



PJSC LUKOIL

**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

for the three-month period ended 31 March 2017

**prepared in accordance with IFRS
(unaudited)**

These condensed interim consolidated financial statements were prepared by PJSC LUKOIL in accordance with IFRS and have not been audited by our independent auditor. If these condensed interim consolidated financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.



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Independent Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

To the Shareholders and Board of Directors

PJSC LUKOIL

Introduction

We have reviewed the accompanying consolidated statement of financial position of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group") as at 31 March 2017, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three - month period then ended, and notes to the condensed interim consolidated financial statements (the "condensed interim consolidated financial statements"). Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Audited entity: Public Joint Stock Company "Oil company "LUKOIL"
Registration No. in the Unified State Register of Legal Entities
1027700035769
Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Registration No. in the Unified State Register of Legal Entities
1027700126628

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No 11603053203.



PJSC LUKOIL

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements as at 31 March 2017 and for the three - month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Oussov A.I.

Director

JSC "KPMG"

Moscow, Russia

29 May 2017

PJSC LUKOIL
Consolidated Statement of Financial Position
(Millions of Russian rubles)

	Note	31 March 2017 (unaudited)	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	6	196,451	261,367
Accounts receivable, net	7	315,928	360,897
Other current financial assets		15,748	16,934
Inventories	8	382,111	404,284
Income tax prepaid		22,961	19,646
Other taxes receivable	9	66,914	74,029
Other current assets	10	52,212	83,175
Assets held for sale	14	36,136	35,309
Total current assets		1,088,461	1,255,641
Property, plant and equipment	12	3,377,943	3,391,366
Investments in associates and joint ventures	11	155,914	162,405
Other non-current financial assets	13	93,858	101,812
Deferred income tax assets		26,023	29,079
Goodwill and other intangible assets		41,110	43,134
Other non-current assets		30,650	31,236
Total non-current assets		3,725,498	3,759,032
Total assets		4,813,959	5,014,673
Liabilities and equity			
Current liabilities			
Accounts payable	15	402,853	550,247
Short-term borrowings and current portion of long-term debt	16	60,850	58,429
Income tax payable		10,634	6,591
Other taxes payable	18	90,911	88,364
Provisions	20	48,225	26,015
Other current liabilities	19	29,604	97,110
Liabilities related to assets held for sale	14	4,038	3,930
Total current liabilities		647,115	830,686
Long-term debt	17	601,635	640,161
Deferred income tax liabilities		238,996	239,811
Provisions	20	49,125	69,944
Other non-current liabilities		5,582	6,407
Total non-current liabilities		895,338	956,323
Total liabilities		1,542,453	1,787,009
Equity			
Share capital	21	1,151	1,151
Treasury shares		(241,615)	(241,615)
Additional paid-in capital		129,656	129,514
Other reserves		10,050	28,975
Retained earnings		3,365,132	3,302,855
Total equity attributable to PJSC LUKOIL shareholders		3,264,374	3,220,880
Non-controlling interests		7,132	6,784
Total equity		3,271,506	3,227,664
Total liabilities and equity		4,813,959	5,014,673

President of PJSC LUKOIL
Aleksperov V.Y.

Vice-president – Chief accountant of PJSC LUKOIL
Khoba L.N.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Millions of Russian rubles, unless otherwise noted)

