

ОАО АК TRANSNEFT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF THE GROUP'S FINANCIAL POSITION  
AND RESULTS OF ITS OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2015





**OAO AK TRANSNEFT**  
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**(in millions of Russian roubles, if not stated otherwise)**

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The following analysis provides an overview of the financial position of OAO AK Transneft and its subsidiaries (hereinafter – the “Group”) as at 31 December 2015 and results of operations for the year ended 31 December 2015, compared to the year ended 31 December 2014, as well as other important factors which could affect the future results of the Group. This analysis should be read in conjunction with the consolidated financial statements prepared in accordance with International financial reporting standards (hereinafter – “IFRS”) for the year ended 31 December 2015.

**Key financial and operating results**

	Year ended 31 December 2015	Year ended 31 December 2014	Change, %
Revenue	815,652	774,380	5.3
Net profit	143,427	59,500	2.4 times
EBITDA*	368,200	348,389	5.7
EBITDA margin, %*	54.8	57.5	x
Oil delivered to consignees, mln. tons	481.4	477.5	0.8
including:			
Russian oil refineries, mln. tons	250.2	262.1	(4.5)
transshipment into the CPC-R system, mln. tons	1.6	1.7	(5.9)
exports to neighboring countries, mln. tons	22.0	21.5	2.3
exports to other countries, mln. tons	207.6	192.3	8.0
Oil products delivered to consignees, mln. tons	32.2	31.2	3.2
including:			
Russia's domestic market, mln. tons	8.7	9.4	(7.4)
exports to the Customs Union member countries, mln.tons	0.70	0.25	2.8 times
exports to other countries, mln. tons	22.8	21.5	6.0

\* Less crude oil sale and purchase operations under contracts with OAO NK Rosneft and the China National United Oil Corporation.

The Group's profit was mainly affected by the following non-production factors:

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
<b>Profit for the period</b>	<b>143,427</b>	<b>59,500</b>	<b>83,927</b>	<b>2.4 times</b>
Net loss from exchange differences	50,867	42,169	8,698	20.6
Net interest expense	9,675	17,436	(7,761)	(44.5)
Net loss from operations with financial instruments	3,848	75,289	(71,441)	(94.9)
Share of loss from associates and jointly-controlled entities	4,119	10,786	(6,667)	(61.8)
Gain from acquisition of subsidiaries and associates	-	(8,796)	8,796	x
<b>Adjusted net profit for the period</b>	<b>211,936</b>	<b>196,384</b>	<b>15,552</b>	<b>7.9</b>



## 1. General information and overview of the Group's activities

The oil transporting joint stock company Transneft was established and incorporated by the Russian Government Resolution No. 810 dated 14 August 1993 under Presidential Decree No. 1403 dated 17 November 1992.

According to its Charter, OAO AK Transneft was established for the purposes of:

- promoting the technical and socio-economic interests of its shareholders, while unconditionally ensuring the Russian Federation's interests in the area of transporting oil, gas, and the products of oil & gas refining via trunk pipelines;
- generating profit.

The main areas of OAO AK Transneft and its subsidiaries' operations are as follows:

- providing services in the area of transporting oil and oil products via trunk pipelines in the Russian Federation and outside of its territory;
- carrying out prevention, diagnostic, and emergency & recovery work on trunk pipelines;
- coordinating activities aimed at comprehensive development of the trunk pipeline network and other pipeline transport facilities;
- interacting with pipeline transport companies in other countries on matters of oil and oil products transportation in accordance with intergovernmental agreements;
- participating in scientific, technical, and innovative development of the pipeline transport, and implementing new equipment, technology, and materials;
- raising investment capital for the development of the production base, as well as the expansion and reconstruction of facilities of the Transneft system's entities;
- organizing environmental work in areas where pipeline transport facilities are located.

The Group also provides services of oil storage, oil compounding, crude oil sales.

OAO AK Transneft is also responsible for oil transportation planning and management on foreign territory, for exercising control of oil storage at and delivery to foreign oil receipt-and-delivery facilities, and for data collection and summarizing.

The Group as at 31 December 2015 possesses an extensive network of trunk oil pipelines with a total length of approximately 52.3 thousand km and trunk oil products pipelines with a total length of some 18.9 thousand km.

During the year ended 31 December 2015 the Group transported more than 87% of oil produced in Russia and more than 25% of oil products produced in Russia, as well as significant volumes of hydrocarbons and oil products from CIS countries.

OAO AK Transneft's key competitive advantages include:

- a monopoly position in the oil pipeline transport market;
- a low ratio of operating costs to total oil transportation volume compared to railway or water transport;
- average level of oil transportation tariffs, compared to those in the CIS, Europe, USA and Canada.

Information about some of them as per 100 tons-kilometers is presented below:

- average tariff through oil trunk pipelines of OAO AK Transneft – USD 0.77/100 tkm;
- average tariff of AO KazTransOil (Kazakhstan) – USD 1.38/100 tkm (USD 1.71/100 tkm for export, USD 1.04/100 tkm – domestic);
- tariff of TAL Pipeline for transportation of oil through Trieste – Ingolstadt direction (Italy, Austria, Germany) – USD 0.91/100 tkm;
- tariff of Transpetrol (Slovakia) – USD 1.69/100 tkm;
- tariff of MERO (Czech) – USD 2.87/100 tkm;
- average tariff of AO Ukrtransnafta for transportation of oil in the direction of Hungary, Slovakia - USD 1.35/100 tkm;
- average tariff of OAO Gomeltransneft Druzhba – USD 0.50/100 tkm;
- average tariff of OAO Polotsktransneft Druzhba – USD 0.43/100 tkm;
- average tariff of Transnafta (Serbia) – USD 2.36/100 tkm;
- average tariff of JANAF (Croatia) – USD 3.15/100 tkm;
- tariff through Patoka – Catlettsburg pathway (Marathon Pipe Line LLC, USA) – USD 1.56/100 tkm;
- tariff through Wood River – Patoka pathway (Marathon Pipe Line LLC, USA) – USD 1.14/100 tkm;
- tariff through Sumas – Anacontes pathway (KinderMorgan, USA/Canada) – USD 2.90/100 tkm;
- tariff through Flanagan – Cushing pathway (Enbridge, USA/Canada) – USD 2.07/100 tkm;
- tariff through Sherwood – Clearbook pathway (Enbridge, USA/Canada) – USD 2.39/100 tkm.



## **1. General information and overview of the Group's activities (continued)**

### **1.1. Key investment projects of the Group**

OAO AK Transneft pays considerable attention to comprehensive development of its trunk pipeline network, promotion of scientific and technical progress, and implementation of new equipment and technology. OAO AK Transneft's capital investment policy is aimed at achieving system-wide targets for production base development, as well as expansion, reconstruction, and technical upgrades of pipeline transport facilities.

Fulfillment by OAO AK Transneft of investment projects provides development of the system of trunk pipelines that allows to redistribute operationally export flows to both the Western and Eastern directions depending on the market situation.

