

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 2013





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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 2013 and results of operations for the year ended 31 December 2013, compared to the year ended 31 December 2012, 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 2013.

Key financial and operating results

	Year ended 31 December 2013	Year ended 31 December 2012	Change, %
Revenue	749,617	732,375	2.4
Profit for the period	158,017	184,390	(14.3)
EBITDA	352,164	324,230	8.6
EBITDA margin, %*	59.1	56.2	x
Oil delivered to consignees, mln. tons including	481.1	480.4	0.1
Russian oil refineries, mln. tons	250.4	241.7	3.6
transshipment into the CPC-R system, mln. tons	2.0	0.4	5 times
exports to FSU countries, mln. tons	26.4	27.8	(5.0)
exports to ROW, mln. tons	202.2	210.4	(3.9)
Oil products delivered to consignees, mln. tons including:	31.0	27.5	12.7
Russia's domestic market, mln. tons	10.1	8.9	13.5
exports to the Customs Union member countries, mln.tons	0.3	1.9	(84.2)
exports to ROW, mln. tons	20.6	16.6	24.1

* 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 2013 amounted to RUB 158.0 bn which is RUB 26.4 bn or 14.3% lower than for the year ended 31 December 2012 which amounted to RUB 184.4 bn.

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

	Year ended 31 December 2013	Year ended 31 December 2012	Change, %
Profit for the period	158,017	184,390	(14.3)
Net gain / (loss) from exchange differences	5,787	(10,571)	x
Net interest expense	20,462	19,653	4.1
Profit from disposal of subsidiaries	(2,848)	-	x
Share of loss/(profit) from associates and jointly-controlled entities	1,025	(3,938)	x
Impairment of equity-accounted investee*	13,993	-	x
Net profit for the period net of afore- mentioned factors	196,436	189,534	3.6

* The impairment was recognised in relation to the investment in OAO NCSP (ref. to paragraph 3)



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 2013 possesses an extensive network of trunk oil pipelines with a total length of approximately 53.6 thousand km and trunk oil products pipelines with a total length of some 19.1 thousand km.

During the year ended 31 December 2013 the Group transported 88% of oil produced in Russia and more than 26% 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:
 - average tariff through oil trunk pipelines of OAO AK Transneft – USD 1.34/100 tkm;
 - tariff of OAO Gomeltransneft Druzhba (Belarus) in the direction of the western border (Poland, Germany) – USD 0.95/100 tkm;
 - tariff of AO KazTransOil (Kazakhstan) – USD 2.93/100 tkm;
 - tariff of TAL Pipeline for transportation of oil through Trieste – Ingolstadt direction (Italy, Austria, Germany) – USD 1.12/100 tkm;
 - tariff of Transpetrol (Slovakia) – USD 1.69/100 tkm;
 - tariff of MERO (Czech) – USD 2.87/100 tkm;
 - tariff of Transnafta for transportation of oil to oil refinery in Novi-Sad (Serbia) – USD 3.71/100 tkm;
 - tariff of JANAF (Croatia) – USD 4.33/100 tkm;
 - tariff through Patoka-Catlettsburg section (Marathon Pipe Line LLC, USA) – USD 1.37/100 tkm;
 - tariff through Wood River-Patoka section (Marathon Pipe Line LLC, USA) – USD 0.74/100 tkm;
 - tariff through Abbotsford-Cherry Point, Ferndale section (KinderMorgan, USA/Canada) – USD 2.41/100 tkm;
 - tariff through Cromer-Clearbrook section (Enbridge, USA/Canada) – USD 1.47/100 tkm;
 - tariff through Edmonton-Superior section (Enbridge, USA/Canada) – USD 1.20/100tkm.



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.

During 2010 – 2013 the Group has carried out investment projects in the area of building and expanding pipeline systems, the largest of which are:

- The Eastern Siberia–Pacific Ocean pipeline system, stage two, the Skovorodino–SMNP Kozmino section (ESPO II);
- Expansion of the Eastern Siberia–Pacific Ocean pipeline system's capacity, the GNPS Taishet–NPS Skovorodino section, to 50 mln tons annually and further extension to 58 mln tons;
- The Baltic Pipeline System 2, stage one (BPS-2, 1st stage);
- The Purpe– Samotlor oil pipeline;
- Construction of Zapolyarie–Purpe oil trunk pipeline;
- Construction of Kuyumba – Tayshet oil trunk pipeline.

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. 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» has 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 (in edition of the Order of the FTS of Russia of 07.12.2007 No. 437-e/24).