	Note	For the three months ended 31 March 2017 (unaudited)	For the three months ended 31 March 2016 (unaudited)
Revenues			
Sales (including excise and export tariffs)	29	1,431,599	1,177,674
Costs and other deductions			
Operating expenses		(107,492)	(113,244)
Cost of purchased crude oil, gas and products		(742,569)	(537,733)
Transportation expenses		(73,714)	(86,699)
Selling, general and administrative expenses		(36,286)	(47,823)
Depreciation, depletion and amortisation		(80,774)	(84,348)
Taxes other than income taxes		(153,682)	(83,553)
Excise and export tariffs		(109,447)	(114,949)
Exploration expenses		(764)	(1,681)
Profit from operating activities		126,871	107,644
Finance income	23	3,299	3,831
Finance costs	23	(9,470)	(10,371)
Equity share in income of affiliates	11	3,730	2,353
Foreign exchange loss		(43,494)	(45,378)
Other expenses	24	(2,487)	(3,343)
Profit before income taxes		78,449	54,736
Current income taxes		(12,756)	(10,476)
Deferred income taxes		(3,009)	(1,290)
Total income tax expense		(15,765)	(11,766)
Profit for the period		62,684	42,970
Profit for the period attributable to non-controlling interests		(378)	(145)
Profit for the period attributable to PJSC LUKOIL shareholders		62,306	42,825
Other comprehensive income (loss), net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		(17,702)	(15,391)
Change in fair value of available-for-sale financial assets		(1,275)	-
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan		25	20
Other comprehensive loss		(18,952)	(15,371)
Total comprehensive income for the period		43,732	27,599
Total comprehensive income for the period attributable to non-controlling interests		(380)	(179)
Total comprehensive income for the period attributable to PJSC LUKOIL shareholders		43,352	27,420
Basic and diluted earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):	21	87.39	60.07

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Changes in Equity (unaudited)
(Millions of Russian rubles)

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664
Profit for the period	-	-	-	-	62,306	62,306	378	62,684
Other comprehensive income (loss)	-	-	-	(18,925)	(29)	(18,954)	2	(18,952)
Total comprehensive income (loss)				(18,925)	62,277	43,352	380	43,732
Changes in non-controlling interests	-	-	142	-	-	142	(32)	110
31 March 2017	1,151	(241,615)	129,656	10,050	3,365,132	3,264,374	7,132	3,271,506
31 December 2015	1,151	(241,615)	129,403	104,150	3,229,379	3,222,468	8,906	3,231,374
Profit for the period	-	-	-	-	42,825	42,825	145	42,970
Other comprehensive income (loss)	-	-	-	(15,405)	-	(15,405)	34	(15,371)
Total comprehensive income (loss)				(15,405)	42,825	27,420	179	27,599
31 March 2016	1,151	(241,615)	129,403	88,745	3,272,204	3,249,888	9,085	3,258,973

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Cash Flows
(Millions of Russian rubles)

Note	For the three months ended 31 March 2017 (unaudited)	For the three months ended 31 March 2016 (unaudited)
Cash flows from operating activities		
Profit for the period attributable to PJSC LUKOIL shareholders	62,306	42,825
Adjustments for non-cash items:		
Depreciation, depletion and amortisation	80,774	84,348
Equity share in income of affiliates, net of dividends received	(2,396)	(1,062)
Dry hole write-offs	4	166
Loss on disposals and impairments of assets	3,265	1,713
Income tax expense	15,765	11,766
Non-cash foreign exchange loss	41,962	44,809
Non-cash investing activities	43	(12)
Finance income	(3,299)	(3,831)
Finance costs	9,470	10,371
Bad debt allowance	2,825	1,716
All other items – net	(4,036)	8,774
Changes in operating assets and liabilities:		
Trade accounts receivable	20,173	15,220
Inventories	(2,062)	(21,905)
Accounts payable	(114,507)	(14,702)
Other taxes	9,907	23,075
Other current assets and liabilities	20,768	(20,528)
Income tax paid	(11,696)	(21,244)
Dividends received	557	1,204
Interests received	1,780	1,693
Net cash provided by operating activities	131,603	164,396
Cash flows from investing activities		
Acquisition of licenses	(3)	(2,174)
Capital expenditures	(130,228)	(125,807)
Proceeds from sale of property, plant and equipment	162	425
Purchases of financial assets	(665)	(8,485)
Proceeds from sale of financial assets	2,894	245
Sale of subsidiaries, net of cash disposed	875	(912)
Sale of equity method affiliates	294	-
Acquisitions of subsidiaries, net of cash acquired	-	(1,178)
Acquisitions of equity method affiliates	(1,277)	(507)
Net cash used in investing activities	(127,948)	(138,393)
Cash flows from financing activities		
Proceeds from issuance of short-term borrowings	12,036	38,235
Principal repayments of short-term borrowings	(5,399)	(9,228)
Proceeds from issuance of long-term debt	36,559	79,776
Principal repayments of long-term debt	(35,359)	(2,408)
Interest paid	(5,201)	(5,669)
Dividends paid on Company common shares	(53,952)	(46,308)
Dividends paid to non-controlling interest shareholders	(984)	(1,005)
Financing received from non-controlling interest shareholders	10	27
Sale of non-controlling interest	30	-
Net cash (used in) provided by financing activities	(52,260)	53,420
Effect of exchange rate changes on cash and cash equivalents	(16,002)	(22,192)
Change in cash related to assets held for sale	(309)	-
Net (decrease) increase in cash and cash equivalents	(64,916)	57,231
Cash and cash equivalents at beginning of period	261,367	257,263
Cash and cash equivalents at end of period	6	196,451
	314,494	

