



PJSC LUKOIL

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

**for the three months ended 31 March 2018 and 2017 and
31 December 2017**

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 March 2018 and the results of its operations for the three months ended 31 March 2018 and 2017 and 31 December 2017, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards (“IFRS”) condensed interim consolidated financial statements for the respective periods.

References to “LUKOIL,” “the Company,” “the Group,” “we” or “us” are references to PJSC LUKOIL and its subsidiaries and equity affiliates. All ruble amounts are in millions of Russian rubles (“RUB”), unless otherwise indicated. Income and expenses of our foreign subsidiaries were translated to rubles at rates which approximate actual rates at the date of the transaction. Tonnes of crude oil and natural gas liquids produced were translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields and the actual density of liquids produced at our gas processing plants. Hydrocarbon extraction expenses per barrel were calculated using these actual production volumes. Other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent (“BOE”) were made at the rate of 1 barrel per BOE and of cubic feet – at the rate of 6 thousand cubic feet per BOE.

This report includes forward-looking statements – words such as “believes,” “anticipates,” “expects,” “estimates,” “intends,” “plans,” etc. – that reflect management’s current estimates and beliefs, but are not guarantees of future results.

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Business overview

The primary activities of LUKOIL and its subsidiaries are hydrocarbon exploration, production, refining, marketing and distribution.

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 16.0 billion BOE at 1 January 2018 and comprised of 12.1 billion barrels of crude oil and 23.6 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing regions are Western Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria and Mexico. Our daily hydrocarbon production in the first quarter of 2018 amounted to 2.3 million BOE, with liquid hydrocarbons representing approximately 77% of our overall production volumes.

LUKOIL has geographically diversified downstream assets portfolio primarily in Russia and Europe. Our downstream operations include crude oil refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, power generation, transportation and sales of electricity, heat and related services.

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical capacities at our refineries in Bulgaria and Italy. Along with our own production of refined products we refine crude oil at third party refineries depending on market conditions and other factors. Our refinery throughput in the first quarter of 2018 amounted to 1.3 million barrels per day, and we produced 0.3 million tonnes of petrochemicals.

We market our own and third-party crude oil and refined products through our wholesale and retail channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 18 countries. Most of our retail networks are located close to our refineries. Our retail sales in the first quarter of 2018 amounted to 3.4 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In the first quarter of 2018, our total output of electrical energy was 5.3 billion kWh.

Our operations and finance activities are coordinated from our headquarters in Moscow. We divide our operations into three main business segments: "Exploration and production," "Refining, marketing and distribution," and "Corporate and other".

Key financial and operational results

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
(millions of rubles, except for figures in percent)						
Sales.....	1,630,728	1,662,452	(1.9)	1,630,728	1,431,599	13.9
EBITDA ⁽¹⁾ , including	219,524	223,735	(1.9)	219,524	207,645	5.7
Exploration and production segment.....	171,918	172,961	(0.6)	171,918	127,777	34.5
Refining, marketing and distribution segment ..	46,849	49,009	(4.4)	46,849	70,527	(33.6)
EBITDA ⁽¹⁾ net of West Qurna-2 project	213,789	219,132	(2.4)	213,789	204,702	4.4
Profit for the period attributable to LUKOIL shareholders	109,058	120,510	(9.5)	109,058	62,306	75.0
Capital expenditures	121,057	137,726	(12.1)	121,057	130,228	(7.0)
Free cash flow ⁽²⁾	45,935	73,298	(37.3)	45,935	1,375	3,240.7
Free cash flow before changes in working capital.....	93,791	77,883	20.4	93,791	67,096	39.8
(thousand BOE per day, except for figures in percent)						
Production of hydrocarbons, including our share in equity affiliates.....	2,320	2,315	0.2	2,320	2,244	3.4
Crude oil and natural gas liquids.....	1,797	1,791	0.3	1,797	1,822	(1.4)
Gas.....	523	524	(0.2)	523	422	23.9
Refinery throughput at the Group refineries	1,312	1,378	(4.8)	1,312	1,319	(0.5)

⁽¹⁾ Profit from operating activities before depreciation, depletion and amortization.

⁽²⁾ Cash flow from operating activities less capital expenditures.

Our results were positively impacted by an increase in share of high-margin projects in crude oil production structure, growth in gas production volumes in Russia and Uzbekistan, better product slate at our refineries, a decrease in transportation, operating, selling, general and administrative expenses and an increase in international hydrocarbon prices. Among the negative factors were lower benchmark refining margins, decrease in positive export duty lag effect, strengthening of the ruble to the US dollar, as well as external limitations of our liquids production in Russia due to the OPEC agreement and higher excise tax and mineral extraction tax rates in Russia.

Our profit was positively impacted by a decrease in net monetary position in foreign currencies and negatively impacted by increased depreciation, depletion and amortization.

As a result, in the first quarter of 2018, profit attributable to LUKOIL shareholders amounted to 109 billion RUB, a decrease of 9.5% to the fourth quarter of 2017 and an increase of 75.0% to the first quarter of 2017. Our EBITDA amounted to 220 billion RUB, a decrease of 1.9% to the fourth quarter of 2017, and an increase of 5.7% to the first quarter of 2017.

Our free cash flow decreased by 27.4 billion RUB, or by 37.3%, compared to the fourth quarter of 2017 and increased by 44.6 billion RUB compared to the first quarter of 2017. Our free cash flow was positively impacted by lower capital expenditures and negatively affected by changes in working capital.

The Group's average daily hydrocarbon production in the first quarter of 2018 increased by 0.2% compared to the fourth quarter of 2017, and by 3.4% compared to the first quarter of 2017, driven primarily by growth in gas production volumes due to commissioning of new facilities at our projects in Uzbekistan. Planned increase in production from V.Filanovsky and Pyakyakhinskoe fields, commissioned in 2016, continued.

In the first quarter of 2018, throughput at own refineries decreased by 4.8% compared to the fourth quarter of 2017, and by 0.5% compared to the first quarter of 2017 due to maintenance works. At the same time, we achieved further improvement in refined product slate due to modernization of our refining capacities in Russia and feedstock optimization.

Changes in Group structure

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 in the amount of Russian ruble equivalent of \$1.45 billion was completed on 24 May 2017 after all necessary governmental approvals were received. As a result the Group recognized profit before income tax in the amount of 48 billion RUB that is included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income (profit after income tax – 38 billion RUB).

In February 2017, the Group completed the sale of wholly owned subsidiary – LUKOIL Chemical B.V., which owns “Karpatneftekhim” petrochemical plant located in the Ivano-Frankovsk area of Ukraine.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues.

The dynamics of our realized prices on international markets generally matches the dynamics of commonly used spot benchmarks such as Brent crude oil price, however our average prices are usually different from such benchmarks due to different delivery terms, quality mix, as well as specifics of regional markets in case of petroleum product sales.

In the first quarter of 2018, the price for Brent crude oil fluctuated between \$61 and \$71 per barrel, reached its maximum of \$70.7 in early January and its minimum of \$61.5 in early February. Average price expressed in US dollars increased by 8.7% compared to the fourth quarter of 2017 and by 24.4% compared to the first quarter of 2017. Nevertheless, as a result of the ruble appreciation, the prices expressed in rubles increased less significantly.

The following tables show the average crude oil and refined product prices.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
(in US dollars per barrel, except for figures in percent)						
Brent crude.....	66.81	61.44	8.7	66.81	53.69	24.4
Urals crude (CIF Mediterranean)	65.23	60.79	7.3	65.23	52.52	24.2
Urals crude (CIF Rotterdam)	65.28	60.37	8.1	65.28	51.88	25.8
(in US dollars per metric tonne, except for figures in percent)						
Diesel fuel 10 ppm (FOB Rotterdam)	591.62	555.55	6.5	591.62	479.02	23.5
High-octane gasoline (FOB Rotterdam)	644.57	595.70	8.2	644.57	544.90	18.3
Naphtha (FOB Rotterdam).....	569.84	552.67	3.1	569.84	480.66	18.6
Jet fuel (FOB Rotterdam).....	646.87	595.46	8.6	646.87	509.96	26.8
Vacuum gas oil (FOB Rotterdam)	466.78	419.13	11.4	466.78	352.38	32.5
Fuel oil 3.5% (FOB Rotterdam).....	353.98	336.48	5.2	353.98	290.17	22.0

Source: Platts.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
(in rubles per barrel, except for figures in percent)						
Brent crude.....	3,800	3,588	5.9	3,800	3,159	20.3
Urals crude (CIF Mediterranean)	3,710	3,550	4.5	3,710	3,090	20.1
Urals crude (CIF Rotterdam)	3,713	3,526	5.3	3,713	3,052	21.7
(in rubles per metric tonne, except for figures in percent)						
Diesel fuel 10 ppm (FOB Rotterdam)	33,651	32,449	3.7	33,651	28,184	19.4
High-octane gasoline (FOB Rotterdam)	36,663	34,793	5.4	36,663	32,060	14.4
Naphtha (FOB Rotterdam).....	32,412	32,281	0.4	32,412	28,281	14.6
Jet fuel (FOB Rotterdam).....	36,794	34,779	5.8	36,794	30,004	22.6
Vacuum gas oil (FOB Rotterdam)	26,551	24,481	8.5	26,551	20,733	28.1
Fuel oil 3.5% (FOB Rotterdam).....	20,134	19,653	2.4	20,134	17,072	17.9

Translated into rubles using average exchange rate for the period.

