

## Production and operating expenses

### Production and operating expenses (P m)

Item	2014	2015	2016	2017	2018	Δ 2018/2017 (%)
<b>Upstream expenses</b>	<b>83,602</b>	<b>98,095</b>	<b>106,765</b>	<b>111,837</b>	<b>112,840</b>	<b>0.9</b>
<i>₹ per toe</i>	n/a	n/a	1,782	1,767	1,726	(2.3)
<i>\$<sup>2</sup> per boe</i>	n/a	n/a	3.63	4.13	3.76	(9.0)
Consolidated subsidiaries in Russia	63,955	72,854	80,392	85,898	85,135	(0.9)
<i>₹ per toe</i>	n/a	n/a	1,647	1,653	1,579	(4.5)
<i>\$ per boe</i>	n/a	n/a	3.35	3.86	3.44	(10.9)
Including:						
<i>Brownfields</i>	57,271	61,225	65,960	67,923	61,114	(10.0)
<i>₹ per toe</i>	1,472	1,582	1,692	1,812	1,757	(3.0)
<i>\$ per boe</i>	5.22	3.54	3.44	4.24	3.82	(9.9)
<i>Greenfields</i>	6,684	11,629	14,432	17,975	24,021	33.6
<i>₹ per toe</i>	n/a	n/a	1,470	1,242	1,256	1.1
<i>\$ per boe</i>	n/a	n/a	2.99	2.90	2.73	(5.9)
Consolidated subsidiaries outside Russia (including PSA) <sup>3</sup>	4,323	9,426	9,655	8,381	9,311	11.1
<i>₹ per toe</i>	n/a	n/a	4,144	3,059	2,975	(2.7)
<i>\$ per boe</i>	n/a	n/a	8.43	7.15	6.47	(9.5)
Joint operations	15,324	15,815	16,718	17,558	18,394	4.8
<i>₹ per toe</i>	1,691	1,787	1,924	2,061	2,232	8.3
<i>\$ per boe</i>	6.01	4.00	3.92	4.82	4.86	0.8
<b>Downstream expenses</b>	<b>46,222</b>	<b>53,549</b>	<b>53,132</b>	<b>55,318</b>	<b>58,919</b>	<b>6.5</b>
Refining expenses at own refineries	26,510	30,724	30,619	31,191	32,251	3.4
<i>₹ per tonne</i>	765	882	893	966	920	(4.8)
<i>\$ per barrel</i>	2.72	1.97	1.82	2.26	2.00	(11.5)
Refining expenses at joint ventures <sup>4</sup>	14,145	14,648	12,453	12,259	12,496	1.9
<i>₹ per tonne</i>	1,602	1,778	1,639	1,568	1,590	1.4
<i>\$ per barrel</i>	5.69	3.98	3.34	3.67	3.46	(5.7)
Lubricants and packaged products production expenses	5,567	8,177	10,060	11,868	14,172	19.4
<b>Transportation to refineries</b>	<b>26,234</b>	<b>27,541</b>	<b>29,561</b>	<b>29,265</b>	<b>32,950</b>	<b>12.6</b>
<b>Other operating expenses</b>	<b>15,653</b>	<b>35,082</b>	<b>12,404</b>	<b>20,110</b>	<b>23,909</b>	<b>18.9</b>
<b>Total revenue</b>	<b>171,711</b>	<b>214,267</b>	<b>201,862</b>	<b>216,530</b>	<b>228,618</b>	<b>5.6</b>

<sup>2</sup> Translated to \$ at the average exchange rate for the period.

<sup>3</sup> PSA refers to production sharing agreement.

<sup>4</sup> Refining expenses at joint ventures are based on processing agreement.

Upstream expenses include costs attributable to raw materials and supplies, equipment maintenance and repair, wages and salaries, fuels and lubricants, electricity, oil recovery activities and other similar costs at the Group's upstream facilities.

A 4.5% decrease y-o-y in upstream expenses per toe (₽ per toe) at the consolidated subsidiaries in Russia was primarily driven by the reduction in brownfield expenses by 3% y-o-y due to cost-cutting efforts:

- > shutdown of low-margin wells (low well flows and high watercut);
- > decreased workover activities.

Upstream expenses per boe (\$ per boe) at the consolidated subsidiaries outside Russia went down by 9.5% y-o-y due to the increased production in Iraq. Upstream expenses per boe for joint operations increased by 8.3% y-o-y primarily due to the production cut in line with the OPEC deal.