During 2012 and 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 31.08.2011 No. 202-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 29.07.2011 No. 183-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of Oil along the Klin-Andreapol' route;
 - 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 Sheskhari route;
 - Order of the FTS of Russia of 29.07.2010 No. 172-e/6 Concerning the setting of a fee for the services of OAO AK Transneft for transportation of oil via the Tikhoretsk–Tuapse Oil Refinery pipeline section for OAO NK Rosneft;
 - 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 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 05.08.2008 No. 129-e/3 Concerning the approval of fees for oil loading services at the LPDS Krotovka of OAO AK Transneft's trunk pipeline system for OAO TNK-BP Holding;
 - Order of the FTS of Russia of 29.12.2011 No. 448-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of transit oil via the trunk pipeline system;
 - Order of the FTS of Russia of 28.02.2012 No. 15-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil at the Oil Base Ust-Luga and the inclusion of amendments to the order of the FTS of Russia of 31.08.2011 No. 202-e/2;
 - Order of the FTS of Russia of 27.04.2012 No. 72-e/2 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil along the Klin-Andreapol' route;
 - Order of the FTS of Russia of 10.07.2012 No. 174-e/2 Cancelling the order of the FTS of Russia of 05.08.2008 concerning the setting of fees for oil loading services at the LPDS Krotovka of OAO AK Transneft's trunk pipeline system for OAO TNK-BP Holding;
 - Order of the FTS of Russia of 31.08.2012 No. 208-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil via the trunk pipeline system and the inclusion of amendments to the order of the FTS of Russia of 31.08.2011 No. 202-e/2;
 - 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 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;
 - 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 27.09.2012 No. 227-e/3 Concerning the cancelling of the orders of the FTS:
 - of 31.08.2011 No. 202-e/2 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil via the trunk pipeline system;
 - of 28.02.2012 No. 15-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil at the Oil Base Ust-Luga and the inclusion of amendments to the order of the FTS of Russia of 31.08.2011 No. 202-e/2;



2.1. Oil and oil products transportation tariffs (continued)

- of 27.04.2012 No. 72-e/2 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil along the Klin-Andreapol' route;
- of 31.08.2012 No. 208-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of oil via the trunk pipeline system and the inclusion of amendments to the order of the FTS of Russia of 31.08.2011 No. 202-e/2;
- Order of the FTS of Russia of 30.10.2012 No. 252-e/2 Concerning the cancelling of the order of the FTS of Russia of 29.07.2010 No. 172-e/6 Concerning the setting of a fee for the services of OAO AK Transneft for transportation of oil via the Tikhoretsk–Tuapse Oil Refinery pipeline section for OAO NK Rosneft;
- Order of the FTS of Russia of 14.12.2012 No. 392-e/12 Concerning the cancelling of the order of the FTS of Russia of 29.12.2011 No. 448-e/1 Concerning the setting of fees for the services of OAO AK Transneft for transportation of transit oil via the trunk pipeline system;
- Order of the FTS of Russia of 14.12.2012 No. 391-e/11 Concerning the cancelling of the 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 Sheskhari route;
- 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;
- The intergovernmental agreement on transportation of Azerbaijan oil through the territory of the Russian Federation of 16.02.1996, Moscow;
- 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):
 - 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 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 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 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.



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2.2. Oil mining and oil products refining volumes

The dynamics of oil mining and oil products refining volumes in the Russian Federation determine the dynamics 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 2013	Year ended 31 December 2012	Change, %
Oil mining volume in the Russian Federation, mln tons	523.5	518.0	1.1
Oil products refining volume in the Russian Federation, mln tons	120.1	117.9	1.9

Oil mining volume increased for the year ended 31 December 2013 as compared to the year ended 31 December 2012 for 5.5 mln tons or by 1.1% (ref. to subparagraph 3.1.1.).

Growth in oil products refining during the year ended 31 December 2013 in the Russian Federation for 2.2 mln tons or by 1.9% influenced the growth of oil products transportation (ref. to subparagraph 3.1.1.).

During 2013 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 2012. This resulted in the growth of oil refining volumes and would lead to growth of transportation volumes of oil products (ref. to subparagraph 3.1.1.).

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.

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's has a significant portion of US dollars nominated loans. Increase of US dollars' to Russian roubles exchange rate may result in additional expenses in regard to servicing and settlement of liabilities nominated in foreign currency.

	Year ended 31 December 2013	Year ended 31 December 2012	Change, %
Change in the rouble's exchange rate against the US dollar, %	2.77	(2.32)	x
Average exchange rate for the period (roubles per US dollar)	31.8480	31.0930	2.43
Exchange rate at the end of the period (roubles per US dollar)	32.7292	30.3727	7.76



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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 2013	Year ended 31 December 2012	Change, pp
Rouble inflation (CPI), %	6.5	6.6	(0.1)

2.5. Taxation

Most of the Group's companies are incorporated in the Russian Federation, with their financial activity taxable under the Tax Code of the Russian Federation.