The largest investment projects for construction and expansion of pipeline systems under realization are:

- Construction of Zapolyarie–Purpe oil trunk pipeline;
- Construction of Kuyumba – Tayshet oil trunk pipeline;
- Expansion of the ESPO pipeline system in the GNPS Taishet – NPS Skovorodino section to 80 mln tons annually;
- Expansion of the ESPO pipeline system in the NPS Skovorodino – SMNP Kozmino to 50 mln. tons annually;
- Oil pipeline TS VSTO – Komsomolskiy NPZ;
- Project “Sever”. Development of the trunk pipeline system for increase of deliveries of oil products to Primorsk Sea Port to 15 mln tons;
- Project “Sever”. Development of the trunk pipeline system for increase of deliveries of oil products to Primorsk Sea Port to 25 mln tons;
- Reconstruction of the trunk pipeline system for increase of transportation volumes of oil products to the Moscow area;
- Project “Yug”, 1<sup>st</sup> stage, reconstruction of the trunk pipelines Tikhoretsk-Novorossiysk;
- Project “Yug”, 2<sup>nd</sup> stage, construction of MNPP Volgograd-Tikhoretsk;
- Project “Yug”, 3<sup>rd</sup> stage.

### **1.2. Environmental policy**

The Group's management is fully aware of potential danger of a possible negative impact of technologically complex production activities on the environment. The main areas of the Group's environmental activities have been set out in OAO AK Transneft's ecological policy, the principles of which underlie OAO AK Transneft's ecological policy for 2010–2017, which spells out specific environmental measures.

The Group's management is fully informed of the conditions of all fixed assets and the pace of their wear and tear, and uses these data to plan reconstruction or building of new facilities. OAO AK Transneft's ecological strategy contains specific seven-year programs for each of its subsidiaries.

The amount of funding of the ecological safety program, building and reconstruction of environmental facilities, and acquisition of environmental protection equipment enable OAO AK Transneft to meet the strictest Russian and international environmental standards.

As at today all subsidiaries of OAO AK Transneft have developed, introduced and certified the environmental management System. All subsidiaries of the Company has received the international certificate DQS and IQNet conformity to the standard ISO 14001.



## 2. Tariffs and key macroeconomic factors affecting the Group's performance

### 2.1. Oil and oil products transportation tariffs

OAO AK Transneft has been providing tariff-based oil transportation services to consignors since 1992.

Tariff rates are currently calculated in accordance with the Rules of state regulation of fees or their maximum limits for services of natural monopolies with respect to transportation of oil and oil products via trunk pipelines, approved by a Decree of the Government of the Russian Federation of 29.12.2007 No. 980, as well as in accordance with the Regulations on setting fees for services of transportation of oil via trunk pipelines, approved by an Order of the Federal Tariff Service of Russia of 17.08.2005 No. 380-e/2 and the Methodology of setting tariffs on oil products transportation via trunk pipelines of the Russian Federation approved by Federal Energy Commission of Russia of 16.10.2002 No. 70-e/5.

During the year ended 31 December 2015 and year ended 31 December 2014 OAO AK Transneft was performing its core operations:

- a) of transporting oil, by charging fees for its services in accordance with oil transportation tariff rates approved by orders of the state regulatory body for natural monopolies – the Federal Tariff Service of Russia (FTS of Russia), Federal Antimonopoly Service (FAS of Russia)<sup>1</sup>, as well as by intergovernmental agreements:
  - Order of the FTS of Russia of 27.09.2012 No. 226-e/3 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil via the trunk pipeline system;
  - Order of the FTS of Russia of 22.12.2009 No. 455-t/1 Concerning the setting of fees for sea port services provided to OOO Specialized Oil Loading Sea Port Kozmino;
  - Order of the FTS of Russia of 24.11.2009 No. 324-e/4 Concerning the setting of a fee rate for oil loading services at the PNN Skovorodino of OAO AK Transneft's trunk pipeline system;
  - Order of the FTS of Russia of 11.12.2012 No. 369-e/27 Concerning the setting of a fee for the services of OAO AK Transneft for transportation of oil along the Makhachkala–NB Sheskhari route and concerning amendments to the order of FTS of Russia of 27.09.2012 №226-e/3»;
  - Order of the FTS of Russia of 03.12.2013 No. 225-e/6 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil via the Purpe – Samotlor trunk pipeline system rendered to OAO NK Rosneft;
  - Order of the FTS of Russia of 26.11.2013 No. 219-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil via the Tikhoretsk – Tuapse-2 trunk pipeline section for OAO NK Rosneft;
  - Order of the FTS of Russia of 03.12.2013 No. 224-e/5 Concerning the setting of fees for the services of ZAO Morskoy portoviy servis for filling of railway wagons with oil in the territory of Grushevaya industrial site of the transshipment complex Sheskhari;
  - Order of the FTS of Russia of 08.04.2014 No. 74-e/1 Concerning the setting of fee for the service of OAO AK Transneft for transportation of oil via the Border of the Republic of Azerbaijan/the Russian Federation (Shirvanovka) – PK Sheskhari route;
  - Order of the FTS of Russia of 31.10.2014 No. 240-e/2 Concerning the setting of fee for the service of OAO AK Transneft for transportation of oil via the Ephimoffka – OOO LUKOIL-Volgogradneftepererabotka route rendering for OAO LUKOIL;
  - Order of the FTS of Russia of 27.11.2014 No. 275-e/1 Concerning the setting of fee for the service of OAO AK Transneft for transportation of oil via the trunk pipeline system;
  - Order of the FTS of Russia of 10.02.2015 No. 18-e/1 Concerning the setting of fee for the service of OAO AK Transneft for transportation of oil via Tikhoretsk – Tuapse-2 rendering for OAO NK Rosneft;
  - Order of the FTS of Russia of 07.04.2015 №71-e/1 Concerning the setting of fee for the service of OAO AK Transneft for transportation of oil via Frontier of Azerbaijan republic/ Russian Federation (Shirvanovka) – PK Sheskhari route and concerning amendments to the order of FTS of Russia of 27.11.2014 №275-e/1»;
  - Order of the FAS of Russia of 07.09.2015 No. 814/15 Concerning the setting of tariff for the service of AO Transneft-Terminal for filling oil from trunk pipelines of OAO AK Transneft into railway tank cars on the territory of Grushevaya industrial site of the transshipment complex Sheskhari;
  - Order of the FTS of Russia of 15.10.2015 No. 964/15 Concerning the setting of tariff for the service of OAO AK Transneft for delivery of oil to AO NKK-Khabarovskiy NPZ;

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<sup>1</sup> the FAS of Russia is a successor of the FTS of Russia. Degree of the President of the Russian Federation of 21.07.2015 No.373 Concerning different issues on state administration and control in antimonopoly and tariff regulation.



