

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 2014





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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 2014 and results of operations for the year ended 31 December 2014, compared to the year ended 31 December 2013, 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 interim condensed financial statements prepared in accordance with International financial reporting standards (hereinafter – “IFRS”) for the year ended 31 December 2014.

Key financial and operating results

	Year ended 31 December 2014	Year ended 31 December 2013	Change, %
Revenue	774,380	749,617	3.3
Net profit	59,500	158,017	(62.3)
EBITDA	348,126	353,179	(1.4)
EBITDA margin, %*	57.5	59.3	x
Oil delivered to consignees, mln. tons	477.5	481.1	(0.7)
including:			
Russian oil refineries, mln. tons	262.1	250.43	4.7
transshipment into the CPC-R system, mln. tons	1.7	2.04	(16.7)
exports to neighboring countries, mln. tons	21.5	26.4	(18.6)
exports to other countries, mln. tons	192.3	202.2	(4.9)
Oil products delivered to consignees, mln. tons	31.2	31.0	0.6
including:			
Russia's domestic market, mln. tons	9.4	10.1	(6.9)
exports to the Customs Union member countries, mln.tons	0.25	0.30	(16.7)
exports to other countries, mln. tons	21.5	20.6	4.4

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

The Group's profit for the year ended 31 December 2014 amounted to RUB 59.5 bn which is RUB 98.5 bn or 62.3% lower than for the year ended 31 December 2013 which amounted to RUB 158.0 bn.

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

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Profit for the period	59,500	158,017	(98,517)	(62.3)
Net loss from exchange differences	42,169	5,787	36,382	7.3 times
Net interest expense	17,436	20,462	(3,026)	(14.8)
Loss from change in fair value of derivatives	75,289	52	75,237	x
Share of loss from associates and jointly-controlled entities	10,786	15,018	(4,232)	(28.2)
Profit from disposal/acquisition of subsidiaries and associates	(8,796)	(2,848)	(5,948)	3.1 times
Net profit for the period net of aforementioned factors	196,384	196,488	(104)	(0.1)



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 in the trunk pipeline system, 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 & delivery facilities, and for data collection and summarizing.

The Group as at 31 December 2014 possesses an extensive network of trunk oil pipelines with a total length of approximately 53.3 thousand km and trunk oil products pipelines with a total length of some 18.8 thousand km.

During the year ended 31 December 2014 the Group transported 87% of oil produced in Russia and about 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;
- tariff of OAO Gomeltransneft Druzhba (Belarus) in the direction of the western border (Poland, Germany) – USD 0.61/100 tkm;
- average tariff of AO KazTransOil (Kazakhstan) – USD 2.40/100 tkm (USD 3.19/100 tkm for export, USD 1.61/100 tkm – domestic);
- tariff of TAL Pipeline for transportation of oil through Trieste – Ingolstadt direction (Italy, Austria, Germany) – USD 1.01/100 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 1.46/100 tkm;
- average tariff of Transnafta (Serbia) – USD 2.66/100 tkm;
- tariff through Patoka – Catlettsburg pathway (Marathon Pipe Line LLC, USA) – USD 1.46/100 tkm;
- tariff through Wood River – Patoka pathway (Marathon Pipe Line LLC, USA) – USD 1.09/100 tkm;
- tariff through Sumas – Anacontes pathway (KinderMorgan, USA/Canada) – USD 2.77/100 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.



1.1. Key investment projects

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 of the investment projects regarding development of the system of trunk pipelines will allow to create unified pipelines system that allows for the effective redistribution of export flows of both the Western and Eastern directions depending on the situation market.

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;
- 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 (Project “Sever”);
- Reconstruction of the trunk pipeline system for increase of transportation volumes of oil products to the Moscow area;
- The project “Yug”, 1st stage, reconstruction of the trunk pipelines Tikhoretsk-Novorossiysk;
- The project “Yug”, 2nd stage, construction of MNPP Volgograd-Tikhoretsk.