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

	Year ended 31 December 2013	Year ended 31 December 2012	Change, %
Current income tax	48,034	47,934	0.2
Property tax	9,823	4,716	2.1 times
Other taxes and levies	859	881	(2.5)

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.

Property tax

The amount of property tax increased by RUB 5,107 or in 2.1 times. The significant increase was a result of introduction on 1 January 2013 of the Federal Law of 29.11.2012 # 202-FZ «Concerning amendments to Part two of the Tax Code of the Russian Federation», which cancelled 0.4% rate of tax advantages for property tax relating to the trunk pipeline facilities as well as of any structures constituting an integral technological part of these facilities, as well as the completion of construction and putting into operation during 2012 a number of investment projects, including the Baltic Pipeline System (BPS-2) and the second phase of the pipeline system Eastern Siberia - Pacific Ocean (ESPO-II).

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 2013	Year ended 31 December 2012	Absolute change	Change, %
Revenue				
Revenue from oil transportation services	506,684	494,542	12,142	2.5
Revenue from crude oil sales	165,326	166,276	(950)	(0.6)
Other revenue	77,607	71,557	6,050	8.5
Operating expenses	(499,134)	(492,587)	(6,547)	1.3
Operating profit	250,483	239,788	10,695	4.5
Exchange gains	72,367	130,329	(57,962)	(44.5)
Exchange losses	(78,154)	(119,758)	41,604	(34.7)
Interest income	16,632	10,501	6,131	58.4
Interest expense	(37,094)	(30,154)	(6,940)	23.0
Net change in fair value of derivatives	(52)	-	(52)	x
Profit from disposal of subsidiaries	2,848	-	2,848	x
Share of profit from associates and jointly controlled entities	(1,025)	3,938	(4,963)	x
Impairment of equity-accounted investee	(13,993)	-	(13,993)	x
Profit before income tax	212,012	234,644	(22,632)	(9.6)
Current income tax	(48,055)	(48,038)	(17)	0.04
Deferred income tax	(5,940)	(2,216)	(3,724)	168.1
Income tax expense	(53,995)	(50,254)	(3,741)	7.4
Profit for the period	158,017	184,390	(26,373)	(14.3)
Revaluation of defined benefit plan liability	1,245	(1,291)	2,536	x
Other comprehensive gain/ (loss), net of income tax	137	(65)	202	x
Total comprehensive income	159,399	183,034	(23,635)	(12.9)
Total comprehensive income attributable to:				
Shareholders of OAO AK Transneft	154,275	179,229	(24,954)	(13.9)
Non-controlling interests	5,124	3,805	1,319	34.7

In 2013 the Group recognised loss shown in the line "Share of profit from associates and jointly controlled entities" in the amount of RUB 1,025 as compared to the profit amounting to RUB 3,938 for 2012. This dynamics was caused by the Group OAO NCSP's recognition of comprehensive loss for 2013 amounting to RUB 3,290 compared to total comprehensive income for 2012 in the amount of RUB 9,744.

Besides, during 2013 as a result of significant decline in the share market price of NCSP as at the reporting date and its continuing decline after the reporting date the Group recognised impairment loss of the equity-accounted investee in the amount of RUB 13,993. The estimation of the recoverable amount of investment was based on assessment of its value in use, and the following assumptions were used – the forecast period of 5 years, the discount rate of 10.5%, growth rate after the forecast period of 2%.



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3.1. Revenue

Revenue by type of operations	Year ended 31 December 2013	Share of total revenue, %	Year ended 31 December 2012	Share of total revenue, %	Absolute change	Change, %
Revenue from crude oil transportation services	506,684	67.6	494,542	67.5	12,142	2.5
Exports and sales in international markets, except the CIS	274,085	36.6	269,085	36.7	5,000	1.9
Exports and sales in the CIS	16,525	2.2	15,883	2.2	642	5.2
Domestic sales	216,074	28.8	209,574	28.6	6,500	3.1
Revenue from oil products transportation services	42,580	5.7	33,371	4.6	9,209	27.6
Revenue from oil compounding services	5,310	0.7	6,096	0.8	(786)	(12.9)
Other revenue	23,148	3.1	17,806	2.4	5,392	30.0
Total revenue (less revenue from sales of crude oil and oil products)	577,722	77.1	551,815	75.3	25,907	4.7
Revenue from export sales of crude oil	153,688	20.5	155,134	21.2	(1,446)	(0.9)
Revenue from sales of crude oil in the domestic market	11,638	1.5	11,141	1.5	497	4.5
Revenue from sales of oil products	6,569	0.9	14,285	2.0	(7,716)	(54.0)
Total revenue	749,617	100.0	732,375	100.0	17,242	2.4

For the year ended 31 December 2013, the Group's revenue increased by RUB 17,242, or 2.4%, attributable mainly to an increase in revenue from of oil transportation services and oil products transportation services. Without taking into account crude oil sales and oil products sales, revenue for the year ended 31 December 2013, amounted to RUB 577,722, which is RUB 25,907 or 4.7% higher than for the year ended 31 December 2012.