## 2.1. Oil and oil products transportation tariffs (continued)

- The agreement on transportation of Azerbaijan oil through the territory of the Russian Federation of 16.02.1996, Baku;
  - Agreement dated 14.02.2014 No. 0014502 for provision of oil transportation services by transiting through the territory of the Russian Federation during 2014 between OAO AK Transneft and GNKAR;
  - Agreement dated 05.12.2014 No. 0015502 for provision of oil transportation services by transiting through the territory of the Russian Federation during 2015 between OAO AK Transneft and GNKAR;
  - Amendment No.1 to the agreement dated 05.12.2014 No. 0015502 for provision of oil transportation services by transiting through the territory of the Russian Federation during 2015 between OAO AK Transneft and GNKAR.
- b) of transporting oil products, by charging fees for its services in accordance with fee rates approved by OAO AK Transneft in accordance with orders of the FTS of Russia, the FAS of Russia:
- Order of the FTS of Russia of 23.09.2010 No. 234-e/2 Concerning fee rates for the services of OAO Transneft for transportation of oil products from the trunk pipeline system in the Primorsk Commercial Seaport;
  - Order of the FTS of Russia of 24.12.2010 No. 471-e/1 Concerning the setting of fees for the services of OAO AK Transneft and its affiliated entities for transportation of oil products via the trunk pipeline system (repealed with issuance of the Order of the FTS of Russia No. 224-e/2 dated 07.10.2014 put into force from the date of put into force of Order of the FTS of Russia No.223-e/1 of 07.10.2014);
  - Order of the FTS of Russia of 15.02.2011 No. 23-e/3 Concerning the setting of fees for the services of OAO AK Transneft and its affiliated entities for transportation of oil products via the trunk pipeline system, and the inclusion of amendments to the Order of the FTS of Russia of 24.12.2010 No. 471-e/1;
  - Order of the FTS of Russia of 05.06.2012 No. 138-e/1 Concerning the inclusion of amendments to the Order of the FTS of Russia of 24.12.2010 No. 471-e/1 Concerning the setting of fees for the services of OAO AK Transneft and its affiliated entities for transportation of oil products via the trunk pipeline system;
  - Order of the FTS of Russia of 03.07.2012 No. 165-e/3 Concerning the inclusion of amendments to the Order of the FTS of Russia of 24.12.2010 No. 471-e/1 Concerning the setting of fees for the services of OAO AK Transneft and its affiliated entities for transportation of oil products via the trunk pipeline system;
  - Order of the FTS of Russia of 30.04.2013 No. 90-e/2 Concerning the setting of maximum tariff rates for services of OAO AK Transneft for execution of orders and scheduling deliveries of oil products which are in transit to LPDS Sokur and are further exported outside the customs territory of the Russian Federation and the states - members of the Customs Union;
  - Order of the FTS of Russia of 07.08.2013 No. 155-e/7 Concerning the setting of tariff for services rendered by OAO AK Transneft for transportation of oil products through the route "LUKOIL – Nizhegorodnefteorgsynthez" – MP "Primorsk" for OAO NK LUKOIL;
  - Order of the FTS of Russia of 30.05.2014 No. 132-e/2 Concerning the setting of tariff for services rendered by OAO AK Transneft for transportation of oil products through the route "LUKOIL – Nizhegorodnefteorgsynthez" – MP "Primorsk" for OAO NK LUKOIL;
  - Order of the FTS of Russia of 02.09.2014 No. 211-e/1 Concerning the setting of tariff for the services rendered by OAO AK Transneft for transportation of oil products through OOO KINEF – MP "Primorsk" route for OAO Surgutneftegaz;
  - Order of the FTS of Russia No.223-e/1 of 07.10.2014 Concerning the setting of tariff for the services of OAO AK Transneft and its affiliated parties for transportation of oil products by trunk pipelines;
  - Order of the FTS of Russia No. 224-e/2 of 07.10.2014 Concerning the cancellation of orders of the FTS No. 471-e/1 and No. 234-e/2;
  - Order of the FTS of Russia No.307-e/1 of 24.12.2014 Concerning the setting of maximum rates of tariff for the services of OAO AK Transneft and its affiliated entities for loading of oil products from trunk pipeline system and making amendments to the Order of the FTS of Russia No.223-e/1 of 07.10.2014;
  - Order of the FTS of Russia No.19-e/2 of 10.02.2015 Concerning the setting of maximum rate of tariff for the services of OAO AK Transneft and making amendments to appendix 1 of the Order of the FTS of Russia No.223-e/1 of 07.10.2014;
  - Order of the FTS of Russia of 11.06.2015 No. 234-e/4 Concerning the setting of tariff for the services rendered by OAO AK Transneft for transportation of oil products through OOO KINEF – MP "Primorsk" route for OAO Surgutneftegaz (acting from 17.07.2015);
  - Order of the FAS of Russia of 15.10.2015 No. 965/15 Concerning the setting limit for maximum tariff rates for the services of OAO AK Transneft for filling of oil products from trunk pipeline network.



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## 2.2. Oil production and refining volumes

The level of oil production and refining volumes in the Russian Federation determine the level of transportation turnover via the Group's oil and oil products pipelines and therefore the Group's revenue from the relevant services.

	Year ended 31 December 2015	Year ended 31 December 2014	Change, %
Oil production volume in the Russian Federation, mln tons	533.6	526.3	1.4
Oil refining volume in the Russian Federation, mln tons	124.9	125.8	(0.7)

Oil production volume increased for the year ended 31 December 2015 compared to the similar period of the previous year by 7.3 mln tons or by 1.4%.

Light oil refining during the year ended 31 December 2015 in the Russian Federation declined insignificantly (by 0.9 mln tons or by 0.7%) compared to the relative period of the previous year.

## 2.3. The rouble's exchange rate against foreign currencies

Services for transportation of oil through trunk oil pipelines which are situated in the territory of the Russian Federation are paid for in Russian roubles except for the transit of crude oil from Azerbaijan which was paid for in US Dollars till 13 February 2014.

Oil products transportation services are paid for in the following main currencies:

- in the Russian Federation: Russian roubles;
- in the Republic of Belarus and Ukraine: US dollars;
- in the Republic of Kazakhstan: the rouble equivalent calculated at the exchange rate of the Kazakhstan tenge established by the Central Bank of the Russian Federation on the payment date.

Fluctuations of US Dollar and Kazakhstan tenge do not significantly affect the Group's operating results as the portion of revenue which is paid for in US Dollars or rouble equivalent, calculated at the Kazakhstan tenge exchange rate, established by Central Bank of Russian Federation at the date of payment, in the total revenue is relatively small.

The Group has a significant portion of US dollar-denominated loans. Increase of US dollar to Russian rouble exchange rate may result in additional expenses in regard to servicing and settlement of liabilities nominated in foreign currency (ref. to 3.4).