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 OJSC «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 2014 and the year ended 31 December 2013, 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) and by intergovernmental agreement:
 - 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 01.02.2011 No. 12-e/7 Concerning the setting of a fee for the services of OAO AK Transneft for transportation of oil along the Makhachkala–NB Sheskharis route;
 - 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 Sheskharis route;
 - Order of the FTS of Russia of 27.11.2012 No. 274-e/2 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 22.08.2013 No. 165-e/2 Concerning the cancelling of the order of the FTS of Russia of 27.11.2012 No. 274-e/2 Concerning the setting of a fee for the services of OAO AK Transneft for transportation of oil through the territory of the Russian Federation;
 - 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 Sheskharis;
 - 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 Sheskharis 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;
 - 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.
- 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 state regulatory body for natural monopolies – the Federal Tariff Service of Russia (FTS of Russia):
 - Decree of the Russian Government No. 1022 dated of 16.12.2009 Concerning of changes to Decree of the Russian Government No.980 dated 29.12.2007;



2.1. Oil and oil products transportation tariffs (continued)

- 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 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. 472-e/2 Concerning the inclusion of amendments to the Order of the FTS of Russia of 23.09.2010 No. 234-e/2 Concerning fee rates for the services of OOO BalttransService for transportation of oil products from the trunk pipeline system in the Primorsk Commercial Seaport;
- 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 FST 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 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.

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 2014	Year ended 31 December 2013	Change, %
Oil production volume in the Russian Federation, mln tons	526.3	523.5	0.5
Oil refining volume in the Russian Federation, mln tons	125.8	120.1	4.7

Oil production volume increased for the year ended 31 December 2014 as compared to the similar period of the previous year by 2.8 mln tons or by 0.5% (ref. to 3.1.1.).

Growth in light oil refining during the year ended 31 December 2014 in the Russian Federation accounted for 5.7 mln tons or for 4.7% (ref. to 3.1.1.).

During the year ended 31 December 2014 the volume of delivery of crude oil to refinery plants of the Russian Federation showed positive dynamics while the volume of oil transportation for export to CIS and international markets decreased as compared to the same period of 2013.



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 is 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 2014	Year ended 31 December 2013	Change, %
Change in the rouble's exchange rate against the US dollar, %	71.9	7.8	x
Average exchange rate for the period (roubles per US dollar)	38.4217	31.8480	20.6
Exchange rate at the end of the period (roubles per US dollar)	56.2584	32.7292	71.9

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 2014	Year ended 31 December 2013	Change, pp
Rouble inflation (CPI), %	11.4	6.5	4.9

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 2014	Year ended 31 December 2013	Change, %
Current income tax	27,366	47,984	(43.0)
Property tax	11,721	9,823	19.3
Other taxes and levies	914	859	6.4

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.

Decline in amount of income tax as for the year ended 31 December 2014 as compared to the year ended 31 December 2013 was primarily because of decline of income tax of CTG with recognition during 2014 of tax losses from foreign exchange losses from loans because of growth of exchange rate of USD to RUB (ref to 2.3).



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2.5. Taxation (continued)

Property tax

The amount of property tax increased by RUB 1,898 or by 19.3%. The increase was a result of putting into use of fixed assets, revaluation held at 31.12.2013 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 0.4% during 2013, 0.7% during 2014.

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 and loss and other comprehensive income for the periods showed therein.

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Revenue	774,380	749,617	24,763	3.3
Revenue from oil transportation services	499,838	506,684	(6,846)	(1.4)
Revenue from oil products transportation services	48,186	42,580	5,606	13.2
Revenue from crude oil sales	193,147	165,326	27,821	16.8
Other revenue	33,209	35,027	(1,818)	(5.2)
Operating expenses	(541,053)	(499,134)	(41,919)	8.4
Operating profit	233,327	250,483	(17,156)	(6.8)
Total net financial items	(134,894)	(26,301)	(108,593)	5.1 times
Changes in the Group's structure	8,796	2,848	5,948	3.1 times
Share of loss from associates and jointly controlled entities	(10,786)	(15,018)	4,232	(28.2)
Profit before income tax	96,443	212,012	(115,569)	(54.5)
Current income tax	(27,164)	(48,055)	20,891	(43.5)
Deferred income tax	(9,779)	(5,940)	(3,839)	64.6
Income tax expense	(36,943)	(53,995)	17,052	(31.6)
Profit for the period	59,500	158,017	(98,517)	(62.3)
Other comprehensive gain, net of income tax	1,931	1,382	549	39.7
Total comprehensive income	61,431	159,399	(97,968)	(61.5)

During the year ended 31 December 2014 the Group recognised loss shown in the line "Share of loss from associates and jointly controlled entities" in the amount of RUB 10,786 as compared to the loss amounting to RUB 15,018 for the similar period of 2013. This dynamics was caused by total comprehensive loss of OAO NCSP in the reporting period mainly because of significant growth of USD to RUB (ref. to 2.3).