3.1.1. Oil and oil products transportation services

An increase in revenue from oil transportation services amounted to RUB 12,142, or 2.5%. The increase in revenue for oil transportation services for 2013 as compared to 2012 was influenced by growth in oil transportation tariffs, as well as cancellation of tariffs for transportation of transit oil (the same tariffs have been set for Russian and transit oil). The afore-mentioned factors had offset the revenue decrease which resulted from ceasing of agreed tariff "Tikhoretsk – Tuapsinskiy NPZ", changes in oil transportation turnover and reallocation of turnovers from western to eastern direction. Besides, in 2013 delivery of oil scheduled in the direction of Primorsk port were reallocated in the direction of Ust-Luga port, as well as in the direction of oil refinery entities of the Russian Federation. Among the above mentioned directions the routes to Primorsk port have the most expensive specific tariff. At the same time the tariff for transportation of oil to domestic market is lower than for transportation to export.

An increase in revenue from oil products transportation services by RUB 9,209 or 27.6% was driven by growth in oil products transportation tariffs as well as growth in 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.

Decline in revenue from export sales of crude oil as for the year ended 31 December 2013 compared to the year ended 31 December 2012 was a result of decrease of oil price nominated in US Dollars per 1 barrel for the year ended 31 December 2013.

Decline in revenue from sales of marketable oil products for the year ended 31 December 2013 by RUB 7,716 or by 54.0%, was driven by decrease in volumes of marketable oil products sales by the Group's companies as non-core business.



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3.1.3. Revenue from oil compounding services

A decrease in revenue from oil compounding services by RUB 786 or by 12.9% as for the year ended 31 December 2013 compared to the year ended 31 December 2012 was a result of decline in oil compounding volumes by 14.4% (39,072.6 thousand tons for the year ended 31 December 2013; 45,608.0 thousand tons for the year ended 31 December 2012).

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 2013 as compared to the similar period of the previous year was a result of:

- increase of revenue for activities on the organization of transportation of cargoes by railways by RUB 483;
- increase of revenue for construction services in the amount of RUB 1,643;
- increase of insurance services by RUB 514;
- provision of services for connection of oil refinery to oil trunk pipeline in the amount of RUB 2,254.

3.2. Operating expenses

Operating expenses for the year ended 31 December 2013, and the year ended 31 December 2012, are detailed in the table below:

Operating expense line items	Year ended 31 December 2013	Share of total expenses, %	Year ended 31 December 2012	Share of total expenses, %	Absolute change	Change, %
Staff costs	115,947	23.2	105,199	21.3	10,748	10.2
Energy	32,089	6.4	30,951	6.3	1,138	3.7
Transportation of oil using railways	6,515	1.3	31,411	6.4	(24,896)	(79.3)
Materials	22,009	4.4	20,459	4.2	1,550	7.6
Repairs services and maintenance of relevant technical condition of pipeline	14,328	2.9	11,494	2.3	2,834	24.7
Insurance expenses	6,717	1.4	5,952	1.2	765	12.9
Taxes (except income tax)	10,153	2.0	5,183	1.1	4,970	95.9
Other operating expenses	17,691	3.5	13,848	2.8	3,843	27.8
Total operating expenses (net of D&A and cost of crude oil and oil products sold)	225,449	45.1	224,497	45.6	952	0.4
Depreciation and amortization	102,261	20.5	84,197	17.1	18,064	21.5
One-time non-production expenses	1,284	0.3	4,401	0.9	(3,117)	(70.8)
Cost of export crude oil sales (including export custom duties)	153,108	30.7	155,379	31.5	(2,271)	(1.5)
Cost of crude oil sold in the domestic market	10,827	2.2	10,556	2.1	271	2.6
Cost of oil products sold	6,205	1.2	13,557	2.8	(7,352)	(54.2)
Total operating expenses	499,134	100.0	492,587	100.0	6,547	1.3

For the year ended 31 December 2013, compared to the year ended 31 December 2012, the amount of operating expenses (less depreciation and amortization, one-time non-production expenses and cost of crude oil and oil products sold) increased by RUB 952 or 0.4%, while total operating expenses increased by RUB 6,547 or 1.3%.