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Note 1. Organisation and environment

The primary activities of PJSC LUKOIL (the “Company”) and its subsidiaries (together, the “Group”) are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree No. 1403, issued on 17 November 1992. Under this decree, on 5 April 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution No. 861 issued on 1 September 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

In July 2015, the Company changed its legal form to Public Joint Stock Company (“PJSC”) following the requirements of the amended Russian Civil Code.

Business and economic environment

The accompanying condensed interim consolidated financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management’s assessment.

Note 2. Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with the Group’s consolidated financial statements for 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last consolidated financial statements for 2016.

The accompanying condensed interim consolidated financial statements and notes thereto have not been audited by independent auditors, except for the consolidated statement of financial position at 31 December 2016.

The condensed interim consolidated financial statements were authorised by the President of the Company on 29 May 2017.

Functional and presentation currency

The functional currency of each of the Group’s consolidated companies is the currency of the primary economic environment in which the company operates. The management has analysed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency. The functional currency of the Company is the Russian ruble (“RUB”).

Note 2. Basis of preparation (continued)

The presentation currency of the consolidated financial statements of the Group is the RUB. All financial information presented in the RUB has been rounded to the nearest million, except when otherwise indicated.

The results and financial position of Group companies whose functional currency is different from the presentation currency of the Group are translated into presentation currency using the following procedures. Assets and liabilities are translated at period-end exchange rates, income and expenses are translated at rates which approximate actual rates at the date of the transaction. Resulting exchange differences are recognised in other comprehensive income.

Note 3. Summary of significant accounting policies

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the consolidated financial statements for 2016.

Note 4. Use of estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are the following:

- Estimation of oil and gas reserves;
- Estimation of useful lives of property, plant and equipment;
- Impairment of non-current assets;
- Assessment and recognition of provisions and contingent liabilities.

Note 5. Income taxes

Before 2017, operations in the Russian Federation were subject to a Federal income tax rate of 2.0% and a regional income tax rate that varied from 13.5% to 18.0% at the discretion of the individual regional administration.

For the period from 2017 till 2020 (inclusive) operations in the Russian Federation are subject to a Federal income tax rate of 3.0% and a regional income tax rate that varies from 12.5% to 17.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to domestic and foreign tax rate differences and the incurrence of costs that are either not tax deductible or only deductible to a certain limit. Tax expense is recognised based on the management's best estimate of the weighted-average annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period.

The Company and its Russian subsidiaries file income tax returns in Russia. A number of Group companies in Russia are paying income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

PJSC LUKOIL
Notes to Condensed Interim Consolidated Financial Statements (unaudited)
(Millions of Russian rubles, unless otherwise noted)

Note 6. Cash and cash equivalents

	31 March 2017	31 December 2016
Cash held in RUB	15,741	33,151
Cash held in US dollars	165,401	162,673
Cash held in EUR	8,399	59,135
Cash held in other currencies	6,910	6,408
Total cash and cash equivalents	196,451	261,367