	Year ended 31 December 2015	Year ended 31 December 2014	Change, %
Change in the rouble's exchange rate against the US dollar, %	29.6	71.9	x
Average exchange rate for the period (roubles per US dollar)	60.9579	38.4217	58.7
Exchange rate at the end of the period (roubles per US dollar)	72.8827	56.2584	29.5

## 2.4. Inflation rates

Russia's inflation rates as per Federal state statistics service during the period in question were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Change, pp
Rouble inflation (CPI), %	12.9	11.4	1.5

## 2.5. Taxation

Most of the Group's companies are incorporated in the Russian Federation and subject to taxation under the Tax Code of the Russian Federation.

The amount of taxes accrued by the Group was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Change, %
Current income tax	42,855	27,122	58.0
Property tax	16,659	11,721	42.1
Other taxes and levies	921	914	0.8





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## 2.5. Taxation (continued)

### Income tax

The federal income tax rate is 2.0%, while the regional rates range from 13.5% to 18.0%. The Group's international operations are taxable at rates established by the laws of countries where they take place.

The increase of income tax expense as for the year ended 31 December 2015 as compared to the year ended 31 December 2014 was mainly caused by increase of income tax from consolidated taxpayers' group because of changes in the structure of financial assets denominated in the US Dollars with exchange differences recognized for taxation on the basis of accrual or settlement, as well as from the relatively less weakening of RUB/USD exchange rate during the year ended 31 December 2015 compared to the year ended 31 December 2014 (refer to para 2.3).

### Property tax

The amount of property tax increased by RUB 4,938 or by 42.1%. The increase was a result of putting into use of fixed assets, revaluation held at 31.12.2014 as well as increase in a tax rate applied to trunk pipelines as well as constructions which are integral technological part of these pipelines. These properties are taxed at the rates set locally by regions of the Russian Federation and can not be more than 0.7% during 2014, 1.0% during 2015.

### Other taxes and levies

Other taxes mainly include the transport tax, the land tax and other taxes and levies.

## 3. Analysis of the Group's performance

The table below presents consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 and the relative period of 2014.

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
<b>Revenue</b>	<b>815,652</b>	<b>774,380</b>	<b>41,272</b>	<b>5.3</b>
revenue from oil transportation services	558,775	499,838	58,937	11.8
revenue from oil products transportation services	57,309	48,186	9,123	18.9
revenue from crude oil sales	171,512	193,147	(21,635)	(11.2)
other revenue	28,056	33,209	(5,153)	(15.5)
Operating expenses	(581,590)	(541,053)	(40,537)	7.5
<b>Operating profit</b>	<b>234,062</b>	<b>233,327</b>	<b>735</b>	<b>0.3</b>
<b>Net financial costs</b>	<b>(64,390)</b>	<b>(134,894)</b>	<b>70,504</b>	<b>(52.3)</b>
Changes in the Group's structure	-	8,796	(8,796)	x
Share of loss from associates and jointly controlled entities	(4,419)	(10,786)	6,667	(61.8)
<b>Profit before income tax</b>	<b>165,553</b>	<b>96,443</b>	<b>69,110</b>	<b>71.7</b>
Current income tax	(43,149)	(27,164)	(15,985)	58.8
Deferred income tax	21,023	(9,779)	30,802	x
<b>Income tax expense</b>	<b>(22,126)</b>	<b>(36,943)</b>	<b>14,817</b>	<b>(40.1)</b>
<b>Profit for the reporting year</b>	<b>143,427</b>	<b>59,500</b>	<b>83,927</b>	<b>2.4 times</b>
Other comprehensive (loss)/ gain, net of income tax	(5,488)	1,931	(7,419)	x
<b>Total comprehensive income, net of income tax</b>	<b>137,939</b>	<b>61,431</b>	<b>76,508</b>	<b>2.2 times</b>



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### 3.1. Revenue

Revenue by type of operations	Year ended 31 December 2015	Share of total, %	Year ended 31 December 2014	Share of total, %	Absolute change	Change, %
<b>Revenue from crude oil transportation services</b>	<b>558,775</b>	<b>68.5</b>	<b>499,838</b>	<b>64.5</b>	<b>58,937</b>	<b>11.8</b>
exports, except the CIS	309,788	38.0	261,254	33.7	48,534	18.6
exports in the CIS	14,627	1.8	14,134	1.8	493	3.5
domestic sales	234,360	28.7	224,450	29	9,910	4.4
Revenue from oil products transportation services	57,309	7	48,186	6.2	9,123	18.9
Revenue from oil compounding services	5,329	0.7	4,633	0.6	696	15.0
Other revenue	21,005	2.6	24,160	3.1	(3,155)	(13.1)
<b>Total revenue (without revenue from sales of crude oil and oil products)</b>	<b>642,418</b>	<b>78.8</b>	<b>576,817</b>	<b>74.4</b>	<b>65,601</b>	<b>11.4</b>
Revenue from export sales of crude oil	143,589	17.6	168,515	21.8	(24,926)	(14.8)
Revenue from sales of crude oil in the domestic market	27,923	3.4	24,632	3.2	3,291	13.4
Revenue from sales of oil products	1,722	0.2	4,416	0.6	(2,694)	(61.0)
<b>Total revenue</b>	<b>815,652</b>	<b>100.0</b>	<b>774,380</b>	<b>100.0</b>	<b>41,272</b>	<b>5.3</b>

For the year ended 31 December 2015, the Group's revenue increased by RUB 41,272 or by 5.3%, attributable mainly to an increase in revenue from crude oil transportation and oil products transportation services. Without taking into account revenue from crude oil sales and oil products sales, revenue for the year ended 31 December 2015 increased by RUB 65,601 or 11.4% compared to the year ended 31 December 2014 and accounted for 78.8% of total revenue as for the reporting period.

#### 3.1.1. Oil and oil products transportation services

Increase in revenue from oil transportation services amounted to RUB 58,937 or by 11.8% for the year ended 31 December 2015 comparable to the same period of 2014 and was attributable to change in tariffs and to change in oil transportation turnover and turnover volumes as well as to setting of new tariffs.

Increase in revenue from oil products transportation services by RUB 9,123 or by 18.9% for the year ended 31 December 2015 compared to the same period of 2014 was driven by changes in oil products transportation tariffs as well as changes in turnover volumes and turnover.

#### 3.1.2. Revenue from sales of crude oil and oil products

Revenue from export sales of crude oil was driven by the start of oil supplies to the People's Republic of China under a 20-year contract to supply 6 mln. tons of crude oil annually effective January 1, 2011. This contract was signed as collateral for a loan obtained from the China Development Bank. The respective oil volumes are being purchased from OAO NK Rosneft.

Decrease in revenue from export sales of crude oil as for the year ended 31 December 2015 compared to the year ended 31 December 2014 was a result of decline in oil market price of USD per barrel and increase of USD/RUB exchange rate during the reporting period.