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



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3.2 Operating expenses (continued)

- growth in depreciation and amortization. The growth of depreciation was mainly associated with putting into operation of The Eastern Siberia–Pacific Ocean pipeline system, stage two the Skovorodino–SMNP Kozmino section (ESPO-II);
- growth in staff costs (ref. paragraph 3.2.1.);
- growth in the amount of other taxes recognised in operating expenses (ref. paragraph 3.2.7).

After applying deflation rates, operating expenses for the year ended 31 December 2013, and for the year ended 31 December 2012, were as follows:

Operating expense line items	Deflation rates (2013 To 2012)	Year ended 31 December 2013 (Deflated To 2012)	Share of total expenses, %	Year ended 31 December 2012	Share of total expenses, %	Absolute change	Change, %
Staff costs	6.7	108,684	22.9	105,199	21.4	3,485	3.3
Energy	10.9	28,945	6.1	30,951	6.3	(2,006)	(6.5)
Transportation of oil using railways	11.2	5,857	1.2	31,411	6.4	(25,554)	(81.4)
Materials	3.5	21,275	4.5	20,459	4.2	816	4.0
Repairs services and maintenance of relevant technical condition of pipeline	5.6	13,568	2.9	11,494	2.3	2,074	18.0
Insurance expenses	3.4	6,493	1.4	5,952	1.2	541	9.1
Taxes (except income tax)	3.5	9,814	2.1	5,183	1.1	4,631	89.3
Other operating expenses	3.5	17,101	3.6	13,848	2.8	3,253	23.5
Total operating expenses (net of D&A and cost of crude oil and oil products sold)	X	211,737	44.7	224,497	45.6	(12,760)	(5.7)
Depreciation and amortization	X	102,261	21.6	84,197	17.1	18,064	21.5
One-time non-production expenses	X	1,284	0.3	4,401	0.9	(3,117)	(70.8)
Cost of export crude oil sales	7.3	142,630	30.1	155,379	31.5	(12,749)	(8.2)
Cost of crude oil sold in the domestic market	7.3	10,086	2.1	10,556	2.1	(470)	(4.5)
Cost of oil products sold	4.0	5,966	1.3	13,557	2.8	(7,591)	(56.0)
Total operating expenses	X	473,964	100.0	492,587	100.0	(18,623)	(3.8)

The deflation rates used are based on scenarios prepared by the Ministry of Economic Development for devising socio-economic development scenarios for 2012-2016, as well as on 2012-2013 inflation rates.



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3.2 Operating expenses (continued)

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

The Group's management analyzes expenses broken down by the Oil transportation, Oil products transportation and Oil sales to the People's Republic of China segments based on indicators developed under the Russian Accounting Standards (RAS) without adjustment entries for compliance with the IFRS. Operating expenses of segments Services of oil transportation and Services of oil products transportation are shown net of administrative and commercial expenses. Administrative and commercial expenses are included in unallocated expenses.

	Oil transportation services	Oil products transportation services	Other segments, adjustments and unallocated expenses	Total operating expenses
For the year ended 31 December 2013				
Operating expenses (net of D&A)	145,780	16,362	63,307	225,449
Cargo turnover, mln tons x km	1,156,382	40,604	-	-
For the year ended 31 December 2012				
Operating expenses (net of D&A)	158,552	15,824	50,121	224,497
Cargo turnover, mln tons x km	1,127,699	34,498	-	-

Unit costs per 100 tons x km for each of the segments are based on operating expenses calculated under the Russian Accounting Standards (RAS) without adjustment entries for compliance with the IFRS and cargo turnover. Deflated unit costs are calculated using deflation rate for deflating operating expenses (cost of crude oil and oil products sold).

Unit costs of oil and oil products transportation per 100 tons x km for the year ended 31 December 2013, and for the year ended 31 December 2012, were as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012	Absolute change in unit costs, RUB per 100 tons x km	Change in unit costs, RUB per 100 tons x km, %
Oil transportation services				
Unit costs per 100 tons x km, RUB	12.61		(1.45)	(10.3)
Deflated unit costs per 100 tons x km, RUB	11.78	14.06	(2.28)	(16.2)
Oil products transportation services				
Unit costs per 100 tons x km, RUB	40.30		(5.57)	(12.1)
Deflated unit costs per 100 tons x km, RUB	37.66	45.87	(8.21)	(17.9)

3.2.1. Staff costs

Staff costs comprise wages, accrual of provision for annual bonus, provision for unused vacation, pension contributions, insurance premiums, staff training, social security expenses and other remuneration.

The increase in staff costs for the year ended 31 December 2013 as compared to the year ended 31 December 2012 in the amount of RUB 10,739 or 10.2% was influenced by an increase of average employee headcount related primarily to putting into operation of new oil pipelines, indexation of salaries and improvements in remuneration system.

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.



