

TRANSNEFT

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

FOR THE YEAR ENDED 31 DECEMBER 2019





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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 December 2019 and results of operations for the year ended 31 December 2019, compared to the year ended 31 December 2018, as well as, other important factors which could affect the future results of the Group. This analysis should be read in conjunction with the consolidated financial statements prepared in accordance with International financial reporting standards (hereinafter – “IFRS”) for the year ended 31 December 2019.

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

Key financial and operating results

	Year ended		Change, %
	31 December 2019	31 December 2018	
Revenue	1,063,829	979,958	8.6
Profit for the year	197,104	225,413	(12.6)
Earnings before interest, income tax, depreciation and amortisation (EBITDA*)	486,255	433,436	12.2
Oil delivered to consignees, mln tonnes	485.0	480.0	1.0
including:			
Russian oil refineries, mln tonnes	245.9	249.3	(1.4)
other consignees, including transshipment into the CPC-R system, mln tonnes	0.2	0.2	-
exports to neighboring countries, mln tonnes	18.6	19.0	(2.1)
exports to other countries, mln tonnes	220.3	211.5	4.2
Petroleum products delivered to consignees, mln tonnes	37.9	39.2	(3.3)
including:			
Russia's domestic market, mln tonnes	10.6	10.6	-
exports to the Customs Union member countries, mln tonnes	0.2	0.4	(50.0)
exports to other countries, mln tonnes	27.1	28.2	(3.9)

* 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 year are disclosed in the table below:

	Note	Year ended		Absolute change	Change, %
		31 December 2019	31 December 2018		
Profit for the year		197,104	225,413	(28,309)	(12.6)
Net loss/(gain) from foreign exchange differences	3.4.2	6,728	(23,092)	29,820	x
Share of profit from associates and jointly controlled entities	3.3	(16,073)	(10,231)	(5,842)	57.1
Profit from disposal of subsidiaries	3	(16,192)	-	(16,192)	x
Provision for reimbursement to consignors of material losses	1	26,066	-	26,066	x
Fair value remeasurement of financial assets and liabilities and other adjustments		(3,876)	(25,225)	21,349	(84.6)
Recognition of one-time expense/(income) from remeasurement of defined benefit obligation	3.2.3	6,121	(13,831)	19,952	x
Effect on the income tax expense of the mentioned factors		(3,793)	11,710	(15,503)	x
Adjusted profit for the year		196,085	164,744	31,341	19.0



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

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

According to its Charter Transneft was established for the purpose of generating profit.

The main areas of Transneft's and its subsidiaries' operations are as follows:

- providing services of transporting oil and petroleum products via trunk pipelines in the Russian Federation as well as outside of Russia including interstate and intergovernmental agreements;
- rendering of stevedoring, additional port services and fleet services;
- raising of and making investments in development of the oil trunk pipeline and petroleum products trunk pipeline network including production of goods, works and services for servicing trunk oil pipeline and trunk petroleum products pipeline system to maintain its working condition, increase efficiency and safety of its operations;
- performing of scientific, technical, production, financial and foreign economic activities including mediating activity in the territory of the Russian Federation and outside of Russia;
- carrying out works relating to use of information constituting state secrets (protection of state secrets), provision of services for keeping state secrets safe;
- operating of oil and petroleum products trunk pipeline transport, sale of and storage of oil and petroleum products;
- carrying out activities to 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 December 2019 possesses an extensive network of trunk oil pipelines with a total length of approximately 51.1 thousand km and trunk petroleum products pipelines with a total length of some 16.4 thousand km.

During the year ended 31 December 2019 the Group transported about 83% of oil produced in Russia and about 29% of light petroleum products produced in Russia, as well as significant volume of hydrocarbons and petroleum products from CIS countries.

Transneft's key competitive advantages include:

- 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. Information about some of them as per 100 tonnes-kilometers as at 31 December 2019 is presented below:
 - average tariff through oil trunk pipelines of Transneft – USD 0.89/100 tkm;
 - average tariff of AO KazTransOil (Kazakhstan) – USD 1.40/100 tkm (USD 1.65/100 tkm for export, USD 1.12/100 tkm – domestic);
 - tariff of TAL Pipeline for transportation of oil through Triest – Ingolstadt direction (Italy, Austria, Germany) – USD 0.95/100 tkm;
 - tariff of Transpetrol (Slovakia) – USD 1.69/100 tkm;
 - tariff of MERO (Czech) – USD 2.87/100 tkm;
 - average tariff of AO Ukrtransnafta for transportation of oil in the direction of Hungary, Slovakia – USD 1.38/100 tkm;
 - average tariff Przyjaźń (Poland) – 1.05 USD/100 tkm;
 - average tariff of OAO Gomeltransneft Druzhba – USD 0.84/100 tkm;
 - average tariff of Transnafta (Serbia) – USD 2.55/100 tkm;
 - average tariff of JANAF (Croatia) – USD 3.42/100 tkm;
 - average tariff for transportation of oil through CPC oil pipeline (Caspian pipeline consortium) – USD 2.73/100 tkm.



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

In September 2018 the Group acquired control over PJSC NCSP. PJSC NCSP and its subsidiaries are established and operate mainly in the territory of the Russian Federation. The NCSP Group consists of stevedoring companies with different activities, including transshipment of oil and petroleum products. The main subsidiaries of PJSC NCSP are located in the eastern sector of the Black sea, in the Leningrad and Kaliningrad Districts. The NCSP Group's results are disclosed in para 3.

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

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.

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

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 in the amount of RUB 4,900.