Domestic crude oil and refined products prices

Most of the crude oil in Russia is produced and then refined or exported by vertically integrated oil companies. As a result, there is no liquid spot market for crude oil in Russia and no publicly available spot price benchmark. Domestic prices may deviate significantly from export netbacks and they also vary between different regions of Russia driven by supply demand balance on regional markets.

Domestic prices for refined products correlate to some extent with export netbacks, but are also materially affected by supply demand balance on regional markets.

The table below represents average domestic wholesale prices for refined products for the respective periods.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
(in rubles per metric tonne, except for figures in percent)						
Diesel fuel	36,821	36,819	0.0	36,821	31,453	17.1
High-octane gasoline (Regular)	35,664	36,702	(2.8)	35,664	35,387	0.8
High-octane gasoline (Premium)	36,192	37,754	(4.1)	36,192	35,233	2.7
Fuel oil	11,928	12,168	(2.0)	11,928	9,682	23.2

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars or euro or is correlated to some extent with US dollar crude oil prices, while most of our costs are settled in Russian rubles. Therefore, a devaluation of the ruble against the US dollar and euro generally causes our revenues to increase in ruble terms, and vice versa. Ruble inflation also affects the results of our operations.

The following table provides data on inflation in Russia and change in the ruble-dollar and the ruble-euro exchange rates.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
Ruble inflation (CPI), %	0.8	0.8	0.8	1.0
Ruble to US dollar exchange rate				
Average for the period	56.9	58.4	56.9	58.8
At the beginning of the period	57.6	58.0	57.6	60.7
At the end of the period.....	57.3	57.6	57.3	56.4
Ruble to euro exchange rate				
Average for the period	69.9	68.8	69.9	62.6
At the beginning of the period	68.9	68.4	68.9	63.8
At the end of the period.....	70.6	68.9	70.6	60.6

Source: CBR, Federal State Statistics Service.

Taxation

Between 2015 and 2017, the Russian Government implemented the tax manoeuvre in the oil industry which involved reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates. Changes that became effective from January 2017 had a positive impact on our upstream margins and a negative impact on our refining and marketing margins, while overall impact of tax changes on our financial results wasn't significant.

The following tables represent average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
(in US dollars per tonne, except for figures in percent)						
Export duties on crude oil	116.90	96.34	21.4	116.90	86.43	35.3
Export duties on refined products						
Fuel oil	116.90	96.34	21.4	116.90	86.43	35.3
Motor gasoline	35.04	28.87	21.4	35.04	25.90	35.3
Straight-run gasoline	64.24	52.93	21.4	64.24	47.51	35.3
Diesel fuel and refined products.....	35.04	28.87	21.4	35.04	25.90	35.3
Mineral extraction tax ⁽¹⁾						
Crude oil	182.93	166.40	9.9	182.93	135.31	35.2
(in US dollars per thousand cubic meters, except for figures in percent)						
Natural gas (Nakhodkinskoe field).....	5.26	4.42	19.2	5.26	4.27	23.4
Natural gas (Pyakyakhinskoye field).....	8.98	8.78	2.2	8.98	7.87	14.1

⁽¹⁾ Translated from rubles using average exchange rate for the period.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
	(in rubles per tonne, except for figures in percent)					
Export duties on crude oil ⁽¹⁾	6,649	5,627	18.2	6,649	5,086	30.7
Export duties on refined products ⁽¹⁾						
Fuel oil	6,649	5,627	18.2	6,649	5,086	30.7
Motor gasoline	1,993	1,686	18.2	1,993	1,524	30.7
Straight-run gasoline.....	3,654	3,092	18.2	3,654	2,795	30.7
Diesel fuel and refined products.....	1,993	1,686	18.2	1,993	1,524	30.7
Mineral extraction tax						
Crude oil	10,405	9,719	7.1	10,405	7,961	30.7
	(in rubles per thousand cubic meters, except for figures in percent)					
Natural gas (Nakhodkinskoe field).....	299	258	16.0	299	251	19.3
Natural gas (Pyakyakhinskoye field).....	511	513	(0.4)	511	463	10.3

⁽¹⁾ Translated to rubles using average exchange rate for the period.

The table below illustrates the impact of tax incentives on taxation of crude oil production from different fields and deposits in our portfolio at \$50 per barrel Urals price.

	Mineral extraction tax	Export duty	Total	As % of oil price
	(in US dollars per barrel, except for figures in percent)			
Under 2018 tax formulae				
Standard	17.7	11.5	29.2	58.4
Yaregskoye field	0.0	1.8	1.8	3.6
Yu. Korchagin field.....	7.4	0.0	7.4	14.9
V. Filanovsky field.....	7.5	0.0	7.5	15.0
Usinskoye (Permian layers)	7.4	11.5	18.9	37.9
Pyakyakhinskoye field	7.4	11.5	18.9	37.9
V. Vinogradov field	9.5	11.5	21.0	42.0
Fields with depletion above 80%	10.5–17.7	11.5	22.0–29.2	44.0–58.4
New fields with reserves below 5 million tonnes.....	11.3–17.7	11.5	22.8–29.2	45.6–58.4
Tyumen deposits	15.6	11.5	27.1	54.3

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is changed monthly. Crude oil extraction tax is payable in rubles for metric tonnes extracted and is calculated according to the formula below:

$$\text{Rate} = \text{Base Rate} \times (\text{Price} - 15) \times \frac{\text{Exchange Rate}}{261} - \text{Incentive} + \text{Fixed Factor},$$

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Base Rates* and *Fixed Factors* (where applicable) are presented below:

	2017	2018	2019	2020	2021 and further
	(rubles)				
Base Rate	919	919	919	919	919
Fixed Factor	306	357	428	428	0

There are different types of tax incentives on the mineral extraction tax on crude oil applied to our fields and deposits:

- A special reducing coefficient is applied to the standard tax rate depending on location, depletion, type of reserves, size and complexity of a particular field. This type of incentive with different coefficients is applied to our highly depleted fields (more than 80% depletion), our Yu. Korchagin field located in the Caspian offshore, the Permian layers of our Usinskoye field in Timan-Pechora producing high-viscous crude oil, our Pyakyakhinskoye field located in the Yamal-Nenets Autonomous region of Western Siberia, a number of fields in the Nenets Autonomous region, as well as to our new small-sized fields (recoverable reserves less than 5 million tonnes) and fields and deposits with low permeability like V.N. Vinogradov field and Tyumen deposits;

- A fixed tax rate of 15% of the international Urals price is applied to our V. Filanovsky field, located in the Caspian offshore;
- A zero tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to particular unconventional deposits.

Some of the mineral extraction tax incentives are limited in time or by cumulative oil production volumes.

The table on the p. 9 illustrates the impact of crude oil extraction tax incentives on taxation of crude oil production from our different fields and deposits at \$50 per barrel Urals price.

Natural gas extraction tax rate is calculated using a special formula depending on average wholesale natural gas price in Russia, the share of gas production in particular taxpayer's total hydrocarbon production, regional location and complexity of particular gas field. Associated petroleum gas and reinjected natural gas are subject to zero extraction tax rate.

Crude oil export duty rate is denominated in US dollars per tonne of crude oil exported and is calculated on a progressive scale according to the table below.

International Urals price	Export duty rate
Less than, or equal to, \$109.5 per tonne (\$15 per barrel)	\$0 per tonne
Above \$109.5 but less than, or equal to, \$146.0 per tonne (\$20 per barrel)	35% of the difference between the actual price and \$109.5 per tonne (or \$0.35 per barrel per each \$1 increase in crude oil price over \$15 per barrel)
Above \$146.0 but less than, or equal to, \$182.5 per tonne (\$25 per barrel)	\$12.78 per tonne plus 45% of the difference between the actual price and \$146 per tonne (or \$1.75 plus \$0.45 per barrel per each \$1 increase in crude oil price over \$20 per barrel)
Above \$182.5 per tonne (\$25 per barrel)	\$29.2 per tonne plus 30% of the difference between the actual price and \$182.5 per tonne (or \$4 plus \$0.3 per barrel per each \$1 increase in crude oil price over \$25 per barrel)

The export duty rate changes every month with the rate for the next month being based on average Urals price for the period from the 15th day of the previous month to the 14th day of the current month. This calculation methodology results in the so-called "export duty lag effect," when export duty rate lags the oil price changes, which may result in sizeable impact on our financial results in the periods of high oil price volatility.