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3.2.1. Staff costs (continued)

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

	Year ended 31 December 2013	Year ended 31 December 2012	Absolute change	Change, %
Employers' contributions to NPF Transneft* in favor of employees	5,709	6,741	(1,032)	(15.3)

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.

Key management personnel compensation

	Year ended 31 December 2013	Year ended 31 December 2012	Absolute change	Change, %
Salaries and bonuses	1,414	1,341	73	5.4
Termination benefits	8	16	(8)	(50)
Other	11	17	(6)	(35.3)
	1,433	1,374	59	4.3

During the year ended 31 December 2013 the Group contributed to NPF "Transneft in favour of the key management personnel RUB 58 (for 2012 – RUB 245).

Key management personnel for whom information was disclosed in the 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. Energy

Energy expenses for the year ended 31 December 2013 increased by RUB 1,138 or 3.7% as compared to the same period of the previous year. The growth of tariffs of natural monopolies resulted in the increase of energy consumed by RUB 1,563 and the increase of consumption of declared power by RUB 1,025. At the same time despite the putting into operation of the new oil pipelines the decline of volume of declared power and energy consumed resulted in the decrease of expenses by RUB 617 and RUB 833 respectively, 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 2013	Year ended 31 December 2012	Absolute change	Change, %
Consumption of power, MW	17,813	18,592	(779)	(4.2)
Consumption of energy, (mln. kW*h)	13,160	13,662	(502)	(3.7)

* NPF Transneft – Non-state pension fund Transneft



3.2.3. 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 2013 decreased by RUB 24,896 or 79.3% 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).

3.2.4. Materials

Expenses on materials for the year ended 31 December 2013, increased by RUB 1,550 or 7.6%, due to expansion of operations:

- increase in rendering of construction services to third parties;
- increase in the amount of expenses, connected with putting into operation of new oil pipelines.

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

An increase in these expenses for the year ended 31 December 2013, amounted to RUB 2,834 or 24.7% compared to the year ended 31 December 2012, which was mainly a result of increased number of fixed defects through the line part of trunk oil pipelines mainly made by OAO Privolzhsknefteprovod and OAO Sibnefteprovod.

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 2013, amounted to RUB 153,108, including custom duties in the amount of RUB 74,422, 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.

The cost of marketable oil products sold decreased by RUB 7,352 or 54.2% due to decline in the Group companies' oil products sales volumes as non-core activity (ref. to paragraph 3.1.2).

3.2.7. 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 paragraph 2.5).

3.2.8. Other operating expenses

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

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

3.2.9. 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 2013 compared to the relative period in 2012, was mainly attributed to decline in profit of OAO Novorossiysk Commercial Sea Port (ref. to para 3). The Group's share in OAO Novorossiysk Commercial Sea Port was 35.57% as at 31 December 2013.



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3.2.10. 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 2013, by RUB 6,131 or 58.4%, was driven by an growth in income from fixed-income securities and deposits as well as decline in the amount interest from income generated by investing temporarily available cash and cash equivalents as they are spent on investments projects.

Interest income	Year ended 31 December 2013	Year ended 31 December 2012	Absolute change	Change, %
Interest income from cash and equivalents	5,380	5,946	(566)	(9.5)
Interest income from other financial assets	13,746	8,396	5,350	63.7
Other interest income	304	342	(38)	(11.1)
Total interest receivable	19,430	14,684	4,746	32.3
less interest income on the temporary investment of borrowings	(2,798)	(4,183)	1,385	(33.1)
Total interest income recognised in the statement of profit and loss and other comprehensive income	16,632	10,501	6,131	58.4

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

Interest expenses	Year ended 31 December 2013	Year ended 31 December 2012	Absolute change	Change, %
Interest expenses on loans and borrowings	34,096	33,920	176	0.5
Interest expenses regarding the dismantlement provision	5,777	7,180	(1,403)	(19.5)
Other interest expenses	1,132	626	506	80.8
Total interest expenses	41,005	41,726	(721)	(1.7)
Less finance costs to be capitalised	(3,911)	(11,572)	7,661	(66.2)
Total interest expense recognised in the statement of profit and loss and other comprehensive income	37,094	30,154	6,940	23.0
Net interest expense	20,462	19,653	809	4.1

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 2,950 mln for the year ended 31 December 2013 and USD 3,450 and 700 mln Euros for the similar period of the previous year;
- interest payable on series 01-03 non-convertible interest-bearing documentary bonds for a total of RUB 135,000;
- interest payable on series BO-01 and BO-02 of non-convertible interest-bearing documentary bonds amounting to RUB 34,000.

In June 2012 the Group repaid in full and on time two Eurobonds issues in the amount of USD 500 mln and 700 mln Euros. In August 2013 the Group, according to the plan, repaid in full another issue of Eurobonds in the nominal amount of USD 600 mln.