Impairment of investment in associate was recognized by the Group for the year ended 31 December 2013 in relation to investment in OAO NCSP because of indications of impairment seen from significant decline in share market price of OAO NCSP during 2013.

The changes in the Group's structure were recognized for the year ended 31 December 2014 when decision was made about incorporatization of NPF Transneft in favor of the sole shareholder OAO AK Transneft in accordance with legislation requirements and inclusion of NPF Transneft into consolidated financial statements. As for the relative period of 2013 the line includes financial result from disposal of subsidiary ZAO SK Transneft.



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3.1. Revenue

Revenue by type of operations	Year ended 31 December 2014	Share of total revenue, %	Year ended 31 December 2013	Share of total revenue, %	Absolute change	Change, %
Revenue from crude oil transportation services	499,838	64.5	506,684	67.6	(6,846)	(1.4)
Exports, except the CIS	261,254	33.7	274,085	36.6	(12,831)	(4.7)
Exports in the CIS	14,134	1.8	16,525	2.2	(2,391)	(14.5)
Domestic sales	224,450	29.1	216,074	28.8	8,376	3.9
Revenue from oil products transportation services	48,186	6.2	42,580	5.7	5,606	13.2
Revenue from oil compounding services	4,633	0.6	5,310	0.7	(677)	(12.7)
Other revenue	24,160	3.1	23,148	3.0	1,012	4.4
Total revenue (without revenue from sales of crude oil and oil products)	576,817	74.4	577,722	77.0	(905)	(0.2)
Revenue from export sales of crude oil	168,515	21.8	153,688	20.5	14,827	9.6
Revenue from sales of crude oil in the domestic market	24,632	3.2	11,638	1.6	12,994	2.1 times
Revenue from sales of oil products	4,416	0.6	6,569	0.9	(2,153)	(32.8)
Total revenue	774,380	100.0	749,617	100.0	24,763	3.3

For the year ended 31 December 2014, the Group's revenue increased by RUB 24,763, or by 3.3%, attributable mainly to an increase in revenue from oil products transportation services and sales of crude oil. Without taking into account crude oil sales and oil products sales, revenue for the year ended 31 December 2014, amounted to RUB 576,817, which is RUB 905 or 0.2% lower than for the year ended 31 December 2013.

3.1.1. Oil and oil products transportation services

A decrease in revenue from oil transportation services amounted to RUB 6,846, or by 1.4% for the year ended 31 December 2014 comparable to the same period of 2013. The decrease in revenue for oil transportation services was influenced by changes in oil transportation turnover and turnover volumes.

An increase in revenue from oil products transportation services by RUB 5,606 or by 13.2% for the year ended 31 December 2014 as compared to the same period of 2013 was driven by growth 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 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.

Increase in revenue from export sales of crude oil as for the year ended 31 December 2014 compared to the year ended 31 December 2013 was a result of weakening of the RUB/USD exchange rate.

Increase in revenue from domestic sales of crude oil as for the year ended 31 December 2014 as 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 2014 by RUB 2,153 or by 32.8% was driven by a decline of oil products turnover.

3.1.3. Revenue from oil compounding services

A decline in revenue from oil compounding services by RUB 677 or by 12.7% as for the year ended 31 December 2014 compared to the year ended 31 December 2013 was a result of decrease in oil compounding volumes by 7.9% (34,097.3 thousand tons for the year ended 31 December 2014; 39,072.6 thousand tons for the year ended 31 December 2013).



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3.1.4. Other revenue

Other revenue includes revenue from oil and oil products storage services, information services related to oil transportation, property leasing, and insurance services, rent services, organization of transporting services, as well as other services.