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

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

The projects were completed and in November 2019 ESPO was brought to maximum capacity. The operating capacity of the ESPO oil pipeline has increased in the Tayshet IPS (initial pumping station) – Skovorodino oil pumping station section up to 80 MTPA and at the Skovorodino oil pumping station – Kozmino SSOP up to 50 MTPA of oil.

1.2. Environmental policy

The Group's management is fully aware of potential danger of a possible negative impact of technologically complex production activities on the environment, will develop and operate the oil and petroleum products trunk pipeline system, take adjacent works so that not to harm environment and ensure the most higher level of ecological safety of its activities. The Group, being the key element of energy industry of the Russian Federation and providing final results of its activities, sets as its superior and permanent priority protection of environment, provision of high level of environmental safety of the Group's production facilities.

The Group's management is fully informed of the conditions of all fixed assets and the pace of their wear and tear, and uses these data to plan reconstruction or building of new facilities.

The amount of funding of the ecological safety program, building and reconstruction of environmental facilities and acquisition of environmental protection equipment enable Transneft to meet the strictest Russian and international environmental standards.

As at today all subsidiaries of Transneft have developed, introduced and certified the environmental management System, the international certificates of conformity to the standard ISO 14001-2004 were received.



2. Tariffs and key macroeconomic factors affecting the Group's performance

2.1. Oil and petroleum products transportation tariffs

Transneft provides tariff-based oil and petroleum products transportation services to consignors.

Tariff rates are currently calculated in accordance with the Rules of state regulation of tariffs or their maximum limits for services of natural monopolies with respect to oil and petroleum products transportation via trunk pipelines, approved by a Decree of the Government of the Russian Federation of 29.12.2007 No. 980, as well as in accordance with the Regulations on setting fees for services of oil transportation via trunk pipelines, approved by an Order of the Federal Tariff Service of Russia of 17.08.2005 No. 380-e/2, the Methodology of setting tariffs on petroleum products transportation via trunk pipelines of the Russian Federation approved by Federal Energy Commission of Russia of 16.10.2002 No. 70-e/5, as well as, by the Decree of the Government of the Russian Federation of 14.03.2014 No. 377-r.

During 2018 and 2019 Transneft was performing its core operations:

- a) of transporting oil, by charging fees for its services in accordance with oil transportation tariff rates approved by orders of the state regulatory body for natural monopolies – the Federal Tariff Service of Russia (FTS of Russia) and Federal Antimonopoly Service (FAS of Russia)¹:
 - Order of the FTS of Russia of 22.12.2009 No. 455-t/1 Concerning the setting of fees for sea port services provided to OOO Specialized Oil Loading Sea Port Kozmino;
 - Order of the FTS of Russia of 31.10.2014 No. 240-e/2 Concerning the setting of fee for the service of OAO AK Transneft for oil transportation via the Ephimoffka – OOO LUKOIL-Volgogradneftepererabotka route rendered for OAO LUKOIL;
 - Order of the FAS of Russia of 26.05.2016 No. 666/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Ukhta – Yaroslavl trunk pipeline through Ukhta – OOO Lukoil – UNP route provided to PJSC LUKOIL;
 - Order of the FAS of Russia of 26.05.2016 No. 667/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Ukhta – Yaroslavl trunk pipeline through Synya – Pechora route provided to OOO SK Rusvietpetro;
 - Order of the FAS of Russia of 01.07.2016 No. 876/16 Concerning the setting of tariff for the services of OAO AK Transneft for delivery of oil via Ukhta – Yaroslavl trunk pipeline through Pechora – Chickshino provided to AO NNK – Pechoraneft;
 - Order of the FAS of Russia of 29.08.2016 No. 1216/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via Udoma – Privodino trunk pipeline through Ukhta - Sindor provided to AO NK Neftisa;
 - Order of the FAS of Russia of 29.08.2016 No. 1217/16 Concerning the setting of tariff for the services of Transneft for delivery of oil via Ukhta – Yaroslavl trunk pipeline through Ukhta - Sindor provided to OOO Nizhneomrinskaya neft;
 - Order of FAS of Russia of 09.12.2016 No. 1742/16 Concerning the setting of tariff for the services of Transneft for delivery of oil through Chikshino-Zelenoborsk route via Usa – Ukhta trunk pipeline provided to OOO ZARUBEZHNEFT – dobitcha Kharyaga;
 - Order of FAS of Russia of 26.12.2016 No. 1842/16 Concerning the setting of tariff for the services of Transneft-Terminal for loading of oil into railway tank cars on the territory of Grushevaya industrial site of the transshipment complex Sheskharis from trunk pipeline system of Transneft;
 - Order of FAS of Russia of 27.03.2017 No. 392/17 Concerning the setting of tariff for the services of Transneft for oil transportation through Sindor-Mikun route of Ukhta-Yaroslavl pipeline provided to OOO TSNPSEI;
 - Order of FAS of Russia of 11.12.2017 No. 1659/17 Concerning the setting of tariff for the services of Transneft for oil transportation via trunk pipeline system;
 - Order of FAS of Russia of 11.12.2017 No. 1660/17 Concerning the setting of tariff for the services of Transneft for oil transportation through Tikhoretsk – Tuapse-2 provided to Rosneft;
 - Order of FAS of Russia of 12.02.2018 No. 157/18 Concerning the setting of tariff for the services of AO Transneft-Terminal for loading of oil into railroad facilities in the territory of industrial area of Grushovaya PK Sheskharis from Transneft's trunk pipeline system;

¹ the FAS of Russia is a successor of the FTS of Russia. Decree of the President of the Russian Federation of 21.07.2015 No.373 Concerning different issues on state administration and control in antimonopoly and tariff regulation.