Note 7. Accounts receivable, net

	31 March 2017	31 December 2016
Trade accounts receivable (net of allowances of 19,412 million RUB and 18,270 million RUB at 31 March 2017 and 31 December 2016, respectively)	290,512	332,975
Other current accounts receivable (net of allowances of 2,214 million RUB and 1,919 million RUB at 31 March 2017 and 31 December 2016, respectively)	25,416	27,922
Total accounts receivable, net	315,928	360,897

Note 8. Inventories

	31 March 2017	31 December 2016
Crude oil and petroleum products	329,931	349,153
Materials for extraction and drilling	19,731	20,182
Materials and supplies for refining	3,115	2,741
Other goods, materials and supplies	29,334	32,208
Total inventories	382,111	404,284

Note 9. Other taxes receivable

	31 March 2017	31 December 2016
VAT and excise tax recoverable	33,755	34,436
Export duties prepaid	9,834	17,113
Other taxes prepaid	23,325	22,480
Total other taxes receivable	66,914	74,029

Note 10. Other current assets

	31 March 2017	31 December 2016
Advance payments	19,776	48,157
Prepaid expenses	20,862	23,172
Other assets	11,574	11,846
Total other current assets	52,212	83,175

PJSC LUKOIL
Notes to Condensed Interim Consolidated Financial Statements (unaudited)
(Millions of Russian rubles, unless otherwise noted)

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership, %		31 March 2017	31 December 2016
		31 March 2017	31 December 2016		
<i>Joint Ventures:</i>					
Tengizchevroil	Kazakhstan	5.0%	5.0%	82,691	86,851
Caspian Pipeline Consortium	Kazakhstan	12.5%	12.5%	24,134	25,032
Turgai Petroleum	Kazakhstan	50.0%	50.0%	1,823	1,650
South Caucasus Pipeline Company	Azerbaijan	10.0%	10.0%	23,440	23,738
<i>Associates:</i>					
Associates				23,826	25,134
Total				155,914	162,405

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Additions	115,293	8,517	294	124,104
Capitalised borrowing costs	2,847	33	-	2,880
Transfer to assets held for sale	-	-	(91)	(91)
Disposals	(13,817)	(3,914)	(22)	(17,753)
Changes in estimates of asset retirement obligation	2,714	-	-	2,714
Foreign currency translation differences	(77,262)	(22,328)	(921)	(100,511)
Other	921	(349)	(25)	547
31 March 2017	3,508,746	1,137,347	69,421	4,715,514
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Depreciation for the period	(54,123)	(23,478)	(856)	(78,457)
Disposals	12,081	2,923	6	15,010
Foreign currency translation differences	40,010	8,072	246	48,328
Other	4	3	(3)	4
31 March 2017	(1,060,144)	(320,121)	(12,401)	(1,392,666)
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	65,293
31 March 2017	54,566	488	41	55,095
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	3,391,366
31 March 2017	2,503,168	817,714	57,061	3,377,943

PJSC LUKOIL
Notes to Condensed Interim Consolidated Financial Statements (unaudited)
(Millions of Russian rubles, unless otherwise noted)

Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2015	3,232,673	1,206,252	103,587	4,542,512
Additions	110,517	15,623	346	126,486
Capitalised borrowing costs	2,325	93	-	2,418
Disposals	(2,848)	(16,544)	(62)	(19,454)
Changes in estimates of asset retirement obligation	(4)	-	-	(4)
Foreign currency translation differences	(84,343)	(17,999)	(1,054)	(103,396)
Other	(4,442)	5,496	269	1,323
31 March 2016	3,253,878	1,192,921	103,086	4,549,885
Depreciation and impairment				
31 December 2015	(953,254)	(259,515)	(14,627)	(1,227,396)
Depreciation for the period	(61,558)	(22,092)	(1,575)	(85,225)
Disposals	691	8,855	3	9,549
Foreign currency translation differences	47,519	6,176	190	53,885
Other	(84)	(1,771)	(8)	(1,863)
31 March 2016	(966,686)	(268,347)	(16,017)	(1,251,050)
Advance payments for property, plant and equipment				
31 December 2015	94,619	1,280	138	96,037
31 March 2016	82,603	515	127	83,245
Carrying amounts				
31 December 2015	2,374,038	948,017	89,098	3,411,153
31 March 2016	2,369,795	925,089	87,196	3,382,080

The cost of assets under construction included in Property, plant and equipment was 628,981 million RUB and 593,970 million RUB at 31 March 2017 and 31 December 2016, respectively.