The table below illustrates the impact of the "export duty lag effect" on the Urals price net of taxes.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
	(in US dollars per barrel, except for figures in percent)					
Urals price (Argus)	65.17	60.74	7.3	65.17	51.94	25.5
Export duty on crude oil	16.01	13.20	21.3	16.01	11.84	35.2
Mineral extraction tax on crude oil	25.06	22.79	9.9	25.06	18.54	35.2
Net Urals price ⁽¹⁾	24.10	24.75	(2.6)	24.10	21.56	11.8
Export duty lag effect	0.04	1.52	(97.7)	0.04	0.24	(85.4)
Net Urals price ⁽¹⁾ assuming no lag	24.06	23.23	3.6	24.06	21.32	12.9
	(in rubles per barrel, except for figures in percent) ⁽²⁾					
Urals price (Argus)	3,707	3,548	4.5	3,707	3,056	21.3
Export duty on crude oil	911	771	18.2	911	697	30.7
Mineral extraction tax on crude oil	1,425	1,331	7.1	1,425	1,091	30.7
Net Urals price ⁽¹⁾	1,371	1,446	(5.2)	1,371	1,268	8.0
Export duty lag effect	2	89	(97.8)	2	14	(85.7)
Net Urals price ⁽¹⁾ assuming no lag	1,369	1,357	0.9	1,369	1,254	9.1

⁽¹⁾ Urals price net of export duty and mineral extraction tax on crude oil.

⁽²⁾ Translated to rubles using average exchange rate for the period.

Crude oil produced at some of our fields is subject to special export duty rates calculated according to specified formulas, which are lower than standard rates. A reduced rate is applied to crude oil produced at our Yaregskoye field producing extra-viscous crude oil and our Yu. Korchagin field in the Caspian offshore. A zero rate applies to crude oil of our V. Filanovsky field also located in the Caspian offshore.

The table on p. 9 illustrates the impact of crude oil export duty incentives on taxation of export of crude oil produced from our different fields and deposits at \$50 per barrel Urals price.

Export duty rates on refined products are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

	2017 and further
Multiplier for:	
Light and middle distillates	0.30
Diesel fuel	0.30
Gasolines.....	0.30
Straight-run gasoline.....	0.55
Fuel oil.....	1.00

Crude oil and refined products exported from Russia are subject to two steps of customs declaration and duty payments: temporary and complete. A temporary declaration is submitted based on preliminary exports volumes and the duty is paid in rubles translated from US dollars at the date of the temporary declaration. A complete declaration is submitted after receiving the actual data on the exported volumes, but no later than six months after the date of the temporary declaration. The final amount of the export duty is adjusted depending on the actual volumes, the ruble-US dollar exchange rate at the date of the complete declaration (except for pipeline deliveries for which the exchange rate at the temporary declaration date is used) and the export duty rate. If temporary and complete declarations are submitted in different reporting periods, the final amount of the export duty is adjusted in the period of submission of the complete declaration. The high volatility of the ruble-dollar exchange rates may lead to significant adjustments. For the purposes of the IFRS consolidated financial statements, data from temporary declarations at the reporting period end is translated to rubles from US dollars using the period-end exchange rate.

Crude oil and refined products exported to member countries of the Customs Union in the Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic (Customs Union) are not subject to export duties.

Excise taxes on refined products. The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). Only domestic sales volumes are subject to excises.

In other countries where the Group operates, excise taxes are paid either by producers or retailers depending on the local legislation.

Excise rates on motor fuels in Russia are tied to the ecological class of fuel. Excise tax rates for the periods considered are listed below.

	Q1 2018	Q4 2017	Change, %	Q1 2018	Q1 2017	Change, %
	(in rubles per tonne, except for figures in percent)					
Gasoline						
Below Euro-5.....	13,100	13,100	–	13,100	13,100	–
Euro-5	11,213	10,130	10.7	11,213	10,130	10.7
Diesel fuel						
All ecological classes.....	7,665	6,800	12.7	7,665	6,800	12.7
Motor oils.....	5,400	5,400	–	5,400	5,400	–
Straight-run gasoline.....	13,100	13,100	–	13,100	13,100	–

Established excise tax rates starting from 2018 are listed below.

	1 December to 30 June, 2018	1 July to 31 December, 2018	2019	2020 and further
	(in rubles per tonne)			
Gasoline				
Below Euro-5.....	13,100	13,100	13,100	13,100
Euro-5	11,213	11,892	12,314	12,752
Diesel fuel				
All ecological classes.....	7,665	8,258	8,541	8,835
Motor oils.....	5,400	5,400	5,400	5,616
Straight-run gasoline.....	13,100	13,100	13,100	13,100

Income tax. The federal income tax rate in Russia is 3.0% and the regional income tax rate may vary between 12.5% and 17.0%.

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.

The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Transportation tariffs on crude oil, natural gas and refined products in Russia

Many of our production assets are located relatively far from our customers. As a result, transportation tariffs are an important factor affecting our profitability.

Crude oil produced at our fields in Russia is transported to refineries and exported primarily through the trunk oil pipeline system of the state-owned company, Transneft. In some cases, crude oil is also transported via railway infrastructure of the state-owned company, Russian Railways.

Refined products produced at our Russian refineries are transported primarily by railway (Russian Railways) and the pipeline system of Transnefteproduct, a subsidiary of Transneft.

Gas that is not sold at the wellhead is transported through the Unified Gas Supply System owned and operated by Gazprom.

Transneft, Russian Railways and Gazprom are state-controlled natural transportation infrastructure monopolies and their tariffs are regulated by the Federal Antimonopoly Service of Russia and set in rubles.

The following table sets forth the changes in the average tariffs charged by the state-controlled transportation service providers in Russia.

	1st quarter of 2018 to 4th quarter of 2017	1st quarter of 2018 to 1st quarter of 2017
Transneft		
Crude oil	4.0%	4.2%
Russian Railways		
Crude oil and refined products	5.3%	5.3%

Segments highlights

Our operations are divided into three main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations related to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Northern and Western Africa, Norway, Romania and Mexico.
- **Refining, Marketing and Distribution** – which includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services.
- **Corporate and other** – which includes operations related to our headquarters (which coordinates the operations of Group companies), finance activities, and certain other activities, that are not primary to the Group.

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on p. 7, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 28 “Segment information” to our consolidated financial statements.

Exploration and production

The following table summarizes key figures on our Exploration and production segment:

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
EBITDA	171,918	172,961	171,918	127,777
- in Russia	144,657	149,816	144,657	112,059
- outside Russia ⁽¹⁾	27,261	23,145	27,261	15,718
Hydrocarbon extraction expenses	50,670	54,794	50,670	49,867
- in Russia	42,857	46,311	42,857	42,952
- outside Russia and Iraq	4,238	4,989	4,238	2,593
- in Iraq	3,575	3,494	3,575	4,322
	(ruble per BOE)			
Hydrocarbon extraction expenses (excluding Iraq)	235	251	235	237
- in Russia	244	257	244	243
- outside Russia and Iraq	176	205	176	167
	(US dollar per BOE)			
Hydrocarbon extraction expenses (excluding Iraq)	4.14	4.30	4.14	4.02
- in Russia	4.28	4.41	4.28	4.13
- outside Russia and Iraq	3.09	3.51	3.09	2.84

⁽¹⁾ Including EBITDA of the West Qurna-2 project in the amounts of 5,735 million RUB in the first quarter of 2018, and 2,943 million RUB and 4,603 million RUB in the first and fourth quarters of 2017, respectively.

Our upstream EBITDA decreased by 0.6%, compared to the fourth quarter of 2017, and increased by 34.5%, compared to the first quarter of 2017.

Our upstream EBITDA in Russia decreased compared to the fourth quarter of 2017 despite higher hydrocarbon prices due to lower positive export duty lag effect and the ruble appreciation to the US dollar, and increased compared to the first quarter of 2017 as a result of higher hydrocarbon prices and increase in production from our high-margin fields. Outside Russia, our EBITDA increased significantly compared to both the fourth and the first quarters of 2017 due to higher hydrocarbon prices, increase in gas production and increased EBITDA of the West Qurna-2 project.