2.1. Oil and petroleum products transportation tariffs (continued)

- Order of FAS of Russia of 04.04.2018 No. 427/18 Concerning the making amendments to appendix 2 of the Order of FAS of Russia No.1659/17 of 11.12.2017 Concerning the setting of tariff for the services of Transneft for oil transportation via trunk pipeline system;
- Order of FAS of Russia of 07.06.2018 No. 780/18 Concerning the setting of tariff for the services of Transneft for loading of oil from trunk pipeline system to OOO RN-Komsomolskiy NPZ and concerning changes in the order of FAS of Russia of 11.12.2017 No. 1659/17 Concerning the setting of tariff for the services of Transneft for oil transportation via trunk pipeline system;
- Order of FAS of Russia of 16.11.2018 No. 1567/18 Concerning the setting of tariff for the services of Transneft for oil transportation through trunk pipeline system;
- Order of FAS of Russia of 19.12.2018 No. 1816/18 Concerning the setting of tariff for the services of Transneft for oil transportation through Tikhoretsk – Tuapse-2 rendered to Rosneft;
- Order of FAS of Russia of 13.03.2019 No. 299/19 Concerning the setting of tariff for the services of Transneft for oil transportation through Tikhoretsk – Tuapse-2 rendered to Rosneft;
- Order of FAS of Russia of 20.06.2019 No. 801/19 Concerning the setting of tariff for the services of Transneft for oil transportation through the branch oil pipeline ESPO – Komsomolskiy NPZ rendered to Rosneft.
- b) of transporting petroleum products, by charging fees for its services in accordance with fee rates approved by Transneft in accordance with orders of the FTS of Russia, the FAS of Russia:
 - Order of the FTS of Russia of 30.04.2013 No. 90-e/2 Concerning the setting of maximum tariff rates for services of OAO AK Transneft for execution of orders and scheduling deliveries of petroleum products which are in transit to LPDS Sokur and are further exported outside the customs territory of the Russian Federation and the states - members of the Customs Union;
 - Order of the FTS of Russia of 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 – Nizhegorodnefteorgsynthez” – MP “Primorsk” for OAO NK LUKOIL;



2.1. Oil and petroleum products transportation tariffs (continued)

- Order of the FAS of Russia of 12.11.2018 No. 1521/18 About cancelling of the order of the FAS of Russia of 11.04.2018 No. 461/18 Concerning the setting of tariff for services of Transneft for petroleum products transportation through OOO KINEF – MP Primorsk for OAO Surgutneftegaz;
- Order of the FAS of Russia of 23.11.2018 No. 1631/18 Concerning the setting limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum products from trunk pipeline network and making amendments to the order of the FAS of Russia of 07.10.2014 No. 223-e/1 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for petroleum products transportation by trunk pipelines;
- Order of the FAS of Russia of 14.12.2018 No. 1785/18 Concerning the setting of tariff for petroleum products transportation through PSP Antipinskiy NPZ-DT (loading from AO Antipinskiy NPZ) – MP Primorsk;
- Order of the FAS of Russia of 14.12.2018 No. 1786/18 Concerning the setting of tariff for Lukoil for the services of Transneft for petroleum products transportation through petroleum products pipeline PSP Lukoil-NORSI (loading from OOO Lukoil-Nizhegorodnefteorgsintez) – MP Primorsk, through petroleum products pipeline PSP Lukoil-NORSI (loading from OOO Lukoil-Nizhegorodnefteorgsintez) – MP Primorsk, further in the direction of RPC Vysotsk, through petroleum products pipeline PSP Andreevka (loading from OOO Lukoil-Permnefteorgsintez) – MP Primorsk and through petroleum products pipeline PSP Andreevka (loading from OOO Lukoil-Permnefteorgsintez) – MP Primorsk into direction of RPC Vysotsk;
- Order of the FAS of Russia of 03.12.2018 No. 1672/18 Concerning the setting of limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum products from trunk pipeline network into car tank facilities and amending the order of FST of Russia of 07.10.2014 No. 223-e/1 Concerning the setting of tariff for the services of Transneft and its affiliated parties for petroleum products transportation by trunk pipelines;
- Order of the FAS of Russia of 26.03.2019 No. 375/19 Concerning the setting of limit for maximum tariff rates for the services of Transneft and its affiliated parties for filling of petroleum products from trunk pipeline network into car tank facilities and amending the order of FST of Russia of 07.10.2014 No. 223-e/1 Concerning the setting of tariff for the services of Transneft and its affiliated parties for petroleum products transportation by trunk pipelines;
- Order of the FAS of Russia of 28.03.2019 No. 392/19 About cancelling of the order of the FAS of Russia of 14.12.2018 No. 1785/18 Concerning the setting of tariff for services of Transneft for petroleum products transportation through PSP Antipinskiy NPZ-DT (loading from AO Antipinskiy NPZ) – MP Primorsk;
- Order of the FAS of Russia of 24.05.2019 No. 654/19 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.

	Year ended		Change, %
	31 December 2019	31 December 2018	
Change in the RUB/USD exchange rate for the reporting period, %	(10.9)	20.6	x
<i>RUB/USD exchange rates</i>			
Average rate for the reporting period	64.74	62.71	3.2
Rate at the end of the reporting period	61.91	69.47	(10.9)
Rate at the end of the year preceding the reporting period	69.47	57.60	20.6

2.3. Inflation rates

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

	Year ended		Change, pp
	31 December 2019	31 December 2018	
Rouble inflation (CPI), %	3.0	4.3	(1.3)

2.4. Taxation

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

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

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Current income tax	44,525	46,229	(1,704)	(3.7)
Property tax	37,506	38,042	(536)	(1.4)
Other taxes and levies	624	846	(222)	(26.2)

Income tax

The federal income tax rate in 2019 is 3.0% (for the same period of 2018 – 3.0%), while the regional tax rates range from 12.5% to 17.0% (from 12.5% to 17.0% for the same period of 2018). The Group's international operations are taxable at rates established by the laws of countries where they took place.

