

CASH FLOW ANALYSIS

Cash flow formation, RUB million

Indicator	2018	2017	Absolute change	Change, %
Cash flow from operating activities	347,160	327,101	20,059	6.1
Cash flow used for acquisition of fixed assets, net	-267,974	-306,199	38,225	-12.5
Free cash flow	79,186	20,902	58,284	3.8 times
Cash flow from other investment activities	101,551	32,027	69,524	3.2 times
Cash flow used in financial activities	-167,520	-51,183	-116,337	3.3 times
Net cash flow	13,217	1,746	11,471	7.6 times
Change in cash and equivalents, resulting from currency exchange rate fluctuations	12,473	-170	12,643	-
Net increase in cash and equivalents	25,690	1,576	24,114	16.3 times

Operating Activities

The main source of the Group's funds are cash flows generated by operating activities. Cash generated by operating activities for 2018 increased by 6.1% compared to 2017 and amounted to RUB 347,160 million. This was due to:

- RUB 112,389 million increase in cash received from customers
- RUB 102,341 million increase in payments to suppliers and contractors
- RUB 9,301 million increase in the volume of insurance premium refunds, VAT and other taxes from the budget
- RUB 8,533 million decrease in the amount of income tax paid
- RUB 6,947 million increase in the amount of interest paid

Investment Activities

Factors resulting in the decrease in cash used in investment activities (by 39.3% as compared to 2017) are:

- RUB 38,225 million reduction in the funds used for acquisition of fixed assets (net) in 2018
- RUB 69,524 million change in cash generated from other investment activities, as a result of the following:
 - RUB 5,003 million increase in the net cash inflow from the purchase and sale of equity and debt securities as well as the placement/closure of deposits (as compared to 2017)
 - RUB 98,155 million decrease in funds invested in acquisition of a stake in subsidiaries and jointly run companies in 2018 compared to 2017, mainly caused by the acquisition of 57.41% of shares in the combined closed-end fund Gazprombank Finansovy in the amount of RUB 60,000 million in 2017 and the acquisition of a 25% share in the authorised capitals of Ust-Luga Oil and Sandmark Operations Limited, totalling RUB 38,160 million

- RUB 25,067 million decrease in income from dividends received and other income from subsidiaries and jointly run businesses
- the use of cash to acquire the share in NCSP (Omirico Limited) in the amount of RUB 49,319 million in 2018 listed in the consolidated cash flow statement exclusive of cash available from NCSP (Omirico Limited) and its subsidiaries, as of the acquisition date in the amount of RUB 32,018 million
- cash inflow in 2018 as a result of the acquisition of 100% of the shares of CPC Company and CPC Investments Company in the amount of RUB 5,203 million
- RUB 1,821 million reduction of the loaned amount (net), compared to 2017

The net cash and its equivalents rose

16.3 times

Financial Activities

The outflow of funds in the amount of RUB 167,520 million from financial activities in 2018 against the outflow of RUB 51,183 million in 2017 was mainly caused by the following:

- RUB 90,242 million increase in the funds raised, resulting from the issue of rouble bonds and raising loans totalling RUB 287,262 million during 2018 (as compared to RUB 197,020 million in 2017);
- RUB 205,183 million increase in the sum used to repay bonds, credits and loans, as a result of the following:
 - during 2018, monthly payments and payments in advance were made to repay the loans under an agreement with the China Development Bank for a total amount of USD 4,651.1 million (RUB 276,187 million at the exchange rate of the Bank of Russia at the dates of transactions) as compared to monthly payments and payments in advance in the total amount of USD 2,467 million (RUB 144,864 million at the exchange rate of the Bank of Russia at the dates of transactions) for 2017
 - extinguishment of eurobonds totalling USD 1,050 million (RUB 66,293 million)

Calculating Cash Flow from Operating Activities Using the Indirect Method

In addition to the consolidated statement of cash flows prepared using the direct method and included in the consolidated financial statement by IFRS for 2018, calculation of cash flows from operating activities using the indirect method is given below.

When the indirect method is used, the net cash flow from operating activities is calculated by adjusting profit before tax for the following values:

- Changes in inventories as well as receivables and payables pertaining to operating activities during the reporting period
- Non-monetary transactions, such as depreciation and amortisation, outlay on valuation reserves, accrued unrealised foreign exchange gains and losses, interest receivable and payable, subsidiaries and jointly run companies' profit share
- Other items generating cash flows from investment and financial activities

The free cash flow grew

3.8 times

in 2018.

Calculating Cash Flow from Operating Activities Using the Indirect Method, RUB million

OPERATING ACTIVITIES	2017	2018
Profit before tax	242,167	277,711
Adjustments:		
▪ Depreciation and amortisation	152,637	178,610
▪ Loss from disposal of fixed assets	91	601
▪ Financial income	-109,177	-100,930
▪ Financial expenses	124,809	122,234
▪ Revaluation of the existing share in NCSP (Omirico Limited) to the fair value at the date of acquisition of the controlling stake and income from disposal of subsidiaries	-	-25,371
▪ Gain from disposal of subsidiaries	-117	-
▪ Share in the profit of subsidiaries and jointly run companies	-15,847	-10,231
▪ Other	14,080	-20,710
Operating profit before changes in working capital and reserves	408,643	421,914
Changes in operating assets and liabilities:		
▪ Changes in inventories	1,266	-3,082
▪ VAT changes in receivables pertaining to operating activities and assets	11,885	-3,596
▪ Changes in payables and accruals pertaining to operating activities	3,515	10,890
▪ Changes in contractual obligations	-	17,752
Cash flows from operating activities before paying income tax and interest	425,309	443,878
Income tax payments	-52,391	-43,858
Income tax refund	403	307
Interest paid	-46,220	-53,167
Net cash flows from operating activities	327,101	347,160