Increase in revenue from domestic sales of crude oil as for the year ended 31 December 2015 by 3,291 or by 13.4% compared to the relative period of the previous year was a result of increase of sale volumes of crude oil by the companies of the Group.

Decrease in revenue from sales of oil products as for the year ended 31 December 2015 by RUB 2,694 or by 61.0% was driven by decline of oil products volume sold.

#### 3.1.3. Revenue from oil compounding services

Growth in revenue from oil compounding services by RUB 696 or by 15.0% as for the year ended 31 December 2015 compared to the year ended 31 December 2014 was a result of increase in oil compounding volumes by 11.1% (37,883.8 thousand tons for the year ended 31 December 2015; 34,097.3 thousand tons for the year ended 31 December 2014).



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### 3.1.4. Other revenue

Other revenue includes revenue from connection of companies to the trunk pipeline system and revenue from trunk pipeline expansion services, information services related to oil transportation, oil and oil products storage services, communication services, diagnostic services, construction services, rent services, organization of transporting services, as well as other services.

Decrease in the amount of other revenue for the year ended 31 December 2015 as compared to the similar period of the previous year was generally a result of reduction in revenue from connection of companies to the trunk pipeline system and revenue from construction services in the reporting period.

### 3.2. Operating expenses

Operating expenses for the year ended 31 December 2015, and the year ended 31 December 2014, are detailed in the table below:

Operating expense line items	Year ended 31 December 2015	Share of total, %	Year ended 31 December 2014	Share of total, %	Absolute change	Change, %
Salaries, social funds contributions and social expenses	132,202	22.7	114,462	21.2	17,740	15.5
Energy	34,471	5.9	32,043	5.9	2,428	7.6
Materials	24,592	4.2	22,999	4.3	1,593	6.9
Repairs services and maintenance of relevant technical condition of pipeline	14,382	2.5	13,608	2.5	774	5.7
Insurance expenses	6,640	1.1	6,126	1.1	514	8.4
Taxes (other than income tax)	17,005	2.9	12,309	2.3	4,696	38.2
Pension expense	10,524	1.8	3,173	0.6	7,351	3.3 times
Other operating expenses	38,099	6.6	25,172	4.4	12,927	51.4
<b>Total operating expenses (net of D&amp;A and cost of goods sold)</b>	<b>277,915</b>	<b>47.7</b>	<b>229,892</b>	<b>42.3</b>	<b>48,023</b>	<b>20.9</b>
Depreciation and amortization	116,763	20.1	111,818	20.7	4,945	4.4
Cost of export crude oil sales (including export custom duties)	141,766	24.3	163,318	30.2	(21,552)	(13.2)
Cost of crude oil sold in the domestic market	23,680	4.1	23,126	4.3	554	2.4
Cost of oil products sold	1,658	0.3	4,107	0.8	(2,449)	(59.6)
Cost of other goods sold	610	0.1	351	0.1	259	73.8
One-time expense (incl. pension accruals and other non-production expenses)	19,198	3.3	8,441	1.6	10,757	2.3 times
<b>Total operating expenses</b>	<b>581,590</b>	<b>100.0</b>	<b>541,053</b>	<b>100.0</b>	<b>40,537</b>	<b>7.5</b>

For the year ended 31 December 2015, compared to the year ended 31 December 2014, the amount of operating expenses increased by RUB 40,537 or by 7.5%, while total operating expenses net of depreciation and amortization and cost of goods sold increased by RUB 48,023 or by 20.9%.

Increase in the Group's total operating expenses was driven by the following factors:

- growth in depreciation and amortization. The growth of depreciation was mainly associated with putting into operation of new items of PPE, reconstruction and modernization of fixed assets during 2014-2015;
- growth of salaries, social funds contributions and social expenses (ref. to 3.2.1);
- growth in pension contributions (ref. to 3.2.2);
- growth in the amount of other taxes recognised in operating expenses (ref. to 3.2.7).



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### 3.2 Operating expenses (continued)

After applying inflation rates\*, operating expenses for the year ended 31 December 2015, and for the year ended 31 December 2014, were as follows:

Operating expense line items	Year ended 31 December 2015	Share of total, %	Inflation rates (2015 to 2014), %*	Year ended 31 December 2014 (inflated to 2015)	Share of total, %	Absolute change	Change, %
Salaries, social funds contributions and social expenses	132,202	22.7	15.4	132,089	22.3	113	0.1
Energy	34,471	5.9	5.0	33,645	5.7	826	2.5
Materials	24,592	4.2	12.5	25,874	4.4	(1,282)	(5.0)
Repairs services and maintenance of relevant technical condition of pipeline	14,382	2.5	5.6	14,370	2.4	12	0.1
Insurance expenses	6,640	1.1	12.5	6,892	1.2	(252)	(3.7)
Taxes (other than income tax)	17,005	2.9	12.5	13,848	2.3	3,157	22.8
Pension expense	10,524	1.8	15.4	3,661	0.6	6,863	2.9 times
Other operating expenses	38,099	6.6	12.5	28,319	4.9	9,780	34.5
<b>Total operating expenses (net of D&amp;A and cost of goods sold)</b>	<b>277,915</b>	<b>47.7</b>	<b>12.5</b>	<b>258,698</b>	<b>43.8</b>	<b>19,217</b>	<b>7.4</b>
Depreciation and amortization	116,763	20.1	X	111,818	18.9	4,945	4.4
Cost of export crude oil sales (including export custom duties)	141,766	24.3	10.9	181,120	30.6	(39,354)	(21.7)
Cost of crude oil sold in the domestic market	23,680	4.1	10.9	25,647	4.3	(1,967)	(7.7)
Cost of oil products sold	1,658	0.3	4.4	4,288	0.7	(2,630)	(61.3)
Cost of other goods sold	610	0.1	12.5	395	0.1	215	54.4
One-time expenses (incl. pension accruals and other non-production expenses)	19,198	3.3	10.9	9,362	1.6	9,836	2.1 times
<b>Total operating expenses</b>	<b>581,590</b>	<b>100.0</b>	<b>X</b>	<b>591,328</b>	<b>100.0</b>	<b>(9,738)</b>	<b>(1.6)</b>

\*The inflation rates used are based on scenarios prepared by the Ministry of Economic Development for devising socio-economic development scenarios to 2018, as well as on 2014-2015 inflation rates.

**Unit costs are analysed by Oil transportation and Oil products transportation activities based on indicators developed under the Russian Accounting Standards**

Unit costs km are calculated using operating expenses indicator formed under aggregated RAS data with previous year indicator adjusted for change in oil turnover / volume turnover of oil products transportation and turnover for each of the above-mentioned activities. For calculation of inflated unit costs the index of inflation is used which is based on key macroeconomic assumptions of social and economic development of Russia till 2018 prepared by Ministry of Economic Development of the Russian Federation, as well as inflation rate for 2014-2015.