Property tax

Decrease of the amount of accrued property tax in 2019 was mainly caused by amendments to tax legislation (exclusion of movable property from tax base from 01.01.2019).

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 year ended 31 December 2019 and the relative period of the preceding year are:

	Ref.	Year ended		Absolute change	Change, %
		31 December 2019	31 December 2018		
Revenue	3.1	1,063,829	979,958	83,871	8.6
Revenue from oil transportation	3.1.2	703,416	651,887	51,529	7.9
Revenue from petroleum products transportation	3.1.2	68,276	72,167	(3,891)	(5.4)
Revenue from crude oil sales	3.1.3	198,712	206,408	(7,696)	(3.7)
Other revenue	3.1.5	93,425	49,496	43,929	88.8
Operating expenses net of depreciation and amortisation	3.2	(578,040)	(546,083)	(31,957)	5.9
Operating profit net of depreciation and amortisation		485,789	433,875	51,914	12.0
Depreciation and amortisation	3.2.1	(208,700)	(178,610)	(30,090)	16.8
Operating profit		277,089	255,265	21,824	8.5
Other (expense)/income		(13,622)	33,519	(47,141)	x
Share of profit from associates and jointly controlled entities	3.3	16,073	10,231	5,842	57.1
Profit before income tax and finance income/ (costs)		279,540	299,015	(19,475)	(6.5)
Net finance costs	3.4	(34,522)	(21,304)	(13,218)	62.0
Profit before income tax		245,018	277,711	(32,693)	(11.8)
Income tax expense		(47,914)	(52,298)	4,384	(8.4)
Profit for the reporting year		197,104	225,413	(28,309)	(12.6)
Other comprehensive loss, net of income tax		(6,729)	(770)	(5,959)	8.7 times
Total comprehensive income, net of income tax		190,375	224,643	(34,268)	(15.3)

The results of NCSP and its subsidiaries were recognised in the consolidated figure of the Group starting the date of acquisition (in September 2018) and amounted before elimination of operations between PJSC NCSP and its subsidiaries with PAO Transneft and other subsidiaries of Transneft.

	Year ended	
	31 December 2019	31 December 2018
Revenue	56,089	15,878
Profit for the reporting period	49,630	3,366
Earnings before interest, income tax, depreciation and amortisation (EBITDA)	40,031	10,246

For the year ended 31 December 2018 the share of profit in the NCSP Group was recognised in *Share of profit from associates and jointly controlled entities* till the date of acquisition in September 2018.

Changes in *Other (expense)/income* year ended 31 December 2019 as compared to the preceding year were mainly caused by the following factors:

- recognition in the reporting year of the result from sale of 99.9968% of share of NGT, which operates transshipment of grain and oil seeds, in the amount of RUB 16,192 before income tax expense;
- recognition in the reporting year of provision for reimbursement of material losses to consignors in the amount of RUB 26,066;
- recognition during the year ended 31 December 2018 of gain of RUB 25,371 from fair value remeasurement of the previously held share of PJSC NCSP of 35.57% at the date of acquisition.



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3.1. Revenue

3.1.1. Revenue breakdown by type of activities

Revenue by type of operations	Year ended				Absolute change	Change, %
	31 December 2019	Share of total, %	31 December 2018	Share of total, %		
Revenue from oil transportation	703,416	66.1	651,887	66.5	51,529	7.9
for export	440,613	41.4	391,459	39.9	49,154	12.6
for domestic	262,803	24.7	260,428	26.6	2,375	0.9
Revenue from petroleum products transportation	68,276	6.4	72,167	7.4	(3,891)	(5.4)
Revenue from oil compounding	6,258	0.6	5,849	0.6	409	7.0
Revenue from domestic sales of crude oil	11,812	1.1	6,122	0.6	5,690	92.9
Revenue from sales of petroleum products	9,051	0.9	6,899	0.7	2,152	31.2
Revenue from export sales of crude oil	186,900	17.6	200,286	20.4	(13,386)	(6.7)
Other revenue	78,116	7.3	36,748	3.8	41,368	2.1 times
Total revenue	1,063,829	100.0	979,958	100.0	83,871	8.6
adjusted for:						
Revenue from export sales of crude oil	(186,900)	(17.6)	(200,286)	(20.4)	13,386	(6.7)
Adjusted revenue	876,929	82.4	779,672	79.6	97,257	12.5

For the year ended 31 December 2019, the Group's revenue increased by RUB 83,871 or by 8.6%, attributable mainly to increase in revenue from oil transportation and recognition of consolidated figures of the NCSP Group and NFT (ref. to 3.1.5). The adjusted revenue for the year ended 31 December 2019 increased by RUB 97,257 or 12.5% to the preceding year mainly due to effect of the same factors.

3.1.2. Oil and petroleum products transportation

Increase in revenue from oil transportation amounted to RUB 51,529 or by 7.9% for the year ended 31 December 2019 comparable to the year 2018 and was attributable to change of tariffs, change in oil transportation volumes and turnover.