Exploration and evaluation assets:

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
31 December	69,829	52,302
Capitalised expenditures	9,011	10,767
Reclassified to development assets	(885)	(2,155)
Charged to expenses	(3)	(109)
Foreign currency translation differences	(639)	(739)
31 March	77,313	60,066

Note 13. Other non-current financial assets

	31 March 2017	31 December 2016
Long-term loans	80,025	86,387
Non-current accounts and notes receivable	8,054	7,916
Other non-current financial assets	5,779	7,509
Total other non-current financial assets	93,858	101,812

Note 14. Assets held for sale

In December 2016, the Company entered into a contract with a company of the “Otkrytie Holding” group to sell the Group’s 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction’s closing was subject to governmental approvals and was completed on 24 May 2017. The value of the transaction is the Russian ruble equivalent of \$1.45 billion, including debt repayment by AGD to the Company, which can be subject to actual working capital adjustment at closing date.

Note 15. Accounts payable

	31 March 2017	31 December 2016
Trade accounts payable	358,937	478,673
Other accounts payable	43,916	71,574
Total accounts payable	402,853	550,247

Note 16. Short-term borrowings and current portion of long-term debt

	31 March 2017	31 December 2016
Short-term borrowings from third parties	19,779	14,305
Short-term borrowings from related parties	3,470	3,743
Current portion of long-term debt	37,601	40,381
Total short-term borrowings and current portion of long-term debt	60,850	58,429

Short-term borrowings from third parties include amounts repayable in US dollars of 9,842 million RUB and 667 million RUB and amounts repayable in other currencies of 9,937 million RUB and 13,638 million RUB at 31 March 2017 and 31 December 2016, respectively. The weighted-average interest rate on short-term borrowings from third parties was 7.76% and 9.42% per annum at 31 March 2017 and 31 December 2016, respectively. Approximately 35% of total short-term borrowings from third parties at 31 March 2017 are secured by inventories.

Note 17. Long-term debt

	31 March 2017	31 December 2016
Long-term loans and borrowings from third parties	264,442	277,404
6.356% non-convertible US dollar bonds, maturing 2017	28,189	30,328
3.416% non-convertible US dollar bonds, maturing 2018	84,309	90,689
7.250% non-convertible US dollar bonds, maturing 2019	33,750	36,304
6.125% non-convertible US dollar bonds, maturing 2020	56,315	60,585
6.656% non-convertible US dollar bonds, maturing 2022	28,189	30,328
4.563% non-convertible US dollar bonds, maturing 2023	84,309	90,689
4.750% non-convertible US dollar bonds, maturing 2026	56,378	60,657
Finance lease obligations	3,355	3,558
Total long-term debt	639,236	680,542
Current portion of long-term debt	(37,601)	(40,381)
Total non-current portion of long-term debt	601,635	640,161

Note 17. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 180,554 million RUB and 155,720 million RUB, amounts repayable in euros of 47,749 million RUB and 50,496 million RUB, amounts repayable in Russian rubles of 35,000 million RUB and 70,000 million RUB and amounts repayable in other currencies of 1,139 million RUB and 1,188 million RUB at 31 March 2017 and 31 December 2016, respectively. This debt has maturity dates from 2017 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.06% and 6.06% per annum at 31 March 2017 and 31 December 2016, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 25% of total long-term loans and borrowings from third parties at 31 March 2017 are secured by shares of an associated company, export sales and property, plant and equipment.