An increase in the amount of other revenue for the year ended 31 December 2014 as compared to the similar period of the previous year was a result of the following:

- decrease of insurance services by RUB 3,563 because of disposal of ZAO SK Transneft from the Group in 2013;
- increase in revenue from connection of companies to the trunk pipeline system in the amount of RUB 5,710;
- decrease of revenue for activities on the organization of transportation of cargoes by railways by RUB 1,477.

3.2. Operating expenses

Operating expenses for the year ended 31 December 2014, and the year ended 31 December 2013, are detailed in the table below:

Operating expense line items	Year ended 31 December 2014	Share of total revenue, %	Year ended 30 September 2013	Share of total revenue, %	Absolute change	Change, %
Salaries, social funds contributions and social expenses	114,462	21.2	111,542	22.3	2,920	2.6
Energy	32,043	5.9	32,089	6.4	(46)	(0.1)
Materials	22,999	4.3	22,009	4.4	990	4.5
Repairs services and maintenance of relevant technical condition of pipeline	13,608	2.5	14,328	2.9	(720)	(5.0)
Insurance expenses	6,126	1.1	6,717	1.3	(591)	(8.8)
Taxes (except income tax)	12,309	2.3	10,153	2.0	2,156	21.2
Pension expense	3,173	0.6	4,405	0.9	(1,232)	(28.0)
Transportation of oil using railways	2,404	0.4	6,515	1.3	(4,111)	(63.1)
Other operating expenses	23,031	4.1	17,192	3.5	5,839	34.0
Total operating expenses (net of D&A, one-time non-production expenses and cost of goods sold)	230,155	42.4	224,950	45.0	5,205	2.3
Depreciation and amortization	111,818	20.7	102,261	20.5	9,557	9.3
Cost of export crude oil sales (including export custom duties)	163,055	30.1	152,839	30.6	10,216	6.7
Cost of crude oil sold in the domestic market	23,126	4.3	10,827	2.2	12,299	2.1 times
Cost of oil products sold	4,107	0.8	6,205	1.2	(2,098)	(33.8)
Cost of other goods sold	351	0.1	768	0.2	(417)	(54.3)
One-time expenses (including pension expense and other non-production expenses)	8,441	1.6	1,284	0.3	7,157	6.6 times
Total operating expenses	541,053	100.0	499,134	100.0	41,919	8.4

For the year ended 31 December 2014, compared to the year ended 31 December 2013, the amount of operating expenses net of depreciation and amortization, one-time expenses and cost of crude oil and oil products sold increased by RUB 5,205 or by 2.3%, while total operating expenses increased by RUB 41,919 or by 8.4%.

An 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 PPE in 2013;
- growth in cost of crude oil sold;
- growth in pension provision;
- growth in the amount of other taxes recognised in operating expenses (ref. paragraph 3.2.8).



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3.2 Operating expenses (continued)

After applying inflation rates*, operating expenses for the year ended 31 December 2014, and for the year ended 31 December 2013, were as follows:

Operating expense line items	Year ended 31 December 2014	Share of total expenses, %	Inflation rates (2014 to 2013), %*	Year ended 31 December 2013 (inflated to 2014)	Share of total expenses, %	Absolute change	Change, %
Salaries, social funds contributions and social expenses	114,462	21.2	11.4	124,258	23.7	(9,796)	(7.9)
Energy	32,043	5.9	7.4	34,452	6.6	(2,409)	(7.0)
Materials	22,999	4.3	4.9	23,096	4.4	(97)	(0.4)
Repairs services and maintenance of condition of pipeline	13,608	2.5	4.5	14,979	2.9	(1,371)	(9.2)
Insurance expenses	6,126	1.1	4.9	7,049	1.3	(923)	(13.1)
Taxes (except income tax)	12,309	2.3	4.9	10,655	2.0	1,654	15.5
Pension expense	3,173	0.6	11.4	4,907	0.9	(1,734)	(35.3)
Transportation of oil using railways	2,404	0.4	8.3	7,058	1.3	(4,654)	(65.9)
Other operating expenses	23,031	4.1	4.9	18,041	3.4	4,990	27.7
Total operating expenses (net of D&A, one-time non-production expenses and cost of goods sold)	230,155	42.4	8.7	244,495	46.5	(14,340)	(5.9)
Depreciation and amortization	111,818	20.7	X	102,261	19.6	9,557	9.3
Cost of export crude oil sales (including export custom duties)	163,055	30.1	3.5	158,124	30.2	4,931	3.1
Cost of crude oil sold in the domestic market	23,126	4.3	3.5	11,201	2.1	11,925	2.1,times
Cost of oil products sold	4,107	0.8	(0.9)	6,148	1.2	(2,041)	(33.2)
Cost of other goods sold	351	0.1	4.9	806	0.2	(455)	(56.5)
One-time expenses	8,441	1.6	X	1,284	0.2	7,157	6.6 times
Total operating expenses	541,053	100.0	X	524,319	100.0	16,734	3.2