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### 3.2 Operating expenses (continued)

Unit costs for transportation of oil as per 100 tons-kilometers as for the year ended 31 December 2015 and for the year ended 31 December 2014 were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
<b>Oil transportation services</b>				
Turnover, mln. tons x km	1,185,028	1,147,152	37,876	3.3
Unit costs per 100 tons x km, RUB		15.60	0.86	5.5
Inflated unit costs per 100 tons x km, RUB (inflated to 2015, adjusted to turnover as for 2015)	16.46	17.15	(0.69)	(4.0)

Unit costs for oil products transportation per ton as for the year ended 31 December 2015 and as for the year ended 31 December 2014 were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
<b>Oil products transportation services</b>				
Volume turnover, mln. of tons	32.2	31.2	1.0	3.21
Unit costs per ton, RUB		595.05	90.77	15.25
Inflated unit costs per ton, RUB (inflated to 2015, adjusted to volume turnover as for 2015)	685.82	632.90	52.92	8.36

#### 3.2.1. Salaries, social funds contributions and social expenses

Salaries comprise wages, accrual of provision for annual bonus, provision for unused vacation, staff training and other remuneration.

The increase in salaries, social funds contributions and social expenses for the year ended 31 December 2015 compared to the year ended 31 December 2014 in the amount of RUB 17,740 or 15.5% was mainly influenced by an increase of social funds contributions caused by increase of the limit for their accrual, decrease of expenses included in construction in progress, indexation of wages in 2015, as well as, improvements in wages of production staff of oil products transportation subsidiaries and support subsidiaries.

Key management personnel (the members of the Board of Directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consists of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Boards of Directors of Company are subject to approval by the General Meeting of Shareholders. According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel of the Company and its subsidiaries also participate in post-retirement compensation program provided by NPF Transneft, and also entitled to one-time payment at retirement date.

##### Key management personnel compensation

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Salaries and bonuses	1,558	1,528	30.0	2.0
Termination benefits	23	17	6.0	35.3
Other	16	21	(5.0)	(23.8)
	<b>1,597</b>	<b>1,566</b>	<b>31.0</b>	<b>2.0</b>

During the year ended 31 December 2015 the Group contributed to NPF Transneft in favour of the key management personnel RUB 131 (for 2014 – RUB 195).

Key management personnel for whom information was disclosed in the consolidated financial statements include members of the Board of Directors and the Board of OAO AK Transneft, as well as CEOs and their families of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.



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### 3.2.2. Pension expense

OAO AK Transneft has set the protection of the life and health of its employees as well as the creation of safe working conditions for them as its highest priority. One of the key tasks of social policy is to create conditions for effective work and social protection of workers.

An important area of social protection of employees of the industry is a non-state pension system providing various options for corporate programs.

Pension expense includes accruals to the non-state pension fund as well as other accruals in conjunction with IAS 19 Employee benefits.

The amount of pension expenses increased under following factors which influence expenses from 31 December 2014:

- inclusion of pension liabilities of NPF Transneft in the consolidated financial statements of the Group;
- recognition of obligations of the Group under defined benefit plan in accordance with IAS 19 and related expenses accrued.

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Employers' contributions to NPF Transneft in favor of employees	5,831	4,610	1,221	26.5

### 3.2.3. Energy

Energy expenses for the year ended 31 December 2015 increased by RUB 2,428 or 7.6% compared to the same period of the previous year. The increase was caused by growth of tariffs of natural monopolies for energy and by growth of turnover.

The dynamics of power and energy consumption for the group of oil transporting entities is presented in the table below:

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Average annual capacity, thsd. kW	1,506	1,450	56	3.9
Consumption of energy, (mln. kW*h)	13,867	12,972	895	6.9

### 3.2.4. Materials

Expenses on materials for the year ended 31 December 2015 as compared to the same period of 2014, decreased by RUB 1,593 or 6.9%.

### 3.2.5. Repair services and maintenance of relevant technical condition of pipeline

The amount of expense for repair services and maintenance of relevant technical condition of pipeline decreased as for the reporting period by RUB 774 or by 5.7% as compared to the relative period of the previous year.

### 3.2.6. Cost of crude oil and oil products sold

The cost of crude oil sold for export for the year ended 31 December 2015 amounted to RUB 141,485 including custom duties in the amount of RUB 42,605, which was a result of oil supplies to the People's Republic of China (ref. to 3.1.2.). These expenses are related to the cost of oil purchased from OAO NK Rosneft under a contract signed in April 2009.

Increase in cost of marketable oil sold in the domestic market as for the year ended 31 December 2015 amounted to RUB 554 or 2.4% as compared to the relative period of 2014 and was caused by increase in sale volumes of marketable oil.

The cost of marketable oil products sold as for the year ended 31 December 2015 decreased by RUB 2,449 or 59.6% as compared to the relative period of 2014 due to decline in the Group companies' oil products sales volumes (ref. to 3.1.2).

### 3.2.7. Taxes (other than income tax)

The amount of the Group's other taxes included in operating expenses primarily contains property tax, tax on land and transport tax. The increase of these items was mainly caused by the increase of the property tax expenses (ref. to 2.5).



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### 3.2.8. Other operating expenses

Other expenses include the results related to fixed assets and other assets disposals, income from posting oil surpluses, charity spending, fines and penalties received and paid, as well as other operating income and expenses.

OAO AK Transneft implements a policy of transparency with regard to its charity spending by disclosing information on its official website.

### 3.3. Share of results from associates and jointly controlled entities

The Group holds a number of financial investments in associated and jointly controlled entities reported on an equity method basis. The main activities of those entities are stevedoring operations, towing services, ship repair and the provision of additional port services, cargo handling, transport of oil products, wholesale of electric and heat power.

The decrease of loss shown in "Share of loss from associates and jointly controlled entities" by RUB 6,952 was mainly caused by improved performance of Group PAO NCSP during the reporting period compared with the relative period of 2014.

The Group's effective share of control in PAO NCSP was 35.57% as at 31 December 2015.

### 3.4. Finance income and costs

#### Interest income and expenses

Interest income is generated from depositing available cash in bank accounts as well as investing in fixed-income securities.

Interest income	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Interest income from cash and equivalents	7,872	4,275	3,597	84.1
Interest income from other financial assets	27,077	15,265	11,812	77.4
Other interest income	605	366	239	65.3
<b>Total interest receivable</b>	<b>35,554</b>	<b>19,906</b>	<b>15,648</b>	<b>78.6</b>
Less interest income on the temporary investment of borrowings	(778)	(839)	61	(7.3)
<b>Total interest income recognised in the statement of profit or loss and other comprehensive income</b>	<b>34,776</b>	<b>19,067</b>	<b>15,709</b>	<b>82.4</b>

Increase in interest income for the year ended 31 December 2015 by RUB 15,709 or by 82.4% compared to the relative period of 2014 was driven mainly by:

- inclusion of interest income from deposits and other financial assets of NPF Transneft in the consolidated financial statements, as at 31 December 2014 NPF Transneft's results were not included in the consolidated financial statements;
- increase of interest income from placement of cash in deposits;
- weakening of RUB to USD exchange rate (ref. to 2.3).

