1,146)	(18.2)
On contract liabilities	6,557	6,406	151	2.4
On lease liabilities	1,754	1,560	194	12.4
Other	3,172	2,860	312	10.9
<b>Total interest expenses</b>	<b>53,134</b>	<b>57,996</b>	<b>(4,862)</b>	<b>(8.4)</b>
Less: interest expenses on loans, borrowings and liabilities to be capitalised	(16,854)	(25,200)	8,346	(33.1)
<b>Total interest expense recognised in the statement of profit or loss and other comprehensive income</b>	<b>36,280</b>	<b>32,796</b>	<b>3,484</b>	<b>10.6</b>

The amount of interest expenses on loans and borrowings for the nine months ended 30 September 2020, and for the nine months ended 30 September 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.

The dynamics of interest expenses from loans and borrowings for the nine months ended 30 September 2020 as compared to the similar period of 2019 was mainly driven by scheduled repayment of bonds issued in Russian roubles, and decrease of interest rates from loans and borrowings.

During the nine months ended 30 September 2020 the Group refinanced part of its financial liability in the amount of USD 575 mln which allowed to improve loan terms by lowering the interest rate.

Interest expenses 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.



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**3.5.1. Interest income and expenses (continued)**

Decrease in capitalised interest expenses included in construction in progress by RUB 8,346 or 33.1% 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.

**3.5.2. Foreign currency exchange gains and losses**

The amount of foreign currency exchange gains and losses for the nine months ended 30 September 2020, and for 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 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 2020	30 September 2019		
<b>Foreign exchange gains on:</b>				
Financial assets	35,471	7,524	27,947	4,7X
Loans and borrowings	7,115	9,323	(2,208)	(23,7)
Cash and cash equivalents and other foreign exchange gains	13,666	9,434	4,232	44,9,
<b>Total foreign exchange gains recognised in profit or loss</b>	<b>56,252</b>	<b>26,281</b>	<b>29,971</b>	<b>2,1,pa3a</b>
<b>Foreign exchange loss on:</b>				
Financial assets	(10,633)	(22,199)	11,566	(52,1)
Loans and borrowings	(23,131)	(3,463)	(19,668)	6,7X
Cash and cash equivalents and other foreign exchange loss	(8,804)	(6,190)	(2,614)	42,2
<b>Total foreign exchange loss recognised in profit or loss</b>	<b>(42,568)</b>	<b>(31,852)</b>	<b>(10,716)</b>	<b>33,6</b>
<b>Net foreign exchange gain/(loss)</b>	<b>13,684</b>	<b>(5,571)</b>	<b>19,255</b>	<b>x</b>

Dynamics of exchange differences presented in the table was driven by weakening of RUB to USD during the nine months ended 30 September 2020 comparing to the strengthening of RUB to USD during the same period of 2019 (ref. to 2.2) and the ratio of financial assets to financial liabilities denominated in USD.



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

	Ref.	Nine months ended		Change, %
		30 September 2020	30 September 2019	
<b>Profit for the reporting period</b>		<b>109,738</b>	<b>157,683</b>	<b>(30.4)</b>
Adjustments for:				
income tax expense		32,771	36,831	(11.0)
depreciation and amortisation	3.2.1	163,287	154,702	5.5
	3.1.3			
result of crude oil sales to China	3.2.5	(721)	277	x
net finance costs		7,095	23,000	(69.2)
share of loss/(profit) from associates and jointly controlled entities	3.3	5,556	(2,299)	x
other loss	3.4	24,163	6,503	3.7X
<b>EBITDA*</b>		<b>341,889</b>	<b>376,697</b>	<b>(9.2)</b>

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

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

## 4. Cash flow analysis

	Nine months ended		Absolute change	Change, %
	30 September 2020	30 September 2019		
Cash flows received from operating activities	256,533	233,843	22,690	9.7
Cash flows used for purchase of property, plant and equipment, net	(149,213)	(186,309)	37,096	(19.9)
<b>Free cash flow</b>	<b>107,320</b>	<b>47,534</b>	<b>59,786</b>	<b>2.3X</b>
Cash flows received from other investing activities	8,074	43,380	(35,306)	(81.4)
Cash flows used in financing activities	(18,627)	(122,003)	103,376	(84.7)
<b>Net cash flow</b>	<b>96,767</b>	<b>(31,089)</b>	<b>127,856</b>	<b>x</b>
Change in cash and cash equivalents due to deviation of currency exchange rate	5,659	(4,286)	9,945	x
<b>Net change in cash and cash equivalents</b>	<b>102,426</b>	<b>(35,375)</b>	<b>137,801</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 256,533 for the nine months ended 30 September 2020, which is RUB 22,690 or 9.7% higher than for the comparable period of 2019.

