

# PRODUCTION AND MANUFACTURING EXPENSES

## PRODUCTION AND MANUFACTURING EXPENSES (RUB MN)

Indicator	2016	2017	Δ, %
<b>UPSTREAM EXPENSES</b>	<b>106,765</b>	<b>111,837</b>	<b>4.8</b>
RUB per toe	1,782	1,767	(0.8)
USD <sup>1</sup> per boe	3.63	4.13	13.8
Consolidated subsidiaries inside Russia including	80,392	85,898	6.8
RUB per toe	1,647	1,653	0.4
USD <sup>1</sup> per boe	3.35	3.87	15.5
Brownfields	65,960	67,923	3.0
RUB per toe	1,692	1,812	7.1
USD <sup>1</sup> per boe	3.44	4.24	23.3
Greenfields	14,432	17,975	24.5
RUB per toe	1,470	1,242	(15.5)
USD <sup>1</sup> per boe	2.99	2.9	(3.0)
Consolidated subsidiaries outside Russia (including PSA) <sup>2</sup>	9,655	8,381	(13.2)
RUB per toe	4,144	3,059	(26.2)
USD <sup>1</sup> per boe	8.43	7.15	(15.2)
Joint operations	16,718	17,558	5.0
RUB per toe	1,924	2,061	7.1
USD <sup>1</sup> per boe	3.92	4.82	23.0
<b>DOWNSTREAM EXPENSES</b>	<b>53,132</b>	<b>55,318</b>	<b>4.1</b>
Refining expenses at own refineries	30,619	31,191	1.9
RUB per tonne	893	966	8.2
USD <sup>1</sup> per bbl	1.82	2.26	24.2
Refining expenses at refineries of joint ventures <sup>3</sup>	12,453	12,259	(1.6)
RUB per tonne	1,639	1,568	(4.3)
USD <sup>1</sup> per bbl	3.33	3.67	10.2
Lubricants manufacturing expenses	10,060	11,868	18.0
<b>TRANSPORTATION EXPENSES TO REFINERIES</b>	<b>29,561</b>	<b>29,265</b>	<b>(1.0)</b>
<b>OTHER OPERATING EXPENSES INCLUDING</b>	<b>12,404</b>	<b>20,110</b>	<b>62.1</b>
<b>TOTAL</b>	<b>201,862</b>	<b>216,530</b>	<b>7.3</b>

Hydrocarbon production expenses include the cost of raw materials and supplies, maintenance and repair of equipment used for the production of hydrocarbons, expenses on payroll, fuel, and lubricants, the cost of enhanced oil recovery measures, and other similar expenses at the Group's production enterprises.

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.

The 0.4% YOY increase in specific operating expenses for hydrocarbon production at subsidiaries in the Russian Federation was due to growth in costs at mature fields, which in turn increased as a result of:

- a reduction in production volumes given the restrictions of OPEC+;
- growth in natural monopoly tariffs;
- an increase in the share of rolling equipment for electric centrifugal pumps (ECPs);
- inflationary pressure on the cost of services and resources;
- an increase in the cost of refining associated petroleum gas (APG).

The 15.2% YOY decrease in specific operating expenses for hydrocarbon production by subsidiaries outside the Russian Federation in U.S. dollars per barrel is the result of increased production in Iraq and cost optimization for the repair of wells at fields in Serbia.

Specific operating expenses for hydrocarbon production at joint operations increased by 7.1% YOY primarily due to:

- a reduction in production given the restrictions of OPEC+;
- growth in natural monopoly tariffs;
- an increase in the share of rolling equipment for ECPs and the cost of its maintenance;
- inflationary pressure on the cost of services and resources.

Oil refining costs at the oil refineries of subsidiaries include the cost of raw materials and supplies, the maintenance and repair of equipment used for processing hydrocarbons, payroll and electricity costs, and other similar expenses at the Group's refining facilities.

Specific operating costs on oil refining at the refineries of subsidiaries increased by 8.2% YOY due to:

- a decrease in production volume due to scheduled repairs;
- an increase in the purchase of MTBE to maintain the level of gasoline production in connection with the repair of 'big ring' facilities at the Moscow Refinery;
- an increase in expenses on natural gas for the refinery's internal needs.

Specific operating costs on oil refining at the refineries of joint ventures decreased by 4.3% YOY due to the optimized consumption of reagents, chemical reagents, and additives.

The 62.1% YOY increase in other operating expenses was primarily due to growth in the provision of services to joint ventures.

## 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.

Commercial, general, and administrative expenses decreased by 2.2% YOY, primarily at foreign subsidiaries as a result of the rouble's appreciation.

## 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 increased by 6.8% YOY mainly due to higher export crude sales volumes.

## 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 8.6% YOY in line with an increase in depreciable assets driven by implementation of the investment program and increased production.

### TAXES OTHER THAN INCOME TAX (RUB MN)

Types of tax	2016	2017	Δ, %
Mineral extraction tax	237,300	329,579	38.9
Excise tax	112,102	128,229	14.4
Social security contributions	18,530	20,433	10.3
Other taxes	13,199	14,028	6.3
<b>TOTAL TAXES OTHER THAN INCOME TAX</b>	<b>381,131</b>	<b>492,269</b>	<b>29.2</b>

Taxes, excluding profit tax, grew by 29.2% YOY. The 38.9% increase in mineral extraction tax expenses resulted from growth in the tax rate under the Tax Code of the Russian Federation, the introduction of an additional mark-up factor as well as an increase in oil production volumes and oil prices. Excise tax expenses increased by 14.4% YOY due to higher rates.

## SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTMENTS

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Companies	2016	2017	Δ, %
Slavneft	13,916	10,347	(25.6)
SeverEnergiya (Arcticgas)	14,472	19,861	37.2
Messoyakha	(947)	9,976	-
Nortgaz	3,009	3,433	14.1
Other companies	3,666	1,887	(48.5)
<b>SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES</b>	<b>34,116</b>	<b>45,504</b>	<b>33.4</b>

Share of Slavneft profit decreased YOY mainly due to a production decline, depreciation growth and decreased income from foreign exchange differences. Share of SeverEnergiya (Arcticgas) profit increased by 37.2% YOY as a result of increased EBITDA and reduction of financial expenses. Share of Messoyakha profit increased YOY as a result of started commercial production in 4Q 2016.

## OTHER INCOME AND EXPENSES

Other expenses decreased by 58.0% YOY. Other expenses in 2017 mainly include impairment provision of advances paid.