Accrued interest expenses and amounts of capitalized interest expenses for the relevant periods were as follows:

Interest expenses	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Interest expenses on loans and borrowings	43,064	34,656	9,012	26.0
Other interest expenses	3,323	3,918	(595)	(15.2)
<b>Total interest expenses</b>	<b>46,387</b>	<b>38,574</b>	<b>8,417</b>	<b>21.8</b>
Less finance costs to be capitalised	(1,936)	(2,071)	(470)	22.7
<b>Total interest expense recognised in the statement of profit or loss and other comprehensive income</b>	<b>44,451</b>	<b>36,503</b>	<b>7,947</b>	<b>21.8</b>

The amount of interest expenses was composed of:

- interest payable on loan obtained in 2009 from the China Development Bank with a 20-year maturity repayable in equal installments after five years from the moment of issue;



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**3.4. Finance income and costs (continued)**

- interest payable on Eurobonds issued by the Group in 2008 for a total of USD 1,050 mln for the year ended 31 December 2015 and for the year ended 31 December 2014;
- interest payable on series 01-03 of non-convertible interest-bearing documentary bonds amounting to RUB 104,102 for the year ended 31 December 2015 and for the amount of RUB 135,000 for the year ended 31 December 2014;
- interest payable of non-convertible interest-bearing documentary bonds on series BO-04 for the amount RUB 10,000 and on series BO-03 for the amount RUB 15,000 for the year ended 31 December 2015 and for the amount RUB 49,000 on series BO-01, BO-02 and BO-03 for the year ended 31 December 2014.

Increase in interest expense as for the year ended 31 December 2015 as compared to the similar period of 2014 was mainly driven by depreciation of exchange rate of RUB to USD.

During the year ended 31 December 2015, interest in the amount of RUB 1,158 was capitalised as part of cost of assets under construction (for the year ended 31 December 2014 – RUB 1,232) including:

- interest expenses to be capitalised in the amount of RUB 1,936 (for the year ended 31 December 2014 – RUB 2,071);
- interest income to be excluded from interest expenses to be capitalised in the amount of RUB 778 (for the year ended 31 December 2014 – RUB 839).

**Foreign currency exchange gains and losses**

The sum of foreign currency exchange gains and losses and their growth for the year ended 31 December 2015, compared to the year ended 31 December 2014, was a result of changes in the exchange rates of the US dollar and the Euro to the Russian rouble during the relative periods.

Due to a restatement of assets and liabilities denominated in foreign currencies at the end of every month, positive and negative currency-translation changes results, which are presented in the reporting on gross base.

Disclosure of foreign exchange differences by sources is presented in the tables below:

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Foreign exchange gains on financial investments	213,386	196,223	17,163	8.7
Foreign exchange gains on loans and borrowings	204,114	26,961	177,153	7.6 times
Other foreign exchange gains	87,562	61,425	26,137	42.6
<b>Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income</b>	<b>505,062</b>	<b>284,609</b>	<b>220,453</b>	<b>77.5</b>
Foreign exchange loss on financial investments	(134,493)	(23,197)	(111,296)	5.8 times
Foreign exchange loss on loans and borrowings	(371,486)	(284,163)	(87,323)	30.7
Other foreign exchange loss	(49,951)	(19,418)	(30,532)	2.6 times
<b>Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income</b>	<b>(555,929)</b>	<b>(326,778)</b>	<b>(229,151)</b>	<b>70.1</b>
<b>Net exchange differences</b>	<b>(50,867)</b>	<b>(42,169)</b>	<b>(8,698)</b>	<b>20.6</b>

Dynamics of exchange differences presented in the table was driven by the relatively slower devaluation of the rouble against the dollar as for the year ended 31 December 2015 compared to the relative period in 2014.

**Derivatives**

As for the year ended 31 December 2015 the loss recognized by the Group from operations with derivatives decreased by 93.2% and amounted to RUB 5,088 compared to the loss of RUB 75,289 for the relative period of 2014. The dynamics was driven by slowdown of weakening of the RUB to USD exchange rate during the reporting period (ref to 2.3).





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### 3.5. Reconciliation of profit and EBITDA

	Year ended 31 December 2015	Year ended 31 December 2014	Change, %
<b>Profit for the period</b>	<b>143,427</b>	<b>59,500</b>	<b>2.4 times</b>
Adjustments for:			
income tax expense	22,126	36,943	(40.1)
depreciation and amortization	116,763	111,818	4.4
result of oil sales to China	(1,823)	(5,197)	(64.9)
net finance costs	64,390	134,894	(52.3)
share of loss from associates and jointly controlled entities	4,119	10,786	(61.8)
changes in the Group's structure	-	(8,796)	x
one-time expenses (incl. pension accruals and other non-production expenses)	19,198	8,441	2.3 times
<b>EBITDA*</b>	<b>368,200</b>	<b>348,389</b>	<b>5.7</b>
<b>EBITDA margin*, %</b>	<b>54,8</b>	<b>57,5</b>	<b>x</b>

\* Less crude oil sale and purchase operations under contracts with OAO NK Rosneft and the China National United Oil Corporation.

EBITDA is a useful indicator for investors, as it reflects the Group's operating performance, including its ability to finance capital expenditures, company acquisitions, and other investments, as well as its ability to raise and service borrowings and loans. Some investors, analysts, and rating agencies tend to use EBITDA as a basis for estimating and projecting the efficiency and value of oil & gas companies. This indicator should not be considered separately, as an alternative to net income, operating income, or any other of Group's performance indicators reported in its consolidated financial statements.

## 4. Cash flow analysis

	Year ended 31 December 2015	Year ended 31 December 2014	Absolute change	Change, %
Cash flows from operating activities	329,237	273,210	56,027	20.5
Cash flows used in investing activities	(210,774)	(211,755)	981	(0.5)
<b>Free cash inflow*</b>	<b>118,463</b>	<b>61,455</b>	<b>57,008</b>	<b>92.8</b>
Cash flows used in financing activities	(149,506)	(89,895)	(59,611)	66.3
<b>Net cash outflow</b>	<b>(31,043)</b>	<b>(28,440)</b>	<b>(2,603)</b>	<b>x</b>
Change in cash and cash equivalents due to deviation of currency exchange rate	29,894	36,758	(6,864)	(18.7)
Cash on accounts where operations were ceased	(19,198)	-	(19,198)	x
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(20,347)</b>	<b>8,318</b>	<b>(28,665)</b>	<b>x</b>

\*Including purchase and sale of promissory notes and net effect from placement of funds on deposits.

Free cash flows excluding investments in promissory notes of banks and deposits for the year ended 31 December 2015 amounted to RUB 41,649 (for the year ended 31 December 2014: RUB 10,438).



