

Expenses and other costs

ACQUISITION COST OF OIL, GAS AND PETROLEUM PRODUCTS

The acquisition cost of oil, gas and petroleum products decreased by 19.9% year-on-year due to a reduction in the purchase of petroleum products and lower oil and petroleum product prices.

PRODUCTION AND OPERATING EXPENSES

PRODUCTION AND OPERATING EXPENSES // RUB mn

	2014	2015	Change, %
HYDROCARBON PRODUCTION EXPENSES	83,602	99,378	18.9
Subsidiaries in Russia	63,955	72,854	13.9
including			
– expenses on production at mature fields	57,271	61,225	6.9
RUB/TOE	1,472	1,582	7.5
USD ¹ /BOE	5.22	3.54	(32.2)
– expenses on production at new fields	6,684	11,629	74.0
Subsidiaries outside Russia (including PSAs) ²	4,323	9,426	118.0
Proportionally consolidated companies	15,324	17,098	11.6
RUB/TOE	1,691	1,932	14.2
USD ¹ /BOE	6.01	4.32	(28.0)
REFINING EXPENSES	46,222	53,549	15.9
Expenses on oil refining at the oil refineries of subsidiaries	26,510	30,724	15.9
RUB/t	765	882	15.3
USD ¹ /barrel	2.72	1.97	(27.3)
Expenses on oil refining at the oil refineries of joint ventures	14,145	14,648	3.6
RUB/t	1,602	1,778	11.0
USD ¹ /barrel	5.69	3.98	(30.1)
Expenses on the production of oils and packaged products	5,567	8,177	46.9
TRANSPORTATION EXPENSES TO OIL REFINERIES	26,234	27,541	5.0
OTHER OPERATING EXPENSES	15,653	33,799	115.9
TOTAL	171,711	214,267	24.8

¹ Conversion to USD is based on the average exchange rate for the period.

² PSA – product-sharing agreement.

Hydrocarbon extraction expenses include the cost of raw commodities and materials, the maintenance and repair of hydrocarbon extraction equipment, labour, fuel, electricity, measures to increase oil recovery and other similar expenses on the Group's production enterprises.

The 13.9% year-on-year increase in operating expenses on hydrocarbon extraction at subsidiaries in Russia resulted from the consolidation of the Prirazlomnoye field and an increase in production stimulation measures.

Specific operating expenses for hydrocarbon production at mature fields for subsidiaries increased by 7.5% year-on-year as a result of:

- an increase in production stimulation measures (workover solutions on the base fund) in order to maintain oil production levels;
- growth in liquid extraction due to an increase in the water cut of the manufactured products;
- the continued transition to a rolling sequence of operating the electrical submersible pumping system (savings on the purchase of equipment has led to growth in lease costs);
- growth in the tariffs of natural monopolies and inflationary pressure, which was partially offset by cost optimisation measures.

The start of commercial production in Iraq (Badra project) and Iraqi Kurdistan led to year-on-year growth of 118.0% in operating expenses on hydrocarbon production at subsidiaries outside the Russian Federation.

Expenses on oil refining at the refineries of subsidiaries include the cost of raw commodities and materials, the maintenance and repair of the hydrocarbon extraction equipment, labour, electricity and other similar expenses on the Group's refining enterprises;

Specific operating expenses for oil refining at the refineries of subsidiaries increased by 15.3% year-on-year as a result of growth in:

- the tariffs of natural monopolies;
- the cost of raw commodities and materials due to inflationary pressure;
- costs related to more stringent requirements for the quality of diesel fuel transported via the main oil pipelines;
- the cost of plant repairs at the Omsk Oil Refinery;
- environmental programme costs.

Specific operating expenses for oil refining at the refineries of joint ventures grew by 11.0% as a result of the increased cost of raw commodities and materials due to inflationary pressure;

Transportation expenses grew by 5.0% due to growth in refining volumes at the Moscow Oil Refinery in 2015 and higher oil transportation tariffs;

Other operating expenses grew primarily as a result of an increase in operator services that the Group provided to the Messoyakhaneftgaz joint venture.

COMMERCIAL, GENERAL BUSINESS AND ADMINISTRATIVE EXPENSES

Commercial, general business and administrative expenses include expenses on sales, the Group's retail network, remuneration and wages (except for remuneration and wages at production subsidiaries and the Company's own oil refineries), social benefits, bank services, insurance, legal, consulting and auditor services and other expenses.

Commercial, general business and administrative expenses increased by 16.1% year-on-year as a result of:

- the start of commercial production in Iraq (Badra project) and Iraqi Kurdistan;
- the consolidation of Gazprom Neft Shelf starting from November 2014;
- growth in expenses at foreign subsidiaries as a result of the weakening of the rouble's exchange rate;
- the creation of provisions for the debt of OJSC Transaero Airline;
- growth in the number of filling stations and the expansion of the Company's business.

TRANSPORTATION EXPENSES

Transportation expenses include the cost of delivering oil and petroleum products to the ultimate buyer. Such costs consist of transportation via pipeline, sea freight, railway shipments, loading and unloading work and other transportation costs.

Transportation expenses increased by 14.8% due to growth in oil production, the tariffs of natural monopolies and growth in the USD exchange rate versus the RUB, which impacts transportation expenses for the export of oil and petroleum products.

DEPRECIATION, DEPLETION AND AMORTISATION

Depreciation, depletion and amortisation include the depletion of oil and gas assets and the amortisation of other fixed assets.

The 14.6% year-on-year growth in depreciation, depletion and amortisation is related to an increase in the value of amortised assets due to the implementation of the Group's capital investments programme.

TAXES, NOT INCLUDING PROFIT TAX // RUB mn

	2014	2015	Change, %
Mineral extraction tax	236,027	256,477	8.7
Excise tax	84,184	68,358	(18.8)
Property tax	9,477	9,529	0.5
Social insurance contributions	11,886	15,599	31.2
Other taxes	2,002	3,182	58.9
TOTAL TAXES EXCEPT PROFIT TAX	343,576	353,145	2.8

The 2.8% year-on-year growth in taxes, except for profit tax, resulted from a 8.7% increase in the mineral extraction tax due to growth in the base mineral extraction tax rate as a result of the tax manoeuvre as well as growth in oil production by subsidiary and proportionately consolidated enterprises, which was partially offset by an 18.8% reduction in the excise tax.

SHARE OF THE PROFIT OF ASSOCIATED AND JOINT VENTURE COMPANIES // RUB mn

	2014	2015	Change, %
Slavneft	(5,072)	9,265	-
SeverEnergiya (Arcticgas)	(1,809)	11,913	-
Northgas	-	3,466	-
Other companies	575	312	(45.7)
SHARE OF THE PROFIT / (LOSS) OF ASSOCIATED AND JOINT VENTURE COMPANIES	(6,306)	24,956	-

The Group's share of Slavneft's profit increased year-on-year primarily due to growth in oil prices on the domestic market, the rising cost of processing services and a decrease in foreign exchange losses.

The Group's increased share in the profit of SeverEnergiya (Arcticgas) in 2015 is attributable to the start of operations at the main fields of SeverEnergiya (Arcticgas) and an increase in the ownership stake.

OTHER INCOME AND EXPENSES

Other income and expenses skyrocketed by 261.6% due to the creation of provisions for the impairment of assets.

OTHER FINANCIAL ARTICLES

The revaluation of part of the Group's loan portfolio denominated in foreign currency made up the bulk of the profit / (loss) from the exchange rate difference.