Refining expenses at own refineries include costs attributable to raw materials and supplies, equipment maintenance and repair, wages and salaries, electricity and other similar expenses.

Refining expenses per tonne at own refineries went down by 4.8% due to:

- > throughput growth;
- > cost-cutting initiatives (upgrade of facilities, optimisation of additives and energy costs).

Unit refining expenses at joint ventures added 1.4% y-o-y due to the increased processing expenses (launch of new refining units and increased natural gas costs).

Lubricants production expenses went up by 19.4% y-o-y caused by higher production volumes, enhanced product range focused on premium lubricants and higher purchased materials costs (including those of additives). Transportation to refineries expenses went up by 12.6% y-o-y due to higher crude oil supplies to refineries. Other operating expenses increased y-o-y in line with other revenue growth.

## Selling, general and administrative expenses

Selling, general and administrative expenses include distribution costs, retail business expenses, remunerations, wages and salaries (excluding remunerations, wages and salaries at upstream subsidiaries and own refineries), social payments, insurance, legal, consulting and audit services, and other expenses.

Selling, general and administrative expenses went up by 7.7% y-o-y following:

- > higher selling expenses due to the growth of premium sales;
- > higher expenses at foreign subsidiaries due to the rouble depreciation.

## Transportation expenses

Transportation expenses relate to crude oil and petroleum products transportation to final customers, including pipeline, and railway transportation, sea freight, handling operations, and other transportation costs. Transportation expenses increased by 3.7% y-o-y due to stronger sales of petroleum products.

## Depreciation, depletion and amortisation

Depreciation, depletion and amortisation include depletion of crude oil and gas assets, depreciation of other items of PP&E and impairment of crude oil assets. Depreciation, depletion and amortisation increased by 24.4% y-o-y due to higher value of assets subject to depreciation and amortisation associated with the investment programme and increased production at the Novoportovskoye and Prirazlomnoye fields and in Iraq.

## Taxes

### Taxes other than income tax (P m)

Tax	2014	2015	2016	2017	2018	Δ 2018/2017 (%)
Mineral extraction tax (MET)	236,027	256,477	237,300	329,579	487,492	47.9
Excise tax	84,184	68,358	112,102	128,229	126,779	(1.1)
Social security contributions	11,886	15,599	18,530	20,433	22,113	8.2
Other taxes	11,479	12,711	13,199	14,028	16,400	16.9
<b>Total revenue</b>	<b>343,576</b>	<b>353,145</b>	<b>381,131</b>	<b>492,269</b>	<b>652,784</b>	<b>32.6</b>

Taxes other than income tax grew by 32.6% y-o-y. MET increased by 47.9% due to higher crude oil prices and adjustment ratio. Excise tax went down by 1.1% following the reduction of excise rates since June 2018.

## Share of profit of associates and joint ventures

### Share of profit / (loss) of associates and joint ventures (P m)

Company	2014	2015	2016	2017	2018	Δ 2018/2017 (%)
Slavneft	(5,072)	9,265	13,916	10,347	15,025	45.2
Messoyakhaneftegaz	-	-	(947)	9,976	28,172	182.4
Arcticgas	(1,809)	11,913	14,472	19,861	40,451	103.7
Northgas	-	3,466	3,009	3,433	3,699	7.7
Other companies	575	312	3,666	1,887	3,357	77.9
<b>Total revenue</b>	<b>(6,306)</b>	<b>24,956</b>	<b>34,116</b>	<b>45,504</b>	<b>90,704</b>	<b>99.3</b>

The Group's profit share in Slavneft increased y-o-y due to higher crude oil prices, while in Messoyakhaneftegaz – as a result of both, higher prices and production growth. The Group's profit share in Arcticgas grew y-o-y following the production growth, higher crude oil prices and lower financial expenses in line with the optimisation of the debt portfolio, and the increase of Group's share in Arcticgas from 46.67% to 50% from 21 March 2018.

## Other income and expenses

Other expenses, which in 2018 mainly included disposal and write-offs of non-current assets, grew by 2.6 times y-o-y.

## Other financial items

Foreign exchange gains (losses) are primarily attributable to the revaluation of the portion of the Group's debt portfolio which is denominated in foreign currencies.