

1.2. CEO Statement

Dear shareholders!

NCSP Group's cargo turnover equaled to 140.2 million tonnes in 2018. Crude oil handling decreased by 11.4% due to the redistribution of oil export volumes from the West to the East, but the Group increased handling of grain by 14.3% and oil products by 9.7%. Ferrous metals and pig iron turnover grew by 13% on the back of an increase in exports to Europe and Southeast Asia, and transshipment of other cargo surged by 109.6%.

The Group's market share amounted to 17% of cargo turnover at all Russian seaports in 2018. The Group's terminals handled 80 types of cargo for more than 300 customers. Our unique geographical presence made it possible to utilize all key northwestern and southern routes for Russian foreign trade.

The Group maintained its leading position in key segments of the Russian stevedoring services market, handling 26% of all crude oil from transshipment's volume in sea ports of the Russian Federation, 23% of oil products, 44% of ferrous metals and pig iron, 36% of ore and iron ore concentrate, 28% of nonferrous metals and 23% of grain.

The inputs of each one of our subsidiaries are important to the Group's success.

PJSC NCSP handled 78.0 million tonnes of cargo in 2018 and maintained its position as the leading stevedoring company in Russia. The company made a substantial contribution to cargo turnover at the Port of Novorossiysk, Russia's largest seaport with total transshipments of 154.9 million tonnes.

PJSC NCSP's cargo area served more than 1,500 vessels in 2018, including 165 container ships, handling more than 18.8 million tonnes of cargo. At the Berth 3, 12.5 million tons of grain were handled.

In order to replace the retired cranes and improve the technical characteristics PJSC NCSP put into operation seven gantry cranes with capacity of 40 tonnes and 63 tonnes, and added bucket loaders, forklifts and all-purpose full revolving loaders with capacity of 2.5 tonnes and 5 tonnes to its port equipment at amount of 24 units in 2018. It also carried out repairs and overhauls on 3 gantry cranes.

The Sheskharis Oil Terminal served 657 vessels and handled 46.8 million tonnes of PJSC NCSP's liquid cargo.

The Mooring 2 at Sheskharis Oil Terminal was reopened after an overhaul. 88 tankers were served there last year, including the first large shipment of gasoline in Novorossiysk port, made by PJSC NCSP which amounted to 58,000 tonnes.

Berths at Quay 5 began to load oil products from river-sea vessels.

IPP has also carried out a project to set up transshipment of vegetable oil and forecasts to handle 0.6 million-0.7 million tonnes in 2019. If market demand grows, the transshipments of this type of cargo may increase to 1 million-1.5 million tonnes as early as in 2020, with potential for further expansion. Technological re-equipment of Berth 4 started in 2018 that will increase the list of transshipped oil products through the terminal of LLC NMT.

Last year PTP transshipped its billionth tonne of liquid hydrocarbons for export and 100 millionth tonne of diesel fuel. For the first time in Russia, the new generation tanker Gagarin Prospect, which runs on liquefied natural gas, was loaded with oil at the Primorsk port. Mooring 4 loaded its first 100,000 tonnes of diesel fuel onto the tanker Viktor Bakaev.

The Mooring 1 in Primorsk, which was damaged in November 2016, loaded its first vessel following restoration work in December 2018.

One of the oldest enterprises in the city, Novorossiysk Ship Repair Yard (NSRZ) celebrated its 100th birthday in 2018 and resumed repairing ships by decision of the Board of Directors. The shipyard completed the first phase of the restoration of Floating Dock Bldg. 190 in 2018, recruited a team of technicians and repaired 13 vessels. NSRZ is currently the only shipyard in the Azov-Black Sea basin that can repair commercial vessels and Russian Navy ships that are up to 300 meters length.

NLE signed a three-year contract with the special division of a state company Rosatom in 2018 to handle a new type of cargo: 50-meter wind turbine blades for construction of wind farms in Adygeya and Krasnodar regions.

Baltic Stevedoring Company set an all-time record for the more than 15 years it has been in operation, handling 198,900 TEU of containers in the year. NCSP Fleet maintained its leading position in port services in the Azov-Black Sea basin, providing bunkering and mooring services, supplying vessels with fuel, oil and water, as well as providing firefighting and environmental management services.

SFP, which operates at Baltic basin carried out the first mooring operations at LNG terminals in the Port of Kaliningrad in 2018 with its tugboat Ryurik.

According to International Financial Reporting Standards (IFRS) NCSP Group increased consolidated revenue by 5.7% to \$951.3 million in 2018 by improving the efficiency of its stevedoring business. The Group's EBITDA rose by 2.4% to \$669.4 million, while net debt decreased by 21.5% or \$230.7 million.

The net debt/EBITDA ratio dropped to 1.26 at the end of 2018 from 1.64 a year earlier. The Group's net profit dropped to \$268.1 million in 2018 due to negative exchange rate differences mainly.

Looking back on the year, it is worth mentioning our work on the Group's draft Development Strategy, which we plan to submit for consideration to the boards of directors of PJSC Transneft and PJSC NCSP at the nearest future. This document analyses scenarios for the Group's development, sets out strategic priorities and approaches, and articulates measures to improve the corporate governance model.

I am confident that putting the Group's Development Strategy into action with assistance from PJSC Transneft will enable us to achieve a new level of business performance.

Respectfully yours,

Sergey Kireev

CEO, PJSC NCSP