*The inflation rates used are based on scenarios prepared by the Ministry of Economic Development for devising socio-economic development scenarios for 2013-2017, as well as on 2013-2014 inflation rates.



3.2 Operating expenses (continued)

Unit costs 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 a 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 used to calculate inflated operating expenses (net of depreciation, taxes, one-time expenses and cost of goods sold) is taken.

Unit costs for transportation of oil as per 100 tons-kilometers as for the year ended 31 December 2014 and for the year ended 31 December 2013 were as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change in unit costs, RUB per 100 tons x km	Change in unit costs, RUB per 100 tons x km , %
Oil transportation services				
Turnover, mln. tons x km	1,147,152	1,156,382	(9,230)	(0.80)
Unit costs per 100 tons x km, RUB		15.33	0.27	1.76
Inflated unit costs per 100 tons x km, RUB (inflated to 2014, adjusted to turnover as for 2014)	15.60	16.63	(1.03)	(6.19)

Unit costs for oil products transportation per ton as for the year ended 31 December 2014 and as for the year ended 31 December 2013 were as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change in unit costs, RUB per ton	Change in unit costs, per ton , %
Oil products transportation services				
Volume turnover, mln. of tons	31.2	31.0	0.2	0.6
Unit costs per ton, RUB		592.92	16.27	2.74
Inflated unit costs per ton, RUB (inflated to 2014, adjusted to volume turnover as for 2014)	609.19	633.20	(24.01)	(3.79)

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 2014 as compared to the year ended 31 December 2013 in the amount of RUB 2,920 or 2.6% was influenced by an increase of average employee headcount related primarily to construction and putting into operation of new oil trunk pipelines.

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 also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and one-time payments at the retirement date.



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3.2.1. Salaries, social funds contributions and social expenses (continued)

Key management personnel compensation

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Salaries and bonuses	1,528	1,414	114	8.1
Termination benefits	17	8	9	2.1 times
Other	21	11	10	1.9 times
	1,566	1,433	133	9.3

During the year ended 31 December 2014 the Group contributed to NPF "Transneft in favour of the key management personnel RUB 195 (for 2013 – RUB 58).

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 (including change of management during the reporting periods) of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.

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.

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 as for the year ended 31 December 2014 as compared to 2013 increased because of recognition of obligations of the Group under defined benefit plan amounting to RUB 8,441 which is applicable for the most part of employees of the Group and which was recognized as defined contributions plan until 31 December 2014. This pension plan assumes a regular payment of benefits to participants during lifetime calculated on years of service, salary and awards received during working at the time of pension granting and having worked not less than five years.

The non-state pension fund which offers different corporate plan options is an important part of the social policy.

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Employers' contributions to NPF Transneft in favor of employees	4,610	5,709	(1,099)	(19.2)

3.2.3. Energy

Energy expenses for the year ended 31 December 2014 decreased by RUB 46 or 0.1% as compared to the same period of the previous year. The decrease was caused by growth of tariffs of natural monopolies for energy and power consumption, as well as a decline of volume of declared power and energy consumed at the same due to the implementation of measures under the program of energy saving and development of energy efficiency of OAO AK Transneft for the period 2012-2015 as well as the Energy Strategy for the period till 2030 approved by the Russian Government.