During the year ended 31 December 2013, interest in the amount of RUB 1,113 was capitalised as part of cost of assets under construction (for the year ended 31 December 2012 – RUB 7,389) including:

- interest expenses to be capitalised in the amount of RUB 3,911 (for the year ended 31 December 2012 – RUB 11,572);
- interest income to be excluded from interest expenses to be capitalised in the amount of RUB 2,798 (for the year ended 31 December 2012 – RUB 4,183).

Increase in interest expenses for the year ended 31 December 2013 as compared to the year ended 31 December 2012 amounted to RUB 6,940 or 23.0% and was mainly attributable to ceasing of capitalisation of interest because of the completion of investment projects which were financed by loans and borrowings.



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3.2.11. Foreign currency exchange gains and losses

The sum of foreign currency exchange gains and losses and their growth for the year ended 31 December 2013, compared to the year ended 31 December 2012, 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 2013	Year ended 31 December 2012	Absolute change	Change, %
Foreign exchange gains on financial investments	37,205	30,255	6,951	23.0
Foreign exchange gains on loans and borrowings	24,953	87,075	(62,122)	(71.3)
Other foreign exchange gains	10,209	13,000	(2,791)	(21.5)
Total foreign exchange gains recognised in the statement of profit or loss and other comprehensive income	72,367	130,329	(57,962)	(44.5)
Foreign exchange loss on financial investments	(16,714)	(39,266)	22,552	(57.4)
Foreign exchange loss on loans and borrowings	(55,843)	(64,360)	8,517	(13.2)
Other foreign exchange loss	(5,597)	(16,132)	10,535	(65.3)
Total foreign exchange loss recognised in the statement of profit or loss and other comprehensive income	(78,154)	(119,758)	41,604	(34.7)
Net exchange differences	(5,787)	10,571	(16,358)	x

The dynamic of currency-translation effects presented in the table was driven by weakening of the rouble against the US dollar and the Euro for the year ended 31 December 2013 and by its strengthening for the year ended 31 December 2012.

3.3. Reconciliation of profit and EBITDA

	Year ended 31 December 2013	Year ended 31 December 2012	Change, %
Profit for the period	158,017	184,390	(14.3)
Increased/(decreased) by:			
income tax expense	53,995	50,254	7.4
depreciation and amortization	102,261	84,197	21.5
result of oil sales to China	(580)	245	x
net change in fair value of derivatives	52	-	x
interest expenses	37,094	30,154	23.0
interest income	(16,632)	(10,501)	58.4
exchange gains	(72,367)	(130,329)	(44.5)
exchange losses	78,154	119,758	(34.7)
profit from disposal of subsidiaries	(2,848)	-	x
share of loss/(profit) from associates and jointly controlled entities	1,025	(3,938)	x
impairment of equity-accounted investee	13,993	-	x
EBITDA	352,164	324,230	8.6
EBITDA margin*, %	59.1	56.2	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 2013	Year ended 31 December 2012	Absolute change	Change, %
Cash flows from operating activities	322,776	216,587	106,189	49.0
Cash flows used in investing activities	(268,945)	(255,877)	(13,068)	5.1
Free cash inflow/(outflow) *	53,831	(39,290)	93,121	x
Cash flows used in financing activities	(36,793)	(18,473)	18,320	2 times
Net cash inflow/(outflow)	17,038	(57,763)	74,801	x
Change in cash due to deviation of currency exchange rate	3,187	(3,266)	6,453	X
Net increase/ (decrease) in cash and cash equivalents	20,225	(61,029)	81,254	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 2013 amounted to RUB 96,242 (the year ended 31 December 2012: RUB 28,938)

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 322,776 for the year ended 31 December 2013, which is RUB 106,189 or 49.0% higher than for the year ended 31 December 2012.

The main factors which influenced on the increase of cash from operating activities for the year ended 31 December 2013 as compared to the similar period in 2012 were as follows:

- an increase in cash receipts from customers by RUB 25,565;
- decrease in cash paid to suppliers by RUB 16,915;
- increase in cash received from the refund of VAT and other taxes from the budget by RUB 41,580;
- decrease of the net amount of payments/refunds of income tax amounting to RUB 23,831.