The following table summarizes our hydrocarbon production by major regions.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousand BOE per day)			
Crude oil and natural gas liquids⁽¹⁾				
Consolidated subsidiaries				
Western Siberia	771	780	771	821
Timan-Pechora	317	313	317	321
Ural region	326	327	326	324
Volga region	216	213	216	183
Other in Russia	31	32	31	34
Total in Russia	1,661	1,665	1,661	1,683
Iraq ⁽²⁾	34	29	34	31
Other outside Russia	50	46	50	47
Total outside Russia	84	75	84	78
Total consolidated subsidiaries	1,745	1,740	1,745	1,761
Our share in equity affiliates				
in Russia	14	14	14	22
outside Russia	38	37	38	39
Total share in equity affiliates	52	51	52	61
Total crude oil and natural gas liquids	1,797	1,791	1,797	1,822
Natural and petroleum gas⁽³⁾				
Consolidated subsidiaries				
Western Siberia	217	215	217	209
Timan-Pechora	33	34	33	36
Ural region	15	15	15	17
Volga region	26	26	26	19
Other in Russia	1	1	1	1
Total in Russia	292	291	292	282
Total outside Russia	219	218	219	126
Total consolidated subsidiaries	511	509	511	408
Share in equity affiliates				
in Russia	2	2	2	2
outside Russia	10	13	10	12
Total share in production of equity affiliates	12	15	12	14
Total natural and petroleum gas	523	524	523	422
Total daily hydrocarbon production	2,320	2,315	2,320	2,244

⁽¹⁾ Natural gas liquids produced at the gas processing plants in the amounts of 38 thousand BOE per day in the first quarter of 2018, and 33 thousand and 37 thousand BOE per day in the first and the fourth quarters of 2017, respectively.

⁽²⁾ Compensation crude oil related to the Group.

⁽³⁾ Natural and petroleum gas production excluding flaring, reinjection, and gas processed to natural gas liquids.

Crude oil production by major regions is presented in the table below.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Western Siberia.....	9,203	9,517	9,203	9,810
Timan-Pechora.....	3,966	4,033	3,966	4,002
Ural region.....	3,725	3,823	3,725	3,755
Volga region.....	2,556	2,571	2,556	2,189
Other in Russia.....	397	416	397	422
Crude oil produced in Russia.....	19,847	20,360	19,847	20,178
Iraq ⁽¹⁾	451	396	451	405
Other outside Russia.....	490	526	490	517
Crude oil produced outside Russia.....	941	922	941	922
Total crude oil produced by consolidated subsidiaries.....	20,788	21,282	20,788	21,100
Our share in crude oil produced by equity affiliates:				
in Russia.....	158	165	158	264
outside Russia.....	431	426	431	438
Total crude oil produced.....	21,377	21,873	21,377	21,802

⁽¹⁾ Compensation crude oil related to the Group.

Our main oil producing region is Western Siberia where we produced 44.3% of our crude oil in the first quarter of 2018 (44.7% in the fourth quarter of 2017, 46.5% in the first quarter of 2017).

Compared to the fourth quarter of 2017, daily liquids production in Russia didn't change significantly. The decrease in our production volumes compared to the first quarter of 2017, was mainly driven by a temporary external limitation due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cut production from October 2016 levels in order to stabilize the global crude oil market. We limited production in our traditional regions (Western Siberia, Timan-Pechora, Ural) by closing least-productive wells, wells with high water cut and high lifting costs. We also decreased a number of workover operations.

At the same time we continued increasing production at the V. Filanovsky and Pyakyakhinskoye fields and other high-margin fields, which have a major positive impact on our financial results due to high quality reserve base and tax incentives.

In the first quarter of 2018, we produced 1,365 thousand tonnes of crude oil at the V. Filanovsky field and 388 thousand tonnes of liquids at the Pyakyakhinskoye field, an increase by 54% and 12%, respectively, compared to the first quarter of 2017. Active development of the Yaregskoye field and the Permian layers of our Usinskoye field in Timan-Pechora led to the increase in the high-viscous crude oil production by 45% compared to the first quarter of 2017.

Gas production (excluding flaring, reinjected gas and gas used in production of natural gas liquids) by major regions is presented in the table below.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of cubic meters)			
Western Siberia.....	3,318	3,356	3,318	3,193
Timan-Pechora.....	515	538	515	551
Ural region.....	229	240	229	258
Volga region.....	404	414	404	297
Other in Russia.....	7	8	7	8
Gas produced in Russia.....	4,473	4,556	4,473	4,307
Gas produced outside Russia.....	3,343	3,413	3,343	1,924
Total gas produced by consolidated subsidiaries.....	7,816	7,969	7,816	6,231
Our share in gas produced by equity affiliates:				
in Russia.....	23	25	23	23
outside Russia.....	160	199	160	205
Total gas produced.....	7,999	8,193	7,999	6,459

Our major gas production region is Western Siberia (Bolshekhetskaya depression), where the major part of gas is produced from the Nakhodkinskoe field, which has been developed since 2005. In January 2017, we started gas production from our second field in Bolshekhetskaya depression, the Pyakyakhinskoye field, which substantially contributed to our overall gas production in Russia that increased by 3.9%, compared to the first quarter of 2017. Gas production from Pyakyakhinskoe field amounted to 932 million cubic meters. Our daily international gas production (including our share in affiliates' production) increased by 64.5%, compared to the first quarter of 2017, as a result of commissioning of new gas treatment facilities within Gissar and Kandym projects in Uzbekistan. Compared to the fourth quarter of 2017, our daily gas production both in Russia and internationally didn't change significantly.

West Qurna-2 project

The West Qurna-2 field in Iraq is one of the largest crude oil fields discovered in the world, with initial estimated recoverable oil reserves of 12.9 billion barrels (1.8 billion tonnes). Service agreement for the West Qurna-2 field development and production was signed on 31 January 2010. Currently, the parties of the project are Iraq's state-owned South Oil Company and a consortium of contractors, consisting of a Group company (75% interest) and Iraq's state-owned North Oil Company (25% interest).

The Group launched the "Mishrif Early Oil" stage on the field and reached the production of 120 thousand barrels per day in March 2014. According to the service agreement, starting from the second quarter of 2014, we receive cost compensation. The total term of the contract is 25 years. In May 2018, a Group company and Iraqi party signed a development plan of West Qurna-2 field, according to which, the oil production of 480 thousand barrels per day will be reached in 2020 and 800 thousand barrels per day is expected in 2025.

Accounting for the cost compensation within the West Qurna-2 project in our consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income is as follows.

Capital expenditures are recognized in *Property, plant and equipment*. Extraction expenses are recognized in *Operating expenses* in respect of all the volume of crude oil production at the field regardless of the volume of compensation crude oil the Group is eligible for. As the compensation revenue is recognized, capitalized costs are amortized.

There are two steps of revenue recognition:

- The Iraqi party, on a quarterly basis, approves invoice for cost recovery and remuneration fee for which the Group is eligible in the reporting period. Amount of the invoice depends on crude oil production volumes during the period and amount of costs claimed for reimbursement. Approved invoice amount and remuneration fee for the reporting quarter are recognized in crude oil sales revenue.

- Based on the approved invoices, the Iraqi party arranges schedule of crude oil shipments against its liability for cost compensation and remuneration. As this crude oil is actually shipped, its cost is recognized at current market price in Cost of purchased crude oil, gas and products. Further, revenue from sales of this crude oil, or products from its refining, is recognized in *Sales*. Unsold crude oil and refined products are recognized in *Inventories*.

The following table summarizes data on capital and operating costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee.

	Costs incurred ⁽¹⁾	Remuneration fee (millions of US dollars)	Crude oil received	Crude oil to be received
Cumulative at 31 December 2017	8,072	303	7,842	533
Change in the first quarter of 2018.....	112	28	121	19
Income tax ⁽²⁾	–	–	–	–
Cumulative at 31 March 2018	8,184	331	7,963	552

⁽¹⁾ Including prepayments.

⁽²⁾ Income tax (including related to prior periods) on remuneration fee offset against crude oil to be received. No income tax was withheld during the first quarter of 2018.

The West Qurna-2 project summary is presented below:

	Q1 2018		Q4 2017	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production.....	32,801	4,795	34,904	5,149
Production related to cost compensation and remuneration	3,088	451	2,682	396
Shipment of compensation crude oil ⁽¹⁾	1,988	291	2,912	430
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	7,749	136	10,048	172
Remuneration fee	1,610	28	1,778	31
	9,359	164	11,826	203
Cost of compensation crude oil, received as liability settlement (included in <i>Cost of purchased crude oil, gas and products</i>) ⁽¹⁾	6,889	121	9,049	155
Extraction expenses	3,575	63	3,494	60
Depreciation, depletion and amortization.....	4,251	75	6,628	113
EBITDA.....	5,735	101	4,603	78

⁽¹⁾ This crude oil is sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

	1 st quarter of			
	2018		2017	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production.....	32,801	4,795	35,960	5,242
Production related to cost compensation and remuneration	3,088	451	2,775	405
Shipment of compensation crude oil ⁽¹⁾	1,988	291	2,984	435
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	7,749	136	6,488	110
Remuneration fee	1,610	28	1,146	19
	9,359	164	7,634	129
Cost of compensation crude oil, received as liability settlement (included in <i>Cost of purchased crude oil, gas and products</i>) ⁽¹⁾	6,889	121	8,332	142
Extraction expenses	3,575	63	4,322	73
Depreciation, depletion and amortization.....	4,251	75	2,246	38
EBITDA.....	5,735	101	2,943	50

⁽¹⁾ This crude oil is sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

In February-June 2017, due to a so-called performance factor that represents a ratio of actual production volumes to target production volumes according to the provisions of the service contract, our per barrel remuneration fee was approximately three times lower. The parties agreed not to apply the performance factor from the third quarter of 2017.