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

	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Average annual capacity, MW	1,381	1,486	(106)	(7.1)
Consumption of energy, (mln. kW*h)	12,388	13,209	(821)	(6.2)



3.2.4. Transportation of oil using railways

This category of expenses represents expenditures on a complete set of services related to oil transportation by railways, including preparation and delivery of railway cars for oil loading, oil transportation by railway along the Skovorodino–SMNP Kozmino section, delivery of railway cars for oil unloading, and return of empty railway cars to Skovorodino.

The amount of expenses on transportation of oil using railways as for the year ended 31 December 2014 decreased by RUB 4,111 or 63.1% as compared to the previous period as a result of putting into operation of The Eastern Siberia–Pacific Ocean pipeline system, stage two, the Skovorodino–SMNP Kozmino section (ESPO-II) and decrease in volume of oil transportation by railways.

3.2.5. Materials

Expenses on materials for the year ended 31 December 2014 as compared to the same period of 2013, increased by RUB 990 or 4.5%.

3.2.6. Repairs services and maintenance of relevant technical condition of pipeline

A decrease in these expenses for the year ended 31 December 2014, amounted to RUB 720 or 5.0% compared to the year ended 31 December 2013.

3.2.7. Cost of crude oil and oil products sold

The cost of crude oil sold for export for the year ended 31 December 2014, amounted to RUB 163,055, including custom duties in the amount of RUB 79,812, which was a result of the start 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 2014 amounted to RUB 12,299 or 2.1 times as compared to 2013 and was caused by increase in volume of sales of marketable oil.

The cost of marketable oil products sold decreased by RUB 2,098 or 33.8% due to decline in the Group companies' oil products sales volumes (ref. to 3.1.2).

3.2.8. Taxes (except 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).

3.2.9. 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 detailed 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 decrease in the Group's share of results from associates and jointly controlled entities for the year ended 31 December 2014 compared to the relative period in 2013, was mainly attributed to comprehensive loss of Group OAO NCSP (ref. to 3). The Group's effective share in OAO NCSP was 35.57% as at 31 December 2014.



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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.

An increase in interest income for the year ended 31 December 2014, by RUB 2,435 or 14.6%, was driven mainly by decline in income on the temporary investment of borrowings.

Interest income	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Interest income from cash and equivalents	4,275	5,380	(1,105)	(20.5)
Interest income from other financial assets	15,265	13,746	1,519	(11.1)
Other interest income	366	304	62	20.4
Total interest receivable	19,906	19,430	476	2.4
Less interest income on the temporary investment of borrowings	(839)	(2,798)	1,959	(70.0)
Total interest income recognised in the statement of profit and loss and other comprehensive income	19,067	16,632	2,435	14.6

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

Interest expenses	Year ended 31 December 2014	Year ended 31 December 2013	Absolute change	Change, %
Interest expenses on loans and borrowings	34,656	34,096	560	1.6
Interest expenses regarding the dismantlement provision	2,329	5,777	(3,448)	(59.7)
Other interest expenses	1,589	1,132	457	40.4
Total interest expenses	38,574	41,005	(2,431)	(5.9)
Less finance costs to be capitalised	(2,071)	(3,911)	1,840	(47.0)
Total interest expense recognised in the statement of profit and loss and other comprehensive income	36,503	37,094	(591)	(1.6)

The amount of interest expenses is composed of:

- interest payable on a USD 10bn loan obtained from the China Development Bank at a variable LIBOR-linked rate with a 20-year maturity repayable in equal installments starting in the sixth year from the moment of issue;
- interest payable on Eurobonds issued by the Group in 2007-2008 for a total of USD 1,050 mln for the year ended 31 December 2014 and USD 2,350 for the similar period of the previous year;
- interest payable on series 01-03 of non-convertible interest-bearing documentary bonds amounting to RUB 135,000;
- interest payable on series B0-01 and B0-02 of non-convertible interest-bearing documentary bonds amounting to RUB 34,000 and B0-02 for the amount 15,000.

The increase in interest expense as for the year ended 31 December 2014 as compared to 2013 was mainly driven by depreciation of exchange rate of RUB to USD.