Liquidity Analysis, RUB million

Indicator	31 December 2018	31 December 2017	Change, %
Current assets, including	407 071	457 864	-11,1
▪ cash and equivalents	101 852	76 162	33,7
▪ short-term deposits and bonds ¹	179 069	265 306	-32,5
Short-term liabilities	294 753	280 455	5,1
Net working capital	112 318	177 409	-36,7
Current ratio	1,4	1,6	x
Quick ratio ²	1,1	1,4	x
Total debt / LTM EBITDA	1,4	1,7	x
Debt/equity	0,3	0,4	x

¹ Short-term deposits and bonds mainly consist of deposits and bonds issued by lending institutions and companies rated Baa3 – Ba2 based on a classification aligned with Moody's rating scale. This means, the Company's short-term deposits and bonds are comprised of financial instruments of highly reliable or reliable lending institutions and companies

² Quick ratio = (Cash and equivalents + Short-term financial assets + Short-term receivables) / Current liabilities

Given below is information on contractual maturity of financial liabilities, including interest payments calculated at the rates valid as at 31 December 2018 and 31 December 2017.

The debt denominated in foreign currency is calculated at the exchange rate of the Bank of Russia as of 31 December 2018 and 31 December 2017 respectively.

Contractual maturity of financial liabilities, RUB million¹, as of 31 December 2018

Indicator	Cash Flow under Signed Contracts							
	Book Value	Total	2019	2020	2021	2022	2023	Over 5 years
Loans and credits	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
Total	739,010	937,828	200,861	88,405	90,114	82,054	88,666	387,728

Contractual maturity of financial liabilities, RUB million¹, as of 31 December 2017

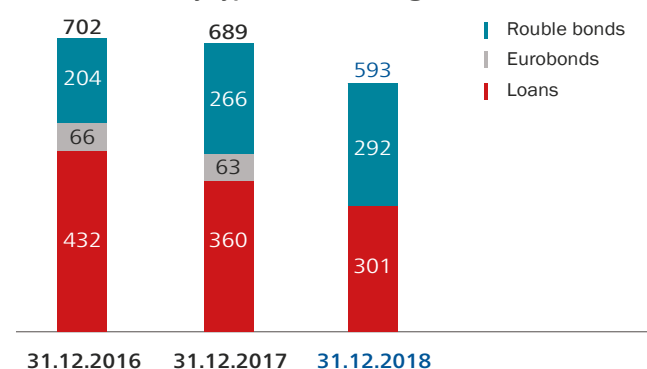
Indicator	Cash Flow under Signed Contracts							
	Book Value	Total	2018	2019	2020	2021	2022	Over 5 years
Loans and credits	688,910	891,421	150,491	139,811	102,263	103,022	94,422	301,412
Trade and other payables	60,459	60,630	59,259	1,195	176	-	-	-
Total	749,369	952,051	209,750	141,006	102,439	103,022	94,422	301,412

The debt structure as at 31 December 2017 by maturity dates of non-convertible interest-bearing documentary bonds in the amount of RUB 12,264 thousand assumes the possible maturity date at the offer date (2018).

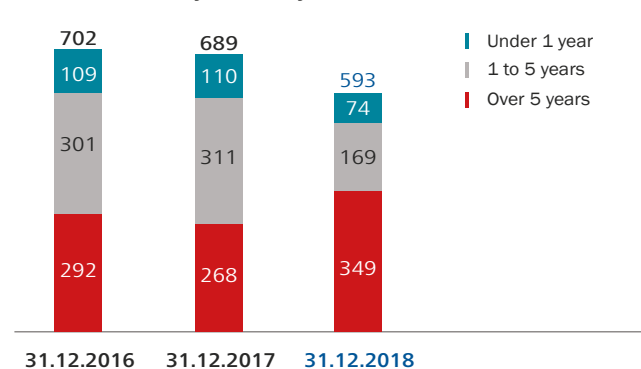
In 2018, Transneft attracted loans from large Russian banks in the amount of RUB 213 billion.

Transneft Group's Debt Structure and Debt Value (Excluding NCSP Group)

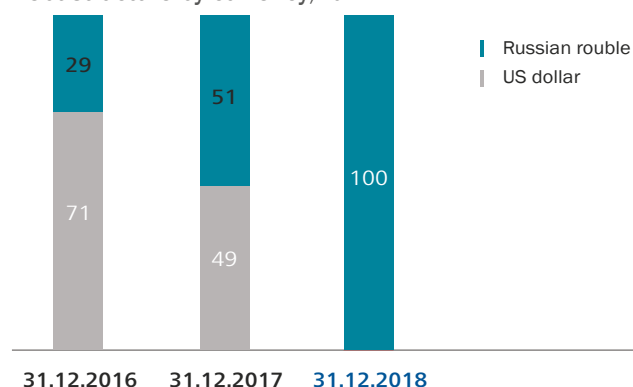
Debt structure by types of borrowings, RUB billion



Debt structure by maturity dates, RUB billion



Debt structure by currency, %



¹ Including interest payments calculated at the rates valid as at 31 December 2018 and 31 December 2017 respectively. The debt denominated in foreign currency is calculated at the exchange rate of the Bank of Russia as of 31 December 2018 and 31 December 2017 respectively