Refining, marketing and distribution

The following table summarizes key figures on our Refining, marketing and distribution segment:

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
			(millions of rubles)	
EBITDA	46,849	49,009	46,849	70,527
- in Russia	42,299	39,267	42,299	37,847
- outside Russia	4,550	9,742	4,550	32,680
Refining expenses at the Group refineries	22,019	23,050	22,019	21,011
- in Russia	9,538	11,182	9,538	10,149
- outside Russia	12,481	11,868	12,481	10,862
			(ruble per tonne)	
Refining expenses at the Group refineries	1,366	1,333	1,366	1,297
- in Russia	895	1,003	895	966
- outside Russia	2,287	1,930	2,287	1,909
			(US dollar per tonne)	
Refining expenses at the Group refineries	24.02	22.82	24.02	22.05
- in Russia	15.74	17.18	15.74	16.42
- outside Russia	40.20	33.04	40.20	32.44

In the first quarter of 2018, our Refining, marketing and distribution EBITDA was 4.4% lower than in the fourth quarter of 2017 and 33.6% lower than in the first quarter of 2017.

In Russia, our downstream EBITDA increased by 7.7% compared to the fourth quarter of 2017. Lower profitability of Russian refineries as a result of the negative inventory effect and lower benchmark refining margins was offset by improved performance of our petrochemical and power generation businesses, better product slate and lower expenses at our refineries, as well as improved performance of our priority sales channels.

Compared to the first quarter of 2017, our downstream EBITDA in Russia increased by 11.8% due to better product slate at our refineries, higher throughput volumes and decrease in refining expenses, as well as the expansion of our priority sales channels.

Compared to the fourth quarter of 2017, our downstream EBITDA outside Russia decreased as a result of lower benchmark refining margins and maintenance works at our refineries. The year-on-year dynamic of our downstream EBITDA outside Russia was mainly defined by accounting specifics of our trading operations that resulted in material gains in the first quarter of 2017.

Refining and petrochemicals

The following table summarizes key figures for our refining and petrochemical volumes.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Refinery throughput at the Group refineries	16,113	17,294	16,113	16,196
- in Russia	10,655	11,144	10,655	10,506
- outside Russia, including	5,458	6,150	5,458	5,690
- crude oil	4,549	5,669	4,549	5,119
- refined products	909	481	909	571
Refinery throughput at third party refineries	1,660	1,803	1,660	1,396
Total refinery throughput	17,773	19,097	17,773	17,592
Production of the Group refineries in Russia⁽¹⁾	10,066	10,507	10,066	9,911
- diesel fuel	4,131	4,109	4,131	3,678
- motor gasoline	2,030	2,066	2,030	1,832
- fuel oil	1,274	1,512	1,274	1,499
- jet fuel	616	723	616	567
- lubricants and components	281	291	281	268
- straight-run gasoline	557	602	557	572
- vacuum gas oil	62	11	62	474
- bitumen	135	177	135	142
- coke	287	233	287	243
- other products	693	783	693	636
Production of the Group refineries outside Russia	5,023	5,812	5,023	5,327
- diesel fuel	1,994	2,446	1,994	2,312
- motor gasoline	987	1,334	987	1,207
- fuel oil	709	795	709	748
- jet fuel	297	227	297	239
- straight-run gasoline	176	184	176	193
- coke	53	55	53	38
- other products	807	771	807	590
Refined products produced by the Group	15,089	16,319	15,089	15,238
Refined products produced at third party refineries	1,643	1,759	1,643	1,378
Total refined products produced	16,732	18,078	16,732	16,616
Products produced at petrochemical plants and facilities	335	229	335	335
- in Russia	250	142	250	240
- outside Russia	85	87	85	95

⁽¹⁾ Net of cross-supplies of refined products among the Group refineries in the amount of 471 thousand tonnes in the first quarter of 2018 and in the amounts of 419 thousand and 381 thousand tonnes in the first and the fourth quarters of 2017, respectively.

The total volume of refined products produced by the Group decreased by 7.5%, compared to the fourth quarter of 2017, and by 1.0%, compared to the first quarter of 2017.

Compared to the fourth quarter of 2017, production at our refineries in Russia decreased by 4.2% as a result of the maintenance works. Compared to the first quarter of 2017, production increased by 1.6%, mainly due to higher utilization rates at our refinery in Volgograd. In Russia, we continued improving our refined product slate through higher utilization rates of our newly-launched conversion facilities and cross-supplies of own dark products to catalytic cracking units at our refineries in Nizhny Novgorod and Volgograd and to coking unit in Perm. As a result, the share of gasoline and diesel fuel in our total production volumes increased by 5.6 p.p. compared to the first quarter of 2017 and the share of fuel oil and vacuum gasoil decreased by 6.6 p.p.

At our international refineries, production declined as a result of maintenance works. Due to the change in price environment, the volume of crude oil processed decreased, while the volume of refined product processed increased.

In the periods considered, we processed our crude oil at third party refineries in Belarus, Kazakhstan and Canada. In 2016, a Group company entered into a tolling agreement with a Canadian refinery. In the first quarter of 2018, attributable refined products output amounted to 1.6 million tonnes (1.3 million tonnes and 1.7 million tonnes in the first and the fourth quarters of 2017, respectively). The agreement is valid through 2019.

Marketing and trading

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased on international markets is used for trading activities, for supplying our international refineries or for processing at third party refineries.

In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks. Refined products purchases outside Russia are either traded or supplied to our international refineries.

We undertake trading operations on international markets through our 100% subsidiary LITASCO. We use traditional physical volumes hedging techniques to hedge our trading operations to secure trading margin.

The following table shows the volumes of crude oil purchases by the Group during the periods considered.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Crude oil purchases				
in Russia	215	215	215	247
for trading internationally	10,055	11,041	10,055	7,637
for refining internationally	5,232	5,873	5,232	5,613
Shipment of the West Qurna-2 compensation crude oil.....	291	430	291	435
Total crude oil purchased.....	15,793	17,559	15,793	13,932

The table below summarizes figures for our refined products marketing and trading activities.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Retail sales.....	3,429	3,612	3,429	3,316
Wholesale sales.....	27,345	27,899	27,345	28,634
Total refined products sales	30,774	31,511	30,774	31,950
Refined products purchased in Russia	357	310	357	436
Refined products purchased internationally.....	13,751	13,758	13,751	16,115
Total refined products purchased	14,108	14,068	14,108	16,551

Exports of crude oil and refined products from Russia. The volumes of crude oil and refined products exported from Russia by our subsidiaries and export revenues (both to the Group companies and third parties) are summarized as follows:

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Exports of crude oil to Customs Union.....	683	683	683	635
Exports of crude oil beyond Customs Union	7,992	8,194	7,992	8,770
Total crude oil exports.....	8,675	8,877	8,675	9,405
Exports of crude oil through Transneft and other third party infrastructure.....	6,466	6,596	6,466	7,100
including volumes exported through ESPO pipeline	300	300	300	240
Exports of crude oil through the Group's transportation infrastructure.....	2,209	2,281	2,209	2,305
Total crude oil exports.....	8,675	8,877	8,675	9,405
	(millions of rubles)			
Exports of crude oil to Customs Union.....	13,639	13,707	13,639	10,673
Exports of crude oil beyond Customs Union	210,600	205,272	210,600	185,458
Total crude oil exports.....	224,239	218,979	224,239	196,131

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Refined products exports				
- diesel fuel	2,811	2,529	2,811	2,519
- gasoline	177	185	177	40
- fuel oil	621	751	621	1,018
- jet fuel	24	8	24	28
- lubricants and components	177	147	177	151
- gas refinery products	301	433	301	218
- other products	554	364	554	966
Total refined products exports	4,665	4,417	4,665	4,940
	(millions of rubles)			
Total refined products exports	139,438	131,060	139,438	117,659

In the first quarter of 2018, the volume of our crude oil exports from Russia decreased by 2.3% compared to the fourth quarter of 2017, and by 7.8% compared to the first quarter of 2017. We exported 43.7% of our domestic crude oil production (43.6% and 46.6% in the fourth and the first quarters of 2017, respectively) and 43 thousand tonnes of crude oil purchased from our affiliates and third parties (55 thousand tonnes and 116 thousand tonnes in the fourth and the first quarters of 2017, respectively). The decrease in export volumes was primarily a result of higher domestic sales and lower crude oil production.