Note 18. Other taxes payable

	31 March 2017	31 December 2016
Mineral extraction tax	38,592	37,583
VAT	25,050	23,960
Excise tax	16,987	16,606
Property tax	4,587	3,899
Other taxes	5,695	6,316
Total other taxes payable	90,911	88,364

Note 19. Other current liabilities

	31 March 2017	31 December 2016
Advances received	23,098	35,261
Dividends payable	379	55,285
Other	6,127	6,564
Total other current liabilities	29,604	97,110

Note 20. Provisions

	Asset retirement obligation	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 March 2017	39,417	35,075	4,235	7,650	5,849	5,124	97,350
Incl.: Non-current	39,241	928	2,028	6,134	43	751	49,125
Current	176	34,147	2,207	1,516	5,806	4,373	48,225
31 December 2016	37,460	35,803	4,489	8,049	4,913	5,245	95,959
Incl.: Non-current	35,939	23,377	2,523	6,531	60	1,514	69,944
Current	1,521	12,426	1,966	1,518	4,853	3,731	26,015

Note 20. Provisions (continued)

Assets retirement obligation:

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
31 December	37,460	32,919
Provisions made during the period	760	462
Reversal of provisions	(17)	(31)
Provisions used during the period	(1,205)	(12)
Accretion expense	667	369
Change in discount rate	2,197	-
Changes in estimates	693	(24)
Foreign currency translation differences	(1,131)	(1,253)
Other	(7)	(179)
31 March	39,417	32,251

Note 21. Equity

Common shares

	31 March 2017 (thousands of shares)	31 December 2016 (thousands of shares)
Authorised common shares, par value of 0.025 RUB each	850,563	850,563
Issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(137,630)	(137,630)
Outstanding common shares	712,933	712,933

Earnings per share

The weighted average number of outstanding common shares was 712,933 thousand shares for the three months ended 31 March 2017 and 2016. There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Note 22. Personnel expenses

Personnel expenses were as follows.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Salary	31,409	34,715
Statutory insurance contributions	7,941	7,600
Share-based payments	(3,172)	3,944
Total personnel expenses	36,178	46,259

Note 23. Finance income and costs

Finance income was as follows.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Interest income from deposits	810	1,495
Interest income from loans	1,967	1,878
Other finance income	522	458
Total finance income	3,299	3,831

Finance costs were as follows.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Interest expenses	7,927	9,925
Accretion expenses	669	373
Other finance costs	874	73
Total finance costs	9,470	10,371

Note 24. Other income and expenses

Other income was as follows.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Gain on disposal of assets	210	740
Other income	4,608	3,860
Total other income	4,818	4,600

Other expenses were as follows.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Loss on disposal of assets	3,475	2,345
Impairment loss	-	108
Charity expenses	2,134	2,417
Other expenses	1,696	3,073
Total other expenses	7,305	7,943

Note 25. Operating lease

At 31 March 2017 and 31 December 2016, Group companies had commitments related primarily to the lease of vessels and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows.

	31 March 2017	31 December 2016
Less than a year	26,305	31,184
1-5 years	52,226	57,429
More than 5 years	91,259	103,199
Total	169,790	191,812

Note 26. Commitments and contingencies

Capital commitments

At 31 March 2017, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 425,192 million RUB.

Taxation environment

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

The tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues. The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) issued an order on initiation of criminal proceedings and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor’s Office added bad faith use of the company’s credit and money laundering charges for 2008-2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim is not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group are also considered to be suspects in this criminal case. At the moment a preliminary investigation of the criminal case is being conducted. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. In July 2015, a new charge in respect of bad faith use of the company’s credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. A similar charge was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011-2014. On 3 August 2015, the Prosecutor’s Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company’s credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor’s Office revised the amount of damage claimed from \$2.2 billion (124.0 billion RUB) to \$1.5 billion (84.6 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor’s Office.