Decrease in revenue from petroleum products transportation by RUB 3,891 or by 5.4% for the year ended 31 December 2019 compared to the year 2018 was driven by decline in transportation volumes and changes in 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 (ref. to 4.3). The respective oil volumes are being purchased from Rosneft.

Decrease in revenue from export sales of crude oil by RUB 13,386 or 6.7% for the year ended 31 December 2019 compared to the preceding year was mainly a result of decline in average oil market price per barrel set in USD and growth of the average USD exchange rate as during the reporting year compared to the preceding year.

Increase in revenue from domestic sales of crude oil for the year ended 31 December 2019 by RUB 5,690 or by 92.9% compared to the preceding year was a result of increase of sale volumes of crude oil and average selling price growth.

Increase in revenue from sales of petroleum products for the year ended 31 December 2019 by RUB 2,152 or by 31.2% compared to the preceding year was a result of insignificant increase of sale volumes, increase of average sale price, as well as acquisition of control over NCSP Group and its subsidiaries.



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3.1.4. Revenue from oil compounding

Increase in revenue from oil compounding by RUB 409 or by 7.0% for the year ended 31 December 2019 compared to the preceding year was a result of increase in oil compounding volumes and tariffs for compounding.

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Oil compounding volumes, thousand tonnes	40,531	39,884	647	1.6

3.1.5. Other revenue

Other revenue includes revenue from provision of stevedoring, additional port services and fleet services, oil and petroleum products storage services, communication services, diagnostic services, construction services, services of technological connection to pipeline system, information services related to oil transportation, rent services, resale of goods, organisation of transporting of cargoes, revenue from provision of other services.

Increase of other revenue for the year ended 31 December 2019 compared to the same period of the preceding year was mainly caused by consolidation of NCSP and its subsidiaries (ref. to para 3).

3.2. Operating expenses net of depreciation and amortisation

Operating expenses net of depreciation and amortisation for the year ended 31 December 2019, and the year ended 31 December 2018, are detailed in the table below:

Operating expense line items	Year ended				Absolute change	Change, %
	31 December 2019	Share of total expenses, %	31 December 2018	Share of total expenses, %		
Salaries, insurance contributions and social expenses	172,248	29.8	163,591	30.0	8,657	5.3
Energy	46,360	8.0	44,058	7.8	4,000	9.4
Materials	36,543	6.3	33,297	6.1	3,246	9.7
Repair and maintenance of relevant technical condition of pipeline	22,038	3.8	20,057	3.7	1,981	9.9
Insurance expenses	6,175	1.1	6,359	1.2	(184)	(2.9)
Taxes (other than income tax)	36,961	6.4	36,843	6.7	118	0.3
Pension expense	10,422	1.8	(9,367)	(1.7)	19,789	x
Cost of export sales of crude oil (including export custom duties)	187,366	32.4	199,847	36.6	(12,481)	(6.2)
Cost of domestic sales of crude oil	11,306	2.0	5,873	1.1	5,433	92.5
Cost of sales of petroleum products	8,259	1.4	6,350	1.2	1,909	30.1
Cost of sales of other goods for resale	7,597	1.3	5,600	1.0	1,997	35.7
Other operating expenses	32,765	5.7	35,273	6.3	(2,508)	(7.1)
Operating expenses net of depreciation and amortisation	578,040	100.0	546,083	100.0	31,957	5.9
Adjustments for:						
Cost of export sales of crude oil (including export custom duties)	(187,366)	(32.4)	(199,847)	(36.6)	12,481	(6.2)
Taxes (other than income tax)	(36,961)	(6.4)	(36,843)	(6.7)	(118)	0.3
Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil	353,713	61.2	309,393	56.7	44,320	14.3



3.2 Operating expenses net of depreciation and amortisation (continued)

Increase in the amount of operating expenses net of depreciation and amortisation by RUB 31,957 or by 5.9% was mainly caused by the following factors:

- increase of the pension expenses (ref. to 3.2.3);
- inclusion in the operating expenses of figures of the NCSP Group and NFT, which were shown in the relevant elements of operating expenses (ref. to 3);
- increase of the cost of domestic sales of crude oil and petroleum products (ref. to 3.2.5);
- increase of salaries, insurance contributions and social expenses (ref. to 3.2.2).

After applying inflation rates*, operating expenses net of depreciation and amortisation for the year ended 31 December 2019, and for the year ended 31 December 2018, were as follows:

Operating expense line items	Year ended						
	31 December 2019	Share of total expenses, %	Inflation rates (forecast 2019 to 2018),%*	31 December 2018 (inflated to 2019)	Share of total expenses, %	Absolute change	Change, %
Salaries, insurance contributions and social expenses	172,248	29.8	4.7	171,280	29.4	968	0.6
Energy	46,360	8.0	7.5	45,537	7.8	823	1.8
Materials	36,543	6.3	5.4	35,095	6.0	1,448	4.1
Repair and maintenance of relevant technical condition of pipeline	22,038	3.8	7.4	21,541	3.7	497	2.3
Insurance expenses	6,175	1.1	4.7	6,658	1.1	(483)	(7.3)
Taxes (other than income tax)	36,961	6.4	5.4	38,833	6.7	(1,872)	(4.8)
Pension expense	10,422	1.8	4.7	(9,807)	(1.7)	20,229	x
Cost of export sales of crude oil (including export custom duties)	187,366	32.4	8.6	217,034	37.3	(29,668)	(13.7)
Cost of domestic sales of crude oil	11,306	2.0	8.6	6,378	1.1	4,928	77.3
Cost of sales of petroleum products	8,259	1.4	0.1	6,356	1.1	1,903	29.9
Cost of sales of other goods for resale	7,597	1.3	5.4	5,902	1.0	1,695	28.7
Other operating expenses	32,765	5.7	5.4	37,178	6.5	(4,413)	(11.9)
Operating expenses net of depreciation and amortisation	578,040	100.0	X	581,985	100.0	(3,945)	(0.7)
Adjustments for:							
Cost of export sales of crude oil (including export custom duties)	(187,366)	(32.4)	8.6	(217,034)	(37.3)	29,668	(13.7)
Taxes (other than income tax)	(36,961)	(6.4)	5.4	(38,833)	(6.7)	1,872	(4.8)
Operating expenses net of depreciation and amortisation, taxes and export sales of crude oil	353,713	61.2	X	326,118	56.0	27,595	8.5

*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 year.