The volume of our refined products exports increased by 5.6% compared to the fourth quarter of 2017 and decreased by 5.6% compared to the first quarter of 2017 following the changes in domestic sales volumes due to change in market environment.

Substantially, we use the Transneft infrastructure to export our crude oil. Nevertheless, a sizeable amount of crude oil is exported through our own infrastructure. All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

Besides our own infrastructure, we also export the light crude oil through the Caspian Pipeline Consortium and Eastern Siberia – Pacific Ocean pipelines that allows us to preserve the premium quality of crude oil and thus enables us to achieve higher netbacks compared to traditional exports.

Priority sales channels. We develop our priority sales channels aiming at increasing our margin on sale of refined products produced by the Group.

In the first quarter of 2018, we sold 2.5 million tonnes of motor fuels via our domestic retail network, which was 4.1% less compared to the fourth quarter of 2017 and 4.1% more compared to the first quarter of 2017. Outside Russia, retail sales decreased by 7.4% compared to the fourth quarter of 2017 and increased by 1.8% compared to the first quarter of 2017. The decrease compared to the fourth quarter of 2017 was due to seasonality factor.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia.

Power generation. We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and own consumption. We own commercial generation facilities in the Southern regions of European Russia. We also own renewable energy capacity in Russia and abroad. In the first quarter of 2018, our total output of commercial electrical energy was 5.3 billion kWh (5.2 billion kWh in the fourth quarter of 2017 and 5.3 billion kWh in the first quarter of 2017), and our total output of commercial heat energy was approximately 5.1 million Gcal (3.5 million Gcal in the fourth quarter of 2017 and 4.9 million Gcal in the first quarter of 2017).

Financial results

The table below sets forth data from our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Revenues				
Sales (including excise and export tariffs)	1,630,728	1,662,452	1,630,728	1,431,599
Costs and other deductions				
Operating expenses	(108,640)	(118,091)	(108,640)	(107,492)
Cost of purchased crude oil, gas and products	(891,429)	(903,181)	(891,429)	(742,569)
Transportation expenses.....	(66,055)	(68,582)	(66,055)	(73,714)
Selling, general and administrative expenses	(36,754)	(46,928)	(36,754)	(36,286)
Depreciation, depletion and amortization	(87,690)	(76,198)	(87,690)	(80,774)
Taxes other than income taxes	(186,667)	(171,922)	(186,667)	(153,682)
Excise and export tariffs	(121,191)	(119,930)	(121,191)	(109,447)
Exploration expenses	(468)	(10,083)	(468)	(764)
Profit from operating activities.....	131,834	147,537	131,834	126,871
Finance income	3,514	5,489	3,514	3,299
Finance costs.....	(7,322)	(5,169)	(7,322)	(9,470)
Equity share in income of affiliates.....	5,249	5,194	5,249	3,730
Foreign exchange (loss) gain	(1,432)	5,201	(1,432)	(43,494)
Other income (expenses).....	699	(11,672)	699	(2,487)
Profit before income taxes.....	132,542	146,580	132,542	78,449
Current income taxes	(18,237)	(24,880)	(18,237)	(12,756)
Deferred income taxes	(4,880)	(541)	(4,880)	(3,009)
Total income tax expense.....	(23,117)	(25,421)	(23,117)	(15,765)
Profit for the period.....	109,425	121,159	109,425	62,684
Profit for the period attributable to non-controlling interests.....	(367)	(649)	(367)	(378)
Profit for the period attributable to PJSC LUKOIL shareholders	109,058	120,510	109,058	62,306
Basic and diluted earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles).....	153.68	169.82	153.68	87.39

The analysis of the main financial indicators of the financial statements is provided below.

Sales revenues

Sales breakdown	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Crude oil				
Export and sales on international markets other than Customs Union	454,627	485,460	454,627	382,203
Export and sales to Customs Union	13,765	13,216	13,765	6,583
Domestic sales	13,618	9,583	13,618	8,902
	482,010	508,259	482,010	397,688
Cost compensation and remuneration at the West Qurna-2 project	9,359	11,826	9,359	7,634
	491,369	520,085	491,369	405,322
Refined products ⁽¹⁾				
Export and sales on international markets				
Wholesale	783,209	769,886	783,209	714,341
Retail	71,998	75,494	71,998	62,707
Domestic sales				
Wholesale	84,829	102,898	84,829	67,904
Retail	103,672	106,491	103,672	94,466
	1,043,708	1,054,769	1,043,708	939,418
Petrochemicals				
Export and sales on international markets	16,308	12,380	16,308	12,126
Domestic sales	10,580	5,899	10,580	9,746
	26,888	18,279	26,888	21,872
Gas				
Sales on international markets	19,980	17,962	19,980	9,598
Domestic sales	8,330	8,390	8,330	7,033
	28,310	26,352	28,310	16,631
Sales of energy and related services				
Sales on international markets	2,622	3,735	2,622	3,387
Domestic sales	17,758	16,115	17,758	20,062
	20,380	19,850	20,380	23,449
Other				
Export and sales on international markets	9,894	11,621	9,894	14,630
Domestic sales	10,179	11,496	10,179	10,277
	20,073	23,117	20,073	24,907
Total sales	1,630,728	1,662,452	1,630,728	1,431,599

⁽¹⁾ Including revenue from gas refined products sales.

Sales volumes	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(thousands of tonnes)			
Crude oil				
Export and sales on international markets other than Customs Union	16,551	18,719	16,551	17,007
Export and sales to Customs Union	689	658	689	392
Domestic sales	713	492	713	558
	17,953	19,869	17,953	17,957
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	451	396	451	405
	18,404	20,265	18,404	18,362
Refined products ⁽¹⁾				
Export and sales on international markets				
Wholesale	24,087	23,822	24,087	25,767
Retail	974	1,052	974	957
Domestic sales				
Wholesale	3,258	4,077	3,258	2,867
Retail	2,455	2,560	2,455	2,359
	30,774	31,511	30,774	31,950
Petrochemicals				
Export and sales on international markets	345	252	345	232
Domestic sales	193	116	193	189
	538	368	538	421
	(millions of cubic meters)			
Gas				
Sales on international markets	3,138	3,049	3,138	1,755
Domestic sales	3,483	3,526	3,483	3,201
	6,621	6,575	6,621	4,956

⁽¹⁾ Including volumes of gas refined products sales.

Realized average sales prices

		Q1 2018	Q4 2017	Q1 2018	Q1 2017
Average realized price on international markets					
Crude oil (beyond Customs Union) ⁽¹⁾	(RUB/barrel)	3,747	3,538	3,747	3,066
Crude oil (Customs Union)	(RUB/barrel)	2,726	2,740	2,726	2,291
Refined products					
Wholesale	(RUB/tonne)	32,516	32,318	32,516	27,723
Retail	(RUB/tonne)	73,920	71,762	73,920	65,524
Petrochemicals	(RUB/tonne)	47,270	49,127	47,270	52,267
Gas (excluding royalty)	(RUB/m ³)	6,367	5,891	6,367	5,469
Crude oil (beyond Customs Union) ⁽¹⁾	(\$/barrel)	65.88	60.58	65.88	52.11
Crude oil (Customs Union)	(\$/barrel)	47.93	46.91	47.93	38.95
Refined products					
Wholesale	(\$/tonne)	572	553	572	471
Retail	(\$/tonne)	1,300	1,229	1,300	1,114
Petrochemicals	(\$/tonne)	831	841	831	888
Gas (excluding royalty)	(\$/m ³)	112	101	112	93
Average realized price within Russia					
Crude oil	(RUB/barrel)	2,606	2,657	2,606	2,176
Refined products					
Wholesale	(RUB/tonne)	26,037	25,239	26,037	23,684
Retail	(RUB/tonne)	42,229	41,598	42,229	40,045
Petrochemicals	(RUB/tonne)	54,819	50,853	54,819	51,566
Gas ⁽²⁾	(RUB/m ³)	2,392	2,379	2,392	2,197

⁽¹⁾ Excluding cost compensation and remuneration at the West Qurna-2 project.

⁽²⁾ As most of our gas production in Russia is sold ex-field, the price does not include cost of transportation by Unified Gas Supply System of Gazprom.

In the first quarter of 2018, our revenues decreased by 32 billion RUB, or by 1.9%, compared to the fourth quarter of 2017. Our revenues from crude oil sales decreased by 29 billion RUB, or by 5.5%, and our revenues from sales of refined products decreased by 11 billion RUB, or by 1.0%. This was mainly driven by the decrease in crude oil trading, production and refining volumes, as well as the effect of the ruble appreciation on revenues denominated in the US dollars.

Compared to the first quarter of 2017, our revenues increased by 199 billion RUB, or by 13.9%. Our revenues from crude oil sales increased by 86 billion RUB, or by 21.2%, and our revenues from sales of refined products increased by 104 billion RUB, or by 11.1%, largely, as a result of the increase in hydrocarbon prices which was partially offset by the effect of the ruble appreciation on our revenues denominated in the US dollars.