4.2. Investing activities

The primary factors resulting in a general increase in cash used in investment activities by RUB 13,068 or 5.1% for the year ended 31 December 2013, as compared to the same period for the previous year, were:

- increase in the amount of purchase of property, plant and equipment by RUB 26,028;
- RUB 8,104 used for acquiring shares in the equity-accounted investee OAO Novorossiysk Commercial Sea Port;
- an increase by RUB 25,817 or by 37.8% in cash used in purchase-and-sale transactions in regards to promissory notes and placement of funds in deposits for the purpose of investing of temporarily available funds (which amounted to RUB 42,411 for the year ended 31 December 2013, and RUB 68,228 for the year ended 31 December 2012);

4.3. Financing activities

For the year ended 31 December 2013 cash outflow amounted to RUB 36,793 which was RUB 18,320 more than compared with the same period of 2012. The dynamics was driven by the following:

- a decrease by RUB 26,333 in cash used for payments on Eurobonds: repayment of Eurobonds in the amount of USD 600 million (RUB 19,859 at the rate of Central Bank of the Russian Federation on the date of operation in 2013) compared to the redemption of the Eurobonds for USD 500 million and 700 million euros (RUB 46,192 at the rate of Central Bank of the Russian Federation on the date of operation in 2012);
- increase of the funds used for the acquisition of a non-controlling interests in the amount of RUB 8,950. For the year ended 31 December 2013 the Group purchased a non-controlling interest in OAO Uralsibnefteprovod (24.5%) for RUB 10,438 and in OAO Uraltransnefteproduct (13.8%) for RUB 2,112, comparing with the similar acquisition of OAO VOSTOKNEFTETRANS (49%) for RUB 3,600 for the year ended 31 December 2012;
- increase in dividend payments amounting to RUB 1,970;
- decrease in the amounts of loans received for RUB 33,380. In 2013 the Group attracted a loan from the associate - LatRosTrans - in the amount of RUB 620, in 2012 the Group issued non-convertible interest-bearing documentary bonds BO-01 and BO-02 in the amount of 34,000.



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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 2013.

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 2013	Year ended 31 December 2012
OPERATING ACTIVITIES		
Profit before tax	212,012	234,644
Adjustments for:		
Depreciation and amortization	102,261	84,197
Loss from disposal of property, plant and equipment	2,453	2,417
Interest income and share of (profit)/loss from associates and jointly controlled entities	(15,607)	(14,439)
Interest expenses	37,094	30,154
Net loss/(gain) from currency exchange differences	5,787	(10,571)
Impairment of equity-accounted investee	13,993	-
Profit from disposal of subsidiaries	(2,848)	-
Others	(8,077)	(12,806)
Operating profit before changes in working capital	347,068	313,596
Changes in operating assets and liabilities:		
Increase in inventories	1,694	(1,861)
Decrease /(increase) in trade and other receivables relating to operating activity and VAT assets	33,005	(10,581)
Decrease in trade and other payables, and accruals relating to operating activity	8,220	6,078
Cash flows from operating activities before payment of income tax expense and interest	389,987	307,232
Income tax paid	(41,361)	(70,976)
Income tax refund	9,037	14,821
Interest paid	(34,887)	(34,490)
Cash flows received from operating activities	322,776	216,587



5. Liquidity analysis

	31 December 2013	31 December 2012	Change, %
Current assets	532,017	461,669	15.2
including:			
cash and cash equivalents	104,742	84,517	23.9
short-term bank promissory notes and deposits*	300,910	213,861	40.7
Current liabilities	227,921	147,943	54.1
Net working capital	304,096	313,726	(3.1)
Current ratio	2.3	3.1	(25.8)
Quick ratio**	2.0	2.3	(13.0)
Debt / EBITDA	1.6	1.8	(11.1)
Debt / Equity	0.4	0.5	(20.0)

* Short-term bank promissory-notes consist of promissory notes by banks with investment-grade international credit ratings 65.8%, banks with credit ratings not lower than B-/B3/B- per the S&P/Moody's/Fitch classification. Thus, short-term bank promissory notes and deposits consist of highly reliable or reliable financial instruments.

Short-term bank deposits are shown net of deposits classified as available-for-sale

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

The growth in cash and cash equivalents in the amount of RUB 20,225 as at 31 December 2013 as compared to cash and cash equivalents as at 31 December 2012 was a result of cash received from operating activities (ref. to paragraph 4.1).

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments at the rates actual at 31 December 2013, with amounts denominated in foreign currency recalculated using CBR exchange rates at 31 December 2013.

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	

31 December 2012:

	Carrying amount	Contractual cash flows							More than 5 years
		Total	2013	2014	2015	2016	2017		
Loans and borrowings	569,634	737,645	52,889	117,313	184,004	33,449	32,610	317,380	
Trade and other payables	39,651	39,651	39,651	-	-	-	-	-	
	609,285	777,296	92,540	117,313	184,004	33,449	32,610	317,380	

The presented debt structure assumes the possible redemption date for non-convertible interest-bearing documentary note in the amount of RUB 34,000 at the offer date (2014), RUB 135,000 at the offer date (2015).