Note 26. Commitments and contingencies (continued)

The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, on 22 January 2016 the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. On 27 January 2017, a court hearing took place and the attorneys requested that an expert examination be performed. On 19 May 2017, the Prahova Tribunal issued a decision on appointment of experts. The next hearing is scheduled for 21 June 2017. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor's Office. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the dispute related to cost recovery in 2010-2013 and calculation of the "objectivity index" in accordance with the Final Production Sharing Agreement in respect of the Karachaganak field in Kazakhstan. Currently, the parties are in the process of preparation for the arbitration with regard to the cost recovery issue and in the process of coordination of procedural issues of arbitration proceeding with regard to correctness of "objectivity index" calculation. The parties undertake effort in order to resolve the disagreements in both disputes during negotiation process therefore management believes that all the calculations of possible losses are preliminary and are not subject to disclosure in order to avoid an adverse impact on course of the negotiations and position of the parties in it. As at the date of the signing of these condensed interim consolidated financial statements, management can not make a sufficient judgement on the influence of "objectivity index" on the Group's financial position due to absence of the amount of the claim from the Republic of Kazakhstan and complexity of "objectivity index" calculation.

The Commission for Protection of Competition in Bulgaria issued ruling alleging violations of applicable antimonopoly laws by Lukoil Bulgaria EOOD, a Group company, and a number of other legal entities not affiliated with the Group, in connection with concerted actions and anti-competitive agreements to fix petrol and diesel fuel retail market prices in Bulgaria. The maximum amount of fines for this violation was evaluated at \$158 million (8.9 billion RUB). Lukoil Bulgaria EOOD filed written objections in required period. On 28 March 2017, the case was closed by the Commission for Protection of Competition in Bulgaria due to the absence of violation.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Political situation

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a set of economic sanctions on Russia, including certain sectoral sanctions which affect Russian oil and gas companies. Such sectoral sanctions prohibit US and the EU companies and individuals from providing, exporting, or reexporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects on the territory of the Russian Federation. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and results of operations.

The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors the risks associated with the projects in Iraq and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.

Note 27. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from affiliated companies.

Outstanding balances with related parties:

	31 March 2017	31 December 2016
Accounts receivable	9,924	8,209
Other financial assets	87,164	93,453
Total assets	97,088	101,662
Accounts payable	8,552	8,436
Loans and borrowings	3,550	3,743
Total liabilities	12,102	12,179

Related party transactions were as follows:

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Sales of oil and oil products	3,457	4,381
Other sales	1,078	394
Purchases of oil and oil products	24,638	13,145
Other purchases	1,223	2,224
Loans given	662	8,424
Loans received	1,233	690

Note 28. Compensation plan

In December 2012, the Company introduced a compensation plan available to certain members of management for the period from 2013 to 2017, which is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company's common shares appreciation from 2013 to 2017, with rights vesting after the date of the compensation plan's termination. The number of assigned shares is approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The reporting date fair value of this part of the plan was estimated at 22,492 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 9.35% per annum, an expected dividend yield of 6.60% per annum, an expected time to maturity of nine months and a volatility factor of 14.40%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous eleven years from 2006 till 2016.

Note 28. Compensation plan (continued)

Related to this share plan the Group recognised income of 3,172 million RUB and expense of 3,944 million RUB during the three months ended 31 March 2017 and 2016, respectively. At 31 March 2017 and 31 December 2016, amounts of 23,749 million RUB and 26,921 million RUB related to this plan are included in “Provisions” of the consolidated statement of financial position, respectively.

At 31 March 2017, there was 3,374 million RUB of total unrecognised compensation cost related to unvested benefits. This cost is expected to be recognised periodically by the Group up to December 2017.

Note 29. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group’s traditional operations.

Geographical segments are based on the area of operations and include two segments: Russia and International.

Operating earnings are supplemental non-IFRS financial measure used by management to evaluate segments performance. Operating earnings are defined as profit before interest income and expense, income tax expense, depreciation, depletion and amortisation.

