

PRODUCTION AND MANUFACTURING EXPENSES

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	2015	2016	Δ, %
UPSTREAM EXPENSES	98,095	106,490	8.6
Consolidated subsidiaries inside Russia	72,854	80,392	10.3
including			
Brownfields	61,225	65,960	7.7
<i>RUB per toe</i>	1,582	1,692	6.9
<i>USD¹ per boe</i>	3.54	3.44	(2.8)
Greenfields	11,629	14,432	24.1
Consolidated subsidiaries outside Russia (including PSA ²)	9,426	9,655	2.4
Joint operations	15,815	16,443	4
<i>RUB per toe</i>	1,787	1,892	5.9
<i>USD¹ per boe</i>	4	3.85	(3.7)
DOWNSTREAM EXPENSES	53,549	53,132	(0.8)
Refining expenses at own refineries	30,724	30,619	(0.3)
<i>RUB per tonne</i>	882	893	1.2
<i>USD¹ per bbl</i>	1.97	1.82	(7.9)
Refining expenses at refineries of joint ventures ³	14,648	12,453	(15)
<i>RUB per tonne</i>	1,778	1,639	(7.8)
<i>USD¹ per bbl</i>	3.98	3.33	(16.2)
Lubricants manufacturing expenses	8,177	10,060	23
TRANSPORTATION EXPENSES TO REFINERIES	27,541	29,561	7.3
OTHER OPERATING EXPENSES	35,082	12,679	(63.9)
TOTAL	214,267	201,862	(5.8)

¹ Translated to USD at the average exchange rate for the period.

² PSA refers to production sharing agreement.

³ Refining expenses of joint ventures is based on processing agreement.

Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor costs, fuel and electricity costs, enhanced oil recovery activities and other similar costs at our upstream subsidiaries.

Upstream expenses at consolidated subsidiaries in Russia increased by 10.3% YOY due to increased crude production at greenfields and increased workover operations to intensify production.

Upstream expenses per toe at consolidated subsidiaries at brownfields increased by 6.9% YOY due to:

- > Enhanced oil recovery activities, including the partial substitution of new well drilling by more effective workover operations;
- > Accelerated transition to the electric submersible pump (ESP) rental program;
- > Expanded activities under the HSE program
- > Higher natural monopoly tariffs and inflationary pressures;
- > Management actions to offset expenses increase.

Upstream expenses at consolidated subsidiaries outside Russia increased by 2.4% YOY due to increased production in Iraq (Badra project).

Upstream expenses at joint operations increased by 4.0% YOY mainly due to:

- > an increase in SPD expenses as a result of ASP project development⁴, an increase in average well stock, the transition to the electric submersible pump (ESP) rental program, increased expenses for repair;
- > an increase in Tomskneft expenses as a result of higher tariffs, increased HSE program activities, increased well workover operations to intensify production.

Refining expenses at the refineries of consolidated subsidiaries include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labor and electricity costs, and other similar costs at the Group's refineries.

Refining expenses per tonne at own refineries increased by 1.2% YOY primarily due to higher tariffs of natural monopolies. Tariffs growth was partially offset by:

- > Optimized consumption of fuel (fuel oil consumption instead of natural gas at Omsk refinery);
- > Optimized use of additives and components in diesel production.

Refining expenses per tonne at refineries of joint ventures declined by 7.8% YOY due to a decline in processing costs at YANOS refinery in accordance with legislation on transfer pricing and market conditions.

Transportation expenses to refineries increased by 7.3% YOY mainly due to a 5.8% increase in oil transportation tariffs.

Other operating expenses decreased by 63.9% YOY mainly due to transfer of operator function to Messoyakha.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include general business expenses, wages, salaries (except wages and salaries at production subsidiaries and own refineries), insurance, legal fees, consulting and audit services, and other expenses.

Selling, general and administrative expenses increased by 8.8% YOY, driven by:

- > Higher expenses at foreign subsidiaries due to rouble depreciation
- > Business growth, Group expansion and marketing campaigns.

TRANSPORTATION EXPENSES

Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, rail, shipping, handling, and other transportation costs.

Transportation expenses remained unchanged YOY. Crude oil transportation expenses increased due to higher crude sales volumes. Petroleum product transportation expenses decreased due to a reduction of petroleum product sales volumes and logistics chain optimization.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization expenses include depreciation of oil and gas properties, refining and other assets and impairment provision.

Depreciation, depletion and amortization expenses increase by 13.8% YOY in line with an increase in depreciable assets driven by implementation of the investment program and increased production.

⁴ Construction was completed on a plant that will mix the three-component alkaline-surfactant-polymer blend at the Salym group of fields.

TAXES OTHER THAN INCOME TAX (RUB mn)

	2015	2016	Δ, %
Mineral extraction taxes	256,477	237,300	(7.5)
Excise	68,358	112,102	64
Social security contributions	15,599	18,530	18.8
Other taxes	12,711	13,199	3.8
TOTAL TAXES OTHER THAN INCOME TAX	353,145	381,131	7.9

Taxes other than income tax increased by 7.9% YOY. Excise taxes increased by 64.0% due to higher rates and imposition of an excise tax on middle distillates. The increase was partly offset by an 7.5% YOY MET decrease due to a decline in oil prices

SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS

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Companies	2015	2016	Δ, %
Slavneft	9,265	13,916	50.2
SeverEnergiya (Arcticgas)	11,913	14,472	21.5
Nortgaz	3,466	3,009	(13.2)
Other companies	312	2,719	771.5
SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES	24,956	34,116	36.7

The Group's share in profit of SeverEnergiya (Arcticgas) increased by 21.5% YOY as a result of increased hydrocarbons production and reduction of financial expenses.

OTHER INCOME AND EXPENSES

Other expenses in 2016 mainly include inventories and non-current assets disposal and impairment.

OTHER FINANCIAL ITEMS

Foreign exchange gains/losses were mainly due to revaluation of the portion of the Group's debt portfolio that is denominated in foreign currencies.

The Group's share in Slavneft's profit increased YOY mainly due to foreign exchange gains.