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Oil transportation				
Turnover, mln tonnes x km	1,247,584	1,217,397	30,187	2.5
Unit costs per 100 tonnes x km (2018 figures inflated to 2019), RUB	20.28	19.95	0.33	1.6
Unit costs per 100 tonnes x km net of new facilities expenditure (2018 figures inflated to 2019), RUB	20.04	19.95	0.09	0.5

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Petroleum products transportation				
Volume turnover, mln of tonnes	37.9	39.2	(1.3)	(3.3)
Unit costs per ton (2018 figures inflated to 2019), RUB	690.60	790.45	(99.85)	(12.6)
Unit costs per ton net of new facilities expenditure (2018 figures inflated to 2019), RUB	682.49	790.45	(107.96)	(13.7)

3.2.1. Depreciation and amortisation

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Depreciation of PPE	196,403	173,115	23,288	13.5
Amortisation of intangible assets	6,138	5,495	643	11.7
Depreciation of rights-of-use assets	6,159	-	6,159	x
	208,700	178,610	30,090	16.8

Increase in depreciation for the year ended 31 December 2019 comparing the preceding year was mainly driven by construction and putting into use of new facilities during 2018.

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

3.2.2. Salaries, insurance contributions and social expenses

Salaries comprise wages, accrual of provision for annual bonus, provision for unused vacation and other remuneration in accordance with IAS 19 *Employee benefits*.

Increase of salaries, insurance contributions and social expenses for the year ended 31 December 2019 by RUB 8,657 or by 5.3% comparable to the year 2018 was mainly caused by consolidation of the NCSP Group and NFT and by increase of insurance contributions to the state extra budgetary funds because of growth in accrual limit.



3.2.3. Pension expense

Transneft has set the protection of the life and health of its employees as well as the creation of safe working conditions for them as its highest priority. One of the key tasks of social policy is to create conditions for effective 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 year ended 31 December 2019 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, which resulted in recognition of a one-time expense in the amount of RUB 6,121 as at 31 December 2019 because of the increase of liability under defined benefit plan, which was shown as Past service cost;
- a change in legislation since 2019, according to which the retirement age at which the right to a state pension is obtained increases from 55 to 60 years for women and from 60 to 65 years for men, which resulted in a one-time recognition gain amounting to RUB 13,831 as a result of decrease in defined benefit obligation plan.

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.

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Employers' contributions to JSC "NPF "Transneft" in favor of employees	3,412	3,841	(429)	(11.2)

3.2.4. Energy

Energy expenses for the year ended 31 December 2019 increased by RUB 4,000 or 9.4% compared to the previous year. The increase of energy (power) expenses was caused by increase of weighted-average price (tariff) for energy (power) and increase of volumes of purchased energy (power) due to increase in oil turnover by 2.5%.

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

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Consumption of energy, mln kW*h	15,352	14,501	851	5.9

3.2.5. Cost of sales of crude oil and petroleum products

The cost of export sales of crude oil for the year ended 31 December 2019 in the amount of RUB 187,366 includes cost of sales in the amount of RUB 151,025 of crude oil purchased from Rosneft under a contract signed in April 2009 and custom duties in the amount of RUB 36,341. This figure is a result of oil supplies to the People's Republic of China (ref. to 3.1.3).

Increase in cost of domestic sales of crude oil for the year ended 31 December 2019 amounted to RUB 5,433 or 92.5% as compared to the year 2018 and was caused by increase in sale volumes of crude oil and average price of oil sold by the Group.

Increase in cost of domestic sales of petroleum products for the year ended 31 December 2019 in the amount of RUB 1,909 or 30.1% as compared to the year 2018 was caused by the insignificant growth of volume sales, growth in average price of petroleum products, as well as acquiring of control in the NCSP Group in September 2018.

3.2.6. Taxes (other than income tax)

The amount of the Group's other taxes recognised in operating expenses primarily contains property tax, tax on land and transport tax (ref. to 2.4).



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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.

Decrease of other operating expenses was mainly caused by adoption of IFRS 16 *Leases* by the Group beginning from 1 January 2019.

3.3. Share of results from associates and jointly controlled entities

The Group holds financial investments in associated and jointly controlled entities reported on an equity method basis. The main activities of those entities are cargo handling, transport of oil and petroleum products, wholesale of electric and heat power.

Increase of the amount recognised by the Group in *Share of profit from associates and jointly controlled entities* for the year ended 31 December 2019 as compared to the year 2018 amounted to RUB 5,842 or by 57.1%, and was mainly caused by the results of AO Ust-Luga Oil, AO CPC-R, AO CPC-K, OOO NTK and the closed combined mutual fund "Gazprombank – Finansoviy", as well as, acquisition in September 2018 of the NCSP Group and NFT.