During the year ended 31 December 2014, interest in the amount of RUB 1,232 was capitalised as part of cost of assets under construction (for the year ended 31 December 2013 – RUB 1,113) including:

- interest expenses to be capitalised in the amount of RUB 2,071 (for the year ended 31 December 2013 – RUB 3,911);
- interest income to be excluded from interest expenses to be capitalised in the amount of RUB 839 (for the year ended 31 December 2013 – RUB 2,798).



3.4. Finance income and costs (continued)

Foreign currency exchange gains and losses

The sum of foreign currency exchange gains and losses and their growth for the year ended 31 December 2014, compared to the year ended 31 December 2013, 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 2014	Year ended 31 December 2013	Absolute change	Change, %
Foreign exchange gains on financial investments	196,223	37,205	159,018	5.3 times
Foreign exchange gains on loans and borrowings	26,961	24,953	2,008	8.0
Other foreign exchange gains	61,425	10,209	51,216	6 times
Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income	284,609	72,367	212,242	3.9 times
Foreign exchange loss on financial investments	(23,197)	(16,714)	(6,483)	38.8
Foreign exchange loss on loans and borrowings	(286,419)	(55,843)	(230,576)	5.1 times
Other foreign exchange loss	(17,162)	(5,597)	(11,565)	3.1 times
Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income	(326,778)	(78,154)	(248,624)	4.2 times
Net exchange differences	(42,169)	(5,787)	(36,382)	7.3 times

Dynamics of exchange differences presented in the table was driven by weakening of the ruble against the dollar and the Euro for the year ended 31 December 2014 compared to the relative period in 2013.

Derivatives

As for the year ended 31 December 2014 the Group recognised the net loss from operations with derivatives in the amount of RUB 75,289 as compared to the loss of RUB 52 for the same period of 2013. The dynamics was driven by significant volatility and depreciation of the RUB/USD exchange rate during 2014 by more than 70% (see para 2.3).



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3.5. Reconciliation of profit and EBITDA

	Year ended 31 December 2014	Year ended 31 December 2013	Change, %
Profit for the period	59,500	158,017	(62.3)
Increased/(decreased) by:			
income tax expense	36,943	53,995	(31.6)
depreciation and amortization	111,818	102,261	9.3
result of oil sales to China	(5,460)	(849)	6.4 times
net finance costs	134,894	26,301	5.1 times
changes in the Group's structure	(8,796)	(2,848)	3.1 times
one-time expenses (including pension provision and other non-production expenses) (ref. to 3.2.2)	8,441	1,284	6.6 times
share of loss from associates and jointly controlled entities	10,786	15,018	(28.2)
EBITDA	348,126	353,179	(1.4)
EBITDA margin*, %	57.5	59.3	x

* 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 2014	Year ended 31 December 2013	Absolute change	Change, %
Cash flows from operating activities	273,210	322,776	(49,566)	(15.4)
Cash flows used in investing activities	(211,755)	(268,945)	57,190	(21.3)
Free cash inflow*	61,455	53,831	7,624	14.2
Cash flows used in financing activities	(89,895)	(36,793)	(53,102)	2.4 times
Net cash (outflow) / inflow	(28,440)	17,038	(45,478)	x
Change in cash and cash equivalents due to deviation of currency exchange rate	36,758	3,187	33,571	11.5 times
Net increase in cash and cash equivalents	8,318	20,225	(11,907)	x

*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 2014 amounted to RUB (10,438) (the year ended 31 December 2013: RUB 106,222).

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 273,210 for the year ended 31 December 2014, which is RUB 49,566 or 15.4% less than for the year ended 31 December 2013.

The main factors which influenced on the decrease of cash from operating activities for the year ended 31 December 2014 as compared to the similar period in 2013 were as follows:

- an increase in cash receipts from customers by RUB 31,827;
- increase in cash paid to suppliers by RUB 48,580;
- increase in cash received from the refund of VAT and other taxes from the budget by RUB 24,598;
- increase of the net amount of payments of income tax amounting to RUB 11,223.