Operating segments

For the three months ended 31 March 2017

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	33,862	1,387,585	10,152	-	1,431,599
Inter-segment	380,264	18,220	11,583	(410,067)	-
Total revenues	414,126	1,405,805	21,735	(410,067)	1,431,599
Operating expenses	63,880	53,065	5,020	(14,473)	107,492
Selling, general and administrative expenses	11,642	29,554	5,704	(10,614)	36,286
Profit (loss) for the period	55,741	38,157	(33,572)	1,980	62,306
Operating earnings	123,364	68,669	(30,853)	3,836	165,016
Income tax expense					(15,765)
Finance income					3,299
Finance costs					(9,470)
Depreciation, depletion and amortisation					(80,774)
Profit for the period attributable to PJSC LUKOIL shareholders					62,306

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Note 29. Segment information (continued)

For the three months ended 31 March 2016

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	52,977	1,111,951	12,746	-	1,177,674
Inter-segment	310,732	16,201	13,449	(340,382)	-
Total revenues	363,709	1,128,152	26,195	(340,382)	1,177,674
Operating expenses	66,268	45,252	4,461	(2,737)	113,244
Selling, general and administrative expenses	10,019	35,831	12,045	(10,072)	47,823
Profit (loss) for the period	50,475	31,912	(40,656)	1,094	42,825
Operating earnings	126,910	59,799	(39,890)	(1,340)	145,479
Income tax expense					(11,766)
Finance income					3,831
Finance costs					(10,371)
Depreciation, depletion and amortisation					(84,348)
Profit for the period attributable to PJSC LUKOIL shareholders					42,825

Geographical segments

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Sales of crude oil within Russia	8,902	21,340
Export of crude oil and sales of crude oil by foreign subsidiaries	396,420	292,548
Sales of petroleum products within Russia	159,781	130,176
Export of petroleum products and sales of petroleum products by foreign subsidiaries	766,387	624,887
Sales of chemicals within Russia	9,746	9,179
Export of chemicals and sales of chemicals by foreign subsidiaries	12,126	10,158
Sales of gas and gas products within Russia	9,622	9,238
Export of gas products and sales of gas and gas products by foreign subsidiaries	20,259	24,408
Sales of energy and related services within Russia	20,062	19,036
Sales of energy and related services by foreign subsidiaries	3,387	3,728
Other sales within Russia	10,277	10,219
Other export sales and other sales of foreign subsidiaries	14,630	22,757
Total sales	1,431,599	1,177,674

For the three months ended 31 March 2017

	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	236,321	1,195,278	-	1,431,599
Inter-segment	310,581	721	(311,302)	-
Total revenues	546,902	1,195,999	(311,302)	1,431,599
Operating expenses	80,424	24,138	2,930	107,492
Selling, general and administrative expenses	19,414	17,556	(684)	36,286
Profit for the period	37,421	22,905	1,980	62,306
Operating earnings	111,402	51,926	1,688	165,016

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Note 29. Segment information (continued)

For the three months ended 31 March 2016

	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	204,991	972,683	-	1,177,674
Inter-segment	237,227	595	(237,822)	-
Total revenues	442,218	973,278	(237,822)	1,177,674
Operating expenses	74,113	31,889	7,242	113,244
Selling, general and administrative expenses	23,937	24,772	(886)	47,823
Profit for the period	40,509	1,228	1,088	42,825
Operating earnings	93,775	50,882	822	145,479

In the International segment the Group receives the most substantial revenues in Switzerland, the USA and Singapore.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Sales revenues		
in Switzerland	684,985	507,066
in the USA	147,466	82,528
in Singapore	116,799	73,879

These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 30. Fair value

There are the following methods of fair value measurement based on the valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: unobservable inputs.

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 March 2017 and 31 December 2016:

31 March 2017	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts Available for sale securities	10,512	-	10,512	-	10,512
	5,705	-	-	5,705	5,705
Financial liabilities:					
Commodity derivative contracts	9,194	-	9,194	-	9,194
Loans and borrowings	639,236	387,930	-	273,513	661,443

31 December 2016	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts Available for sale securities	13,380	-	13,380	-	13,380
	7,437	-	-	7,437	7,437
Financial liabilities:					
Commodity derivative contracts	36,935	-	36,935	-	36,935
Loans and borrowings	680,542	414,214	-	290,622	704,836

Note 30. Fair value (continued)

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar periods, repayment schedules and similar other main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 March 2017 and 31 December 2016.