3.4. Finance income and costs

3.4.1. Interest income and expenses

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

Interest income from:	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
– Financial assets measured at FVTPL	5,088	5,715	(627)	(11.0)
– Financial assets measured at amortised cost	8,084	9,402	(1,318)	(14.0)
– Cash and cash equivalents	4,713	5,053	(340)	(6.7)
Total interest income recognised in the statement of profit or loss and other comprehensive income	17,885	20,170	(2,285)	(11.3)

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

Interest expenses:	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
– On loans and borrowings	53,322	57,911	(4,589)	(7.9)
– Distribution of pension income on pension liabilities	8,775	4,407	4,368	99.1
– On contract liabilities	8,822	6,709	2,113	31.5
– On lease liabilities	2,046	-	2,046	x
– Other	3,486	4,691	(1,205)	(25.7)
Total interest expenses	76,451	73,718	2,733	3.7
Less: interest expenses on loans, borrowings and liabilities to be capitalised	(26,896)	(9,298)	(17,598)	2.9 times
Total interest expense recognised in the statement of profit or loss and other comprehensive income	49,555	64,420	(14,865)	(23.1)

The amount of interest expenses on loans and borrowings for the year ended 31 December 2019, and for the year ended 31 December 2018, was composed of:

- interest payable on loans received in Russian roubles and US Dollars;
- interest payable on marketable and corporate bonds issued in Russian roubles;

as well as, for the year ended 31 December 2018:

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



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3.4.1. Interest income and expenses (continued)

The dynamics of interest expenses on loans and borrowings for the year ended 31 December 2019 as compared to the similar period of 2018 was mainly driven by decrease of average amount of loans and borrowings.

Interest expense under contract liabilities were recognised because of the adoption of IFRS 15 *Revenue from Contracts with Customers* as part of financing of technological connection to the trunk pipelines in accordance with contracts for setting long-term (agreed) tariffs for oil and petroleum products transportation as well as long-term advance payments.

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

Increase in capitalised interest expenses in cost of construction in progress by RUB 17,598 or in 2.9 times 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;
- amendments to IAS 23 *Borrowing Costs* effective from 1 January 2019 resulting in capitalisation of interest expenses from all loans outstanding during the reporting period including borrowings specifically taken for purchase, construction or production of qualifying assets after substantially all the activities necessary to prepare qualifying asset for use are complete.

3.4.2. Foreign currency exchange gains and losses

The amount of foreign currency exchange gains and losses for the year ended 31 December 2019, compared to the same period of 2018, was a result of changes in the exchange rate of USD to RUB.

Due to a remeasurement of assets and liabilities denominated in foreign currency at the end of every month, foreign currency gains and losses arise, which are presented in the consolidated financial statements on a gross basis.

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

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Foreign exchange gains on:				
– Financial assets	7,733	33,390	(25,657)	(76.8)
– Loans and borrowings	12,112	11,230	882	7.9
– Cash and cash equivalents and other foreign exchange gains	12,176	35,718	(23,542)	(65.9)
Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income	32,021	80,338	(48,317)	(60.1)
Foreign exchange loss on:				
– Financial assets	(20,470)	(12,049)	(8,421)	69.9
– Loans and borrowings	(3,651)	(26,663)	23,012	(86.3)
– Cash and cash equivalents and other foreign exchange loss	(14,628)	(18,534)	3,906	(21.1)
Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income	(38,749)	(57,246)	18,497	(32.3)
Net foreign exchange (loss)/ gain	(6,728)	23,092	(29,820)	x

Dynamics of exchange differences presented in the table was driven by strengthening of RUB to USD during the year ended 31 December 2019 (ref. to 2.2) and the share of financial assets and liabilities denominated in USD in total liabilities.



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

	Year ended		Change, %
	31 December 2019	31 December 2018	
Profit for the year	197,104	225,413	(12.6)
Adjustments for:			
income tax expense	47,914	52,298	(8.4)
depreciation and amortisation	208,700	178,610	16.8
result of crude oil sales to China	466	(439)	x
net finance costs	34,522	21,304	62.0
share of profit from associates and jointly controlled entities	(16,073)	(10,231)	57.1
other expense/(income) (ref. to 3)	13,622	(33,519)	x
including:			
fair value remeasurement of the previously held share of PJSC NCSP (Omirico Limited) at the date of acquisition	-	(25,371)	x
EBITDA*	486,255	433,436	12.2

* 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

	Year ended		Absolute change	Change, %
	31 December 2019	31 December 2018		
Cash flows received from operating activities	361,223	346,215	15,008	4.3
Cash flows used for purchase of property, plant and equipment, net	(268,226)	(267,974)	(252)	0.1
Free cash flow	92,997	78,241	14,756	18.9
Cash flows received from other investing activities	7,463	101,551	(94,088)	(92.7)
Cash flows used in financing activities	(113,196)	(166,575)	53,379	(32.0)
Net cash (outflow) / flow	(12,736)	13,217	(25,953)	x
Change in cash and cash equivalents due to deviation of currency exchange rate	(5,515)	12,473	(17,988)	x
Net (decrease)/increase in cash and cash equivalents	(18,251)	25,690	(43,942)	x



4.1. Operating activities

Cash received from operating activities is the Group's main source of cash. The net cash generated from operating activities amounted to RUB 361,223 for the year ended 31 December 2019, which is RUB 15,008 or 4.3% higher than for the comparable period of 2018.

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

- increase in cash received from customers by RUB 62,994;
- increase in cash paid to suppliers by RUB 11,447;
- increase in refunds of insurance contributions, VAT and other taxes from the budget by RUB 15,513;
- increase in income tax paid amounting to RUB 13,203.