The increase of cash was mainly influenced by:

- decrease of cash received from customers by RUB 83,576;
- decrease of cash paid to suppliers by RUB 41,614;
- increase of refunds of social contributions, VAT and other taxes in the amount of RUB 47,555;
- decrease of income tax paid by RUB 14,975;
- decrease of interest paid by RUB 6,017;
- increase of other cash used in operating activities by RUB 3,947.



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#### **4.2. Investing activities**

The primary factors resulting in decrease in cash used in investing activities by RUB 1,790 or 1.3% shown in the condensed consolidated interim statement of cash flows for the nine months ended 30 September 2020 compared to the same period of 2019 were:

- decrease in the net amount cash used for purchase of property, plant and equipment by RUB 37,096 as compared to the relative period of the previous year;
- decrease of cash received from other investing activities by RUB 35,306 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 29,711 compared to the relative period of the previous year;
  - recognition of cash inflow from escrow-account in state-controlled bank in the amount of RUB 12,800 as compared to cash outflow to the escrow-account in the amount of RUB 12,800 during the same period of the previous year;
  - recognition of cash inflow from sale of subsidiary less own cash in the amount of RUB 35,143 during the nine months ended 30 September 2019.

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

The main factors which influenced on the decrease of cash used in financing activities for the nine months ended 30 September 2020 in the amount of RUB 103,376 as compared to the relative period of the previous year were:

- decrease by RUB 27,775 of net proceeds from attraction of loans/used for repayment of loans and borrowings driven by issue of RUB 30 bn bonds during the nine months ended 30 September 2020 and repayment of bonds amounting to RUB 58,675 during the nine months ended 30 September 2019;
- increase of cash outflow used for payment of dividends to non-controlling interest by RUB 3,854 as compared to the relative period of the previous year;
- payment out of dividends to shareholders of Transneft in the amount of RUB 77,596 during the nine months ended 30 September 2019. Payment of dividends to shareholders of Transneft during the nine months ended 30 September 2020 was not made because of holding of the annual general meeting (order of Rosimushchestvo) in the end of September 2020. Shareholders entitled to payment of dividends by Transneft were determined at 20.10.2020, dividends were paid out in November 2020.

#### **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 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.



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**4.4. Disclosure of cash flows from operating activities using indirect method (continued)**

	Note	Nine months ended	
		30 September 2020	30 September 2019
<b>OPERATING ACTIVITIES</b>			
<b>Profit before income tax</b>		<b>142,509</b>	<b>194,514</b>
<b>Adjustments for:</b>			
Depreciation and amortisation	3.2.1	163,287	154,702
(Gain)/loss from disposal of property, plant and equipment, intangible assets		1,424	632
Finance income	3.5	(73,752)	(42,210)
Finance costs	3.5	80,847	65,210
Profit from disposal of subsidiary	3.4	-	(16,192)
Share of loss/(profit) from associates and jointly controlled entities	3.3	5,556	(2,299)
Other		9,085	22,929
<b>Operating profit before changes in working capital and provision</b>		<b>328,956</b>	<b>377,286</b>
Changes in operating assets and liabilities:			
Changes in inventories		881	3,109
Changes in trade and other receivables relating to operating activity and VAT assets		35,433	(22,529)
Changes in trade and other payables, and accruals relating to operating activity		(17,180)	(16,380)
Changes in contract liabilities		(21,541)	(16,255)
<b>Cash flows from operating activities before payment of income tax expense and interest</b>		<b>326,549</b>	<b>325,231</b>
Income tax paid		(31,992)	(47,203)
Income tax refund		380	236
Interest paid		(38,404)	(44,421)
<b>Net cash flows received from operating activities</b>		<b>256,533</b>	<b>233,843</b>

**5. Liquidity analysis**

	30 September 2020	31 December 2019	Change, %
Current assets	579,436	472,842	22.5
including:			
cash and cash equivalents	186,027	83,601	2.2X
short-term bank deposits and bonds*	273,912	217,728	25.8
Current liabilities	399,235	303,993	31.3
Net working capital	180,201	168,849	6.7
Current ratio	1.5	1.6	x
Quick ratio**	1.2	1.1	x
Debt/ EBITDA	1.4	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.