#### **4.1. Operating activities**

Cash received from operating activities is the Group's main source of cash. The net cash generated from operating activities amounted to RUB 329,237 for the year ended 31 December 2015, which is RUB 56,027 or 20.5% higher than for the year ended 31 December 2014.

The main factors which influenced on increase of cash generated from operating activities for the year ended 31 December 2015 as compared to the similar period in 2014 were as follows:

- increase in cash receipts from customers by RUB 34,989;
- increase in cash received from the refund of VAT and other taxes from the budget by RUB 28,396;
- increase in amount of interest paid by RUB 11,047;
- decrease of the net amount of payments of income tax by RUB 4,218.

#### **4.2. Investing activities**

The primary factors resulting in a decrease in cash used in investment activities by RUB 981 or 0.5% for the year ended 31 December 2015 compared to the same period for the previous year, were:

- increase in the amount of purchase of property, plant and equipment by RUB 11,904;
- net cash inflow as for the year ended 31 December 2015 from purchase-and-sale transactions of debt securities and allocation/closure of deposits in the amount of RUB 76,814 compared to net cash inflow for 2014 amounting to RUB 71,893;
- increase from interest and dividends received by RUB 17,079.

#### **4.3. Financing activities**

The main factors which influenced on increase of cash flows used in financing activities for the year ended 31 December 2015 as compared to 2014 by RUB 59,611 or 66.3% were:

- decrease of cash used to repay bonds and loans and borrowings in the amount of RUB 24,251.  
For the year ended 31 December 2015 monthly repayment of the loan to China Development Bank in the total amount of USD 667 mln (RUB 40,721 at the rate of Central Bank of the Russian Federation on the dates of operations), repayment of rouble-denominated bonds in the amount of RUB 30,943 and repayment of the loan to OOO LatRosTrans amounting to RUB 1,083.  
During the similar period of the previous year Eurobonds in the amount of USD 1,300 mln. were settled (RUB 47,040 at the rate of Central Bank of the Russian Federation on the date of operation), settlement of BO-01 and BO-02 bonds in the amount of RUB 33,955 and repayment of loan to China Development Bank was made in the amount of USD 388.9 mln (RUB 15,703 at the rate of Central Bank of the Russian Federation on the date of operation);
- payments for acquisition of non-controlling interests: 36% in AO Transneft Prikamye (previously OAO SZMN) and 25% in OOO Transneft-Terminal amounting to RUB 15,606 during the year ended 31 December 2015;
- settlement of obligations under derivatives included in Other cash flows used in financing activities.



**OAO AK TRANSNEFT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION**  
**AND RESULTS OF ITS OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2015**  
**(in millions of Russian roubles, if not stated otherwise)**

**4.4. Disclosure of cash flows from operating activities using indirect method**

Cash flows received from operating activities using the indirect method are disclosed in the table below in addition to the consolidated statements of cash flows prepared using the direct method and disclosed in the consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2015.

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss before tax for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation and amortization, provisions, unrealized foreign currency gains and losses, interest income and expenses, share of loss from associates and jointly controlled entities;
- (c) all other items for which the cash effects are investing or financing cash flows.

	Year ended 31 December 2015	Year ended 31 December 2014
<b>OPERATING ACTIVITIES</b>		
<b>Profit before tax</b>	<b>165,553</b>	<b>96,443</b>
<b>Adjustments for:</b>		
Depreciation and amortization	116,763	111,818
Loss from disposal of property, plant and equipment	989	1,122
Finance income	(541,078)	(303,676)
Finance costs	605,468	438,570
Changes in the Group's structure	-	(8,796)
Share of loss from associates and jointly controlled entities	4,119	10,786
Others	10,987	761
<b>Operating profit before changes in working capital and reserves</b>	<b>362,801</b>	<b>347,028</b>
Changes in operating assets and liabilities:		
Changes in inventories	646	(1,542)
Changes in trade and other receivables relating to operating activity and VAT assets	24,995	(5,206)
Changes in trade and other payables, and accruals relating to operating activity	24,178	10,176
<b>Cash flows from operating activities before payment of income tax expense and interest</b>	<b>412,620</b>	<b>350,456</b>
Income tax paid	(39,904)	(44,122)
Income tax refund	1,267	575
Interest paid	(44,746)	(33,699)
<b>Net cash flows received from operating activities</b>	<b>329,237</b>	<b>273,210</b>



## 5. Liquidity analysis

	31 December 2015	31 December 2014	Change, %
Current assets	640,914	697,494	(8.1)
including:			
cash and cash equivalents	92,713	113,060	(18.0)
short-term bank promissory notes, deposits and bonds*	427,192	441,133	(3.2)
Current liabilities	240,451	383,719	(37.3)
Net working capital	400,463	313,775	27.6
Current ratio	2.7	1.8	x
Quick ratio**	2.3	1.6	x
Debt / EBITDA	2.3	2.2	x
Debt / Equity	0.6	0.6	x

\* The main part of short-term bank promissory-notes, deposits and bonds consist of promissory notes, deposits and bonds issued by banks with credit ratings at Ba1 – Ba3 at the Moody's adjusted scale. Thus, short-term bank promissory notes, deposits and bonds consist of highly reliable or reliable financial instruments issued by credit organisations and companies.

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

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments at the rates actual at 31 December 2015 and 31 December 2014 accordingly, with amounts denominated in foreign currency recalculated using the Central Bank of the Russian Federation exchange rates at 31 December 2015 and 31 December 2014 accordingly.

31 December 2015:

	Carrying amount	Contractual cash flows						More than 5 years
		Total	2016	2017	2018	2019	2020	
Loans and borrowings	865,003	1,094,932	129,337	133,827	157,312	133,623	65,302	475,531
Trade and other payables	76,592	76,592	76,592	-	-	-	-	-
	<b>941,595</b>	<b>1,171,524</b>	<b>205,929</b>	<b>133,827</b>	<b>157,312</b>	<b>133,623</b>	<b>65,302</b>	<b>475,531</b>

31 December 2014:

	Carrying amount	Contractual cash flows						More than 5 years
		Total	2015	2016	2017	2018	2019	
Loans and borrowings	759,192	933,004	218,440	75,898	58,923	114,563	51,061	414,119
Trade and other payables	130,289	130,289	130,289	-	-	-	-	-
	<b>889,481</b>	<b>1,063,293</b>	<b>348,729</b>	<b>75,898</b>	<b>58,923</b>	<b>114,563</b>	<b>51,061</b>	<b>414,119</b>

The debt structure as at 31.12.2015 assumes the possible redemption date for non-convertible interest-bearing documentary bonds in the amount of RUB 25,427 at the offer date (2016), RUB 45,000 at the offer date (2017).

The debt structure as at 31.12.2014 assumes the possible redemption date for non-convertible interest-bearing documentary bonds in the amount of RUB 15,000 at the offer date (2016), RUB 135,000 at the offer date (2015).