4.2. Investing activities

The primary factors resulting in an increase in cash used in investing activities disclosed in consolidated statement of cash flows by RUB 94,340 or 56.7% for the year ended 31 December 2019 compared to the same period of 2018 were:

- increase in the net amount of purchase of property, plant and equipment by RUB 252 as compared to the relative period of the previous year;
- decrease of cash used in other investing activities amounted to RUB 94,088 because of the following operations:
 - decrease in net cash used in purchase-and-sale transactions of debt securities and allocation-closure of deposits in the amount of RUB 133,198 compared to the relative period of the previous year;
 - increase in cash received from dividends and other cash received from associates and jointly controlled entities by 4,028 for the year ended 31 December 2019 compared to the relative period of the previous year;
 - recognition of cash inflow from sale of subsidiary (ref. to 3) less cash disposed of for the year ended 31 December 2019 in the amount of RUB 35,143;
 - recognition of cash outflow for placing cash on escrow account in the state-controlled bank in the amount of RUB 12,800;
 - recognition of cash inflow from obtaining ownership over 100% of shares of CPC Company and CPC Investments Company in the amount of RUB 5,203 for the year ended 31 December 2018;
 - usage of cash for acquisition of the share in PJSC NCSP in the amount of RUB 49,319 shown in the consolidated statement of cash flows net of cash acquired held by PJSC NCSP and its subsidiaries in the amount of RUB 32,018.

4.3. Financing activities

The main factors which influenced on increase of cash outflow from financing activities for the year ended 31 December 2019 in the amount of RUB 53,378 or 32.0% as compared to the relative period of the previous year were:

- decrease of net proceeds in the amount of RUB 81,230 from attraction of loans/used for repayment of loans and issuance/repayment of RUB-denominated bonds mainly driven by:
 - repayment of bonds in the amount of RUB 58,675 during the year ended 31 December 2019;
 - during the year ended 31 December 2018 monthly repayments and early repayments of the loan to China Development Bank were made in the total amount of USD 4,651.1 mln (RUB 276,187 at the rate of Central Bank of the Russian Federation on the dates of operations);
 - repayment of eurobonds in the amount of USD 1,050 (RUB 66,293) during the year ended 31 December 2018;
 - decrease of cash proceeds in the amount of RUB 242,569 from attraction of loans and issuance of RUB-denominated bonds as compared to the relative period of the previous year.
- increase of cash outflow used for payment of dividends by RUB 24,439 as compared to the relative period of the previous year.



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

Cash flows received from operating activities using the indirect method are disclosed in the table below in addition to the consolidated statement of cash flows prepared using the direct method and disclosed in the consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2019.

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

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

	Note	Year ended	
		31 December 2019	31 December 2018
OPERATING ACTIVITIES			
Profit before income tax		245,018	277,711
Adjustments for:			
Depreciation and amortisation	3.2.1	208,700	178,610
Loss from disposal of property, plant and equipment		355	601
Finance income	3.4	(53,942)	(100,930)
Finance costs	3.4	88,464	122,234
Gain from disposal of subsidiary	3	(16,192)	-
Share of profit from associates and jointly controlled entities	3	(16,073)	(10,231)
Fair value remeasurement of the previously held share in PJSC NCSP (Omirico Limited) as at the date of acquisition	3	-	(25,371)
Other		29,326	(23,505)
Operating profit before changes in working capital and provision		485,656	419,119
Changes in operating assets and liabilities:			
Changes in inventories		10,186	(3,082)
Changes in trade and other receivables relating to operating activity and VAT assets		(26,427)	(3,596)
Changes in trade and other payables, and accruals relating to operating activity		5,799	12,937
Changes in contract liabilities		(1,018)	18,500
Cash flows from operating activities before payment of income tax expense and interest		474,196	443,878
Income tax paid		(58,006)	(44,803)
Income tax refund		300	307
Interest paid		(55,267)	(53,167)
Net cash flows received from operating activities		361,223	346,215



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5. Liquidity analysis

	31 December 2019	31 December 2018	Change, %
Current assets	472,842	407,071	16.2
including:			
cash and cash equivalents	83,601	101,852	(17.9)
short-term bank deposits and bonds*	217,426	179,069	21.4
Current liabilities	303,993	294,753	3.1
Net working capital	168,849	112,318	50.3
Current ratio	1.6	1.4	x
Quick ratio**	1.1	1.1	x
Debt/ EBITDA	1.3	1.4	x
Debt/ Equity	0.3	0.3	x

* The main part of short-term bank deposits and bonds consist of deposits and bonds issued by banks and other companies with credit ratings at Baa3 - Ba1 at the Moody's adjusted scale. Thus, short-term bank deposits and bonds consist of highly reliable or reliable financial instruments issued by credit organisations and companies.

** Quick ratio = (Cash and cash equivalents + Current financial assets + Short-term receivables)/ Current liabilities

The following are the contractual cash flows of financial liabilities, including estimated interest payments at the rates actual at 31 December 2019 and 31 December 2018 accordingly, with amounts denominated in foreign currency recalculated using the Central Bank of the Russian Federation exchange rates at 31 December 2019 and 31 December 2018 accordingly (ref. to 2.2).

31 December 2019:

	Carrying amount	Contractual cash flows						More than 5 years
		Total	2020	2021	2022	2023	2024	
Loans and borrowings	637,352	855,045	117,247	107,098	112,133	88,747	128,340	301,480
Lease liabilities	20,800	43,064	3,618	3,409	3,391	2,508	2,231	27,907
Trade and other payables	59,234	59,836	58,772	981	28	-	55	-
	717,386	957,945	179,637	111,488	115,552	91,255	130,626	329,387

31 December 2018:

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