Sales of crude oil

Compared to the fourth quarter of 2017, our international crude oil sales revenue decreased by 6.4%, or by 31 billion RUB. Our international sales volumes (beyond the Customs Union) decreased by 2,168 thousand tonnes, or by 11.6%, mainly due to lower crude oil trading, production and export from Russia. Our average international ruble realized prices increased by 5.9%. In the first quarter of 2018, our realized domestic crude oil sales price decreased by 1.9%, and our sales volumes increased by 221 thousand tonnes, or by 44.9%, as a result of decrease in volumes of crude oil processing. As a consequence, our domestic sales revenue increased by 42.1%, or by 4 billion RUB.

Compared to first quarter of 2017, our international crude oil sales revenue increased by 18.9%, or by 72 billion RUB. In the first quarter of 2018, our international sales volumes (beyond the Customs Union) decreased by 457 thousand tonnes, or by 2.7%. Our average international ruble realized prices increased by 22.2%. Our domestic sales volumes increased by 155 thousand tonnes, or by 27.8%, due to the decrease in volumes of export deliveries, and our realized sales price increased by 19.8%. As a consequence, in the first quarter of 2018, our domestic sales revenue increased by 53.0%, or by 5 billion RUB.

Sales of refined products

Compared to the fourth quarter of 2017, our revenue from the wholesale of refined products outside Russia increased by 13 billion RUB, or by 1.7%. Our sales volumes increased by 1.1% and our realized ruble prices increased by 0.6%.

In the first quarter of 2018, our international retail revenue decreased by 3 billion RUB, or by 4.6%. Our international retail realized ruble prices increased by 3.0% as a result of devaluation of the ruble against euro, while our sales volumes decreased by 78 thousand tonnes, or by 7.4%, due to a seasonality factor.

Compared to the fourth quarter of 2017, our revenue from the wholesale of refined products on the domestic market decreased by 18 billion RUB, or by 17.6%. Our realized prices increased by 3.2% and our sales volumes decreased by 20.1%, in favor of export deliveries.

In the first quarter of 2018, our revenue from refined products retail sales in Russia decreased by 3 billion RUB, or by 2.6%, compared to the fourth quarter of 2017. Our average domestic retail prices increased by 1.5% and volumes decreased by 4.1% due to a seasonality factor.

Compared to the first quarter of 2017, our revenue from the wholesale of refined products outside Russia increased by 69 billion RUB, or by 9.6%, that was price driven. Our dollar and ruble realized prices increased by 21.3% and by 17.3%, respectively. Our sales volumes decreased by 6.5% as a result of the decrease in trading activities.

Compared to the first quarter of 2017, our dollar realized retail prices outside Russia increased by 16.7% and our ruble realized prices – by 12.8%. Our sales volumes increased by 1.8%. As a result, our international retail revenue increased by 9 billion RUB, or by 14.8%.

In the first quarter of 2018, our revenue from the wholesale of refined products on the domestic market increased by 17 billion RUB, or by 24.9%, compared to the first quarter of 2017. Our realized prices and volumes increased by 9.9% and by 13.6%, respectively.

Our revenue from refined products retail sales in Russia increased by 9 billion RUB, or by 9.7%, compared to the first quarter of 2017. Our average domestic retail prices and volumes increased by 5.5% and by 4.1%, respectively.

Sales of petrochemical products

Compared to the fourth quarter of 2017, our revenue from sales of petrochemical products increased by 9 billion RUB, or by 47.1%, largely, as a result of an increase in sales volumes following planned repairs at our petrochemical plant in Stavropol region of Russia in the fourth quarter of 2017.

Compared to the first quarter of 2017, our revenue from sales of petrochemical products increased by 5 billion RUB, or by 22.9%, largely as a result of the increased trading volumes outside Russia.

Sales of gas

In the first quarter of 2018, sales of gas increased by 2 billion RUB, or by 7.4%, compared to the fourth quarter of 2017, and by 12 billion RUB, or by 70.2%, compared to the first quarter of 2017, as a result of an increase in gas production and prices.

The increase in revenue from sales of gas mostly related to our operations outside of Russia and was a result of commissioning of new gas treatment facilities within Gissar and Kandym projects in Uzbekistan.

Sales of energy and related services

Compared to the fourth quarter of 2017, our revenue from sales of energy and related services increased by 1 billion RUB, or by 2.7%, due to a seasonality factor.

Compared to the first quarter of 2017, our revenue from sales of energy and related services decreased by 3 billion RUB, or by 13.1%, largely as a result of sale of our energy subsidiary in the beginning of the fourth quarter of 2017.

Other sales

Other sales include non-petroleum sales through our retail network, transportation services, rental revenue, crude oil extraction services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

In the first quarter of 2018, revenue from other sales decreased by 3 billion RUB, or by 13.2%, compared to the fourth quarter of 2017. Our revenue from transportation services decreased by 0.4 billion RUB, or by 11.6%, and non-petrol revenue of our retail network decreased by 1.4 billion RUB, or by 15.2%, due to seasonality factor.

Compared to the first quarter of 2017, revenue from other sales decreased by 5 billion RUB, or by 19.4%, largely due to the sale of our diamond business in June 2017.

Operating expenses

Operating expenses include the following:

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
			(millions of rubles)	
Hydrocarbon extraction expenses ⁽¹⁾	47,095	51,300	47,095	45,545
Extraction expenses at the West Qurna-2 field	3,575	3,494	3,575	4,322
Own refining expenses	22,019	23,050	22,019	21,011
Refining expenses at third-party refineries	2,656	5,168	2,656	1,075
Expenses for crude oil transportation to refineries	11,709	12,473	11,709	10,814
Power generation and distribution expenses	8,989	10,143	8,989	10,821
Petrochemical expenses	3,158	3,180	3,158	2,994
Other operating expenses	9,439	9,283	9,439	10,910
Total operating expenses	108,640	118,091	108,640	107,492

⁽¹⁾ Excluding extraction expenses at the West Qurna-2 field.

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 28 “Segment information” to our condensed interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Our operating expenses decreased by 9 billion RUB, or by 8.0%, compared to the fourth quarter of 2017 and didn't change significantly compared to the first quarter of 2017.

Hydrocarbon extraction expenses

Our extraction expenses include expenditures related to repairs of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, cost of extraction of natural gas liquids, property insurance of extraction equipment and other similar costs.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
			(millions of rubles)	
Hydrocarbon extraction expenses ⁽¹⁾	47,095	51,300	47,095	45,545
- in Russia	42,857	46,311	42,857	42,952
- outside Russia ⁽¹⁾	4,238	4,989	4,238	2,593
			(ruble per BOE)	
Hydrocarbon extraction expenses ⁽¹⁾	235	251	235	237
- in Russia	244	257	244	243
- outside Russia ⁽¹⁾	176	205	176	167

⁽¹⁾ Excluding expenses at the West Qurna-2 field.

Compared to the fourth quarter of 2017, our extraction expenses decreased by 4 billion RUB, or by 8.2%, and increased by 2 billion RUB, or by 3.4%, compared to the first quarter of 2017.

Compared to the fourth quarter of 2017, average hydrocarbon extraction expenses in Russia decreased following a decrease in energy and material cost, as well as lower expenses for repairs. The main reason for the decrease in our extraction expenses outside Russia was a seasonality factor at the Karachaganak project due to preparation works for winter period in the fourth quarter of 2017.

Compared to the first quarter of 2017, our extraction expenses in Russia didn't change significantly. However, our hydrocarbon extraction expenses outside Russia increased by 63.4% that was mainly a result of launching new production facilities as part of the Gissar and Kandym project in Uzbekistan.

Own refining expense

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
			(millions of rubles)	
Refining expenses at the Group refineries	22,019	23,050	22,019	21,011
- in Russia	9,538	11,182	9,538	10,149
- outside Russia	12,481	11,868	12,481	10,862
			(ruble per tonne)	
Refining expenses at the Group refineries	1,366	1,333	1,366	1,297
- in Russia	895	1,003	895	966
- outside Russia	2,287	1,930	2,287	1,909

In the first quarter of 2018, our own refining expenses decreased by 1 billion RUB, or by 4.5%, compared to the fourth quarter of 2017, and increased by 1 billion RUB, or by 4.8%, compared to the first quarter of 2017.

Compared to the previous quarter, the decrease in expenses at our domestic refineries was driven by a decrease in throughput and overhaul at Perm refinery in the fourth quarter of 2017. Compared to the first quarter of 2017, expenses decreased as a result of an increase in consumption of internally produced additives following our refineries' upgrade and lower overhaul costs.

Compared to both the fourth and the first quarters of 2017, our refining expenses outside Russia increased largely as a result of increase in energy expenses, planned repairs at ISAB and Burgas refineries as well as the ruble depreciation to euro.