4.2. Investing activities

The primary factors resulting in a decrease in cash used in investment activities by RUB 57,190 or 21.3% for the year ended 31 December 2014, as compared to the same period for the previous year, were:

- increase in the amount of purchase of property, plant and equipment by RUB 89,005;
- net cash inflow as for the year ended 31 December 2014 in the amount of RUB 71,893 from purchase-and-sale transactions in regards to promissory notes and allocation-closure of funds in deposits as compared to net cash outflow for 2013 amounting to RUB 52,391;
- cash inflow amounting to RUB 9,599 as a result of changes in the Group's structure;
- a cash outflow from the purchase of share in jointly controlled entities and subsidiaries in the amount of RUB 8,104.

4.3. Financing activities

The main factors which influenced on increase of cash flows used in financing activities for the year ended 31 December 2014 as compared to 2013 by RUB 53,102 or in 2.4 times were:

- Attraction of cash by issue of non-convertible interest-bearing documentary bonds BO-03 in the amount of RUB 15,000;
- increase of cash used to repay bonds and loans in the amount of RUB 77,139.
For the year ended 31 December 2014 Eurobonds were repaid in the amount of USD 1,300 million (RUB 47,040 at the rate of Central Bank of the Russian Federation on the date of operation), Russian bonds BO-01 and BO-02 were repaid in the amount of RUB 33,955 and a monthly repayment of the loan to China Development Bank 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).
Eurobonds in the amount of USD 600 mln. were settled (RUB 19,859 at the rate of Central Bank of the Russian Federation on the date of operation).
- increase of dividends paid in the amount of RUB 3,159;
- payments for acquisition of non-controlling interests in OAO Uralsibnefteprovod (24.5%) for RUB 10,437 and in OAO Uraltransnefteproduct (13.8%) for RUB 2,113.



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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 2014.

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, provisions, unrealized foreign currency gains and losses, and undistributed profits of associates;
- (c) all other items for which the cash effects are investing or financing cash flows.

	Year ended 31 December 2014	Year ended 31 December 2013
OPERATING ACTIVITIES		
Profit before tax	96,443	212,012
Adjustments for:		
Depreciation and amortization	111,818	102,261
Loss from disposal of property, plant and equipment	1,122	2,453
Finance income	(303,676)	(88,999)
Finance costs	438,570	115,300
Changes in the Group's structure	(8,796)	(2,848)
Share of loss from associates and jointly-controlled entities	10,786	15,018
Others	761	(8,129)
Operating profit before changes in working capital	347,028	347,068
Changes in operating assets and liabilities:		
Increase in inventories	(1,542)	1,694
(Increase) / decrease in trade and other receivables relating to operating activity and VAT assets	(5,206)	33,005
Increase in trade and other payables, and accruals relating to operating activity	10,176	8,220
Cash flows from operating activities before payment of income tax expense and interest	350,456	389,987
Income tax paid	(44,122)	(41,361)
Income tax refund	575	9,037
Interest paid	(33,699)	(34,887)
Cash flows received from operating activities	273,210	322,776



5. Liquidity analysis

	31 December 2014	31 December 2013	Change, %
Current assets	697,494	532,017	31.1
including:			
cash and cash equivalents	113,060	104,742	7.9
short-term bank promissory notes, deposits and bonds*	438,708	300,910	45.8
Current liabilities	383,719	226,085	69.7
Net working capital	313,775	305,932	2.6
Current ratio	1.8	2.4	x
Quick ratio**	1.6	2.0	x
Debt / EBITDA	2.2	1.6	x
Debt / Equity	0.6	0.4	x

* 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 2014 and 31 December 2013 accordingly, with amounts denominated in foreign currency recalculated using CBR exchange rates at 31 December 2014 and 31 December 2013 accordingly.

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	-	-	-	-	-	
	889,481	1,063,293	348,729	75,898	58,923	114,563	51,061	414,119	

31 December 2013:

	Carrying amount	Contractual cash flows							More than 5 years
		Total	2014	2015	2016	2017	2018		
Loans and borrowings	580,558	715,211	121,461	186,233	35,231	34,392	66,752	271,142	
Trade and other payables	48,755	48,755	48,755	-	-	-	-	-	
	629,313	763,966	170,216	186,233	35,231	34,392	66,752	271,142	

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