Refining expenses at third-party refineries

Along with our own production of refined products we refine crude oil at third-party refineries.

At the end of 2016, as part of our trading business development, a Group company entered into a 3-year tolling agreement with a Canadian refinery. Related refining expenses represent variable toll that is mostly the difference between the price of feedstocks supplied, including various related costs, and the selling price of the refined products taken.

In the first quarter of 2018, this tolling fee amounted to 2.5 billion RUB (4.9 billion RUB in the fourth quarter of 2017 and 1.0 billion RUB in the first quarter of 2017). When the refined products are sold, this toll is naturally offset by the respective refined products sales revenue. The agreed compensation is received by the Group company for execution of this agreement.

Expenses for crude oil transportation to refineries

Expenses for crude oil and refined products transportation to refineries include pipeline, railway, freight and other costs related to delivery of crude oil and refined products to refineries for further processing.

Compared to the fourth quarter of 2017, our expenses for crude oil transportation to refineries decreased by 0.8 billion RUB, or by 6.1%.

Compared to the first quarter of 2017, our expenses for crude oil transportation to refineries increased by 0.9 billion RUB, or by 8.3%.

Petrochemical expenses

Compared to the fourth quarter of 2017, our petrochemical expenses remained at the same level. Compared to the first quarter of 2017, they increased by 5.5%, largely as a result of the effect of the ruble devaluation to euro on the expenses of our European petrochemical units, as well as a result of feedstock price increase in Russia.

Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely rendering of transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

Compared to the fourth quarter of 2017, other operating expenses didn't change significantly. Compared to the first quarter of 2017, they decreased by 1.5 billion RUB, or by 13.5%, largely as a result of the decreased cost of transportation services provided to third parties and the decrease in the ruble value of other operating expenses of our foreign subsidiaries. This decrease also reflects the effect from sale of our diamond business in the middle of 2017.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products includes the cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of crude oil and refined products sales.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Cost of purchased crude oil in Russia	4,621	4,446	4,621	4,207
Cost of purchased crude oil outside Russia.....	412,283	432,095	412,283	289,188
Compensation crude oil related to West Qurna-2 project	6,889	9,049	6,889	8,332
Cost of purchased crude oil.....	423,793	445,590	423,793	301,727
Cost of purchased refined products in Russia	12,181	10,339	12,181	12,577
Cost of purchased refined products outside Russia.....	445,251	442,466	445,251	441,846
Cost of purchased refined products.....	457,432	452,805	457,432	454,423
Other purchases.....	15,180	14,600	15,180	12,049
Net loss (gain) from hedging of trading operations.....	6,639	29,789	6,639	(24,140)
Change in crude oil and petroleum products inventory.....	(11,615)	(39,603)	(11,615)	(1,490)
Total cost of purchased crude oil, gas and products	891,429	903,181	891,429	742,569

Compared to the fourth quarter of 2017, the cost of purchased crude oil, gas and products decreased by 12 billion RUB, or by 1.3%, largely as a result of the decrease in volumes of crude oil trading.

Compared to the first quarter of 2017, the cost of purchased crude oil, gas and products increased by 149 billion RUB, or by 20.0%, following the increase in hydrocarbon prices and volumes of crude oil trading. At the same time, the volume of refined product trading decreased.

Transportation expenses

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Crude oil transportation expenses	20,335	25,271	20,335	24,866
Refined products transportation expenses	42,146	39,874	42,146	43,783
Other transportation expenses	3,574	3,437	3,574	5,065
Total transportation expenses	66,055	68,582	66,055	73,714

Our transportation expenses decreased by 3 billion RUB, or by 3.7%, compared to the fourth quarter of 2017 and by 8 billion RUB, or by 10.4%, compared to the first quarter of 2017.

Compared both to the first and the fourth quarter of 2017, our expenses for transportation of crude oil decreased by 5 billion RUB. Outside Russia, transportation expenses decreased as a result of the decline in freight rates and sales volumes, and ruble appreciation to the US dollar. In Russia, transportation expenses decreased as a result of the export sales volume decline and changes in domestic shipment directions, despite indexation of transportation tariffs.

Compared to the fourth quarter of 2017, our expenses for transportation of refined products increased by 2 billion RUB as a result of the freight rates and sales volume growth abroad, partially offset by the effect of the ruble appreciation to the US dollar and decrease in expenses in Russia as a result of the sales volume decline in the domestic market. Compared to the first quarter of 2017, our expenses for transportation of refined products decreased by 2 billion RUB as a result of the decline in sales volume abroad, while expenses in Russia didn't change significantly.

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities', refineries' and power generation entities' production staff costs), insurance costs (except for property insurance related to extraction, refinery and power generation equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses. Our selling, general and administrative expenses are roughly equally split between domestic and international operations.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Labor costs included in selling, general and administrative expenses.....	14,072	13,792	14,072	14,753
Other selling, general and administrative expenses	21,544	28,811	21,544	21,880
Increase (decrease) in liability related to share-based compensation program.....	190	810	190	(3,172)
Expenses on provision for doubtful debts.....	948	3,515	948	2,825
Total selling, general and administrative expenses	36,754	46,928	36,754	36,286

Compared to the fourth quarter of 2017, our selling, general and administrative expenses decreased by 10 billion RUB, or by 21.7%, that was mainly due to lower costs of advertising, nonproduction infrastructure maintenance as well as movements in bad debt provision.

Compared to the first quarter of 2017, our selling, general and administrative expenses didn't change significantly.

Depreciation, depletion and amortization

Compared to the fourth quarter of 2017, our depreciation, depletion and amortization expenses increased by 11 billion RUB, or by 15.1%, largely against the background of lower expenses at the Group's certain fields as a result of adjustment for the effect from positive revision of respective hydrocarbon reserves in the fourth quarter of 2017 and an increase in depreciation expense in the first quarter of 2018 due to the completion of commissioning stage of the V. Filanovsky field at the end of 2017 and commencement of depreciation.

Compared to the first quarter of 2017, depreciation, depletion and amortization expenses increased by 7 billion RUB, or by 8.6%, resulting from the increase in value of depreciable assets.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan. Currently, our largest affiliates are Tengizchevroil, an exploration and production company, operating in Kazakhstan, Bashneft-Polus, an exploration and production company that develops the Trebs and Titov oilfields in Timan-Pechora, Russia, South Caucasus Pipeline Company and Caspian Pipeline Consortium, midstream companies in Azerbaijan and Kazakhstan.

Our share in income of affiliates didn't change significantly, compared to the fourth quarter of 2017, and increased by 2 billion RUB, or by 40.7%, compared to the first quarter of 2017, largely as a result of the increase in income of Tengizchevroil.

Taxes other than income taxes

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
In Russia				
Mineral extraction taxes.....	171,172	152,463	171,172	139,388
Social security taxes and contributions	6,766	9,469	6,766	6,690
Property tax.....	6,264	5,817	6,264	4,789
Other taxes	234	1,121	234	807
Total in Russia.....	184,436	168,870	184,436	151,674
International				
Social security taxes and contributions	1,465	2,246	1,465	1,251
Property tax.....	194	295	194	170
Other taxes	572	511	572	587
Total internationally	2,231	3,052	2,231	2,008
Total taxes other than income taxes	186,667	171,922	186,667	153,682

Our taxes other than income taxes increased by 15 billion RUB, or by 8.6%, compared to the fourth quarter of 2017, and by 33 billion RUB, or by 21.5%, compared to the first quarter of 2017. This was driven by the increase in the mineral extraction tax rate in Russia resulting from an increase in crude oil prices and fixed factor in the tax calculation formula.

The following table summarizes data on application of reduced and zero mineral extraction tax rates for crude oil and natural gas produced in Russia (excluding V. Filanovsky field).

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Decrease in extraction taxes from application of reduced and zero rates for crude oil and gas production.....	26,060	20,886	26,060	18,891
	(thousands of tonnes)			
Volume of crude oil production subject to:				
zero rates	407	357	407	210
reduced rates (tax holidays for specific regions and high viscosity oil).....	1,318	1,304	1,318	1,411
reduced rates (depleted fields)	3,941	3,687	3,941	3,612
reduced rates (other)	832	624	832	839
Total volume of production subject to reduced or zero rates.....	6,498	5,972	6,498	6,072

Excise and export tariffs

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
In Russia				
Excise tax on refined products	31,341	30,676	31,341	25,906
Crude oil export tariffs	36,765	35,394	36,765	36,784
Refined products export tariffs.....	13,534	10,616	13,534	13,197
Total in Russia.....	81,640	76,686	81,640	75,887
International				
Excise tax and sales taxes on refined products.....	39,473	43,147	39,473	33,461
Crude oil export tariffs	14	16	14	18
Refined products export tariffs.....	64	81	64	81
Total internationally	39,551	43,244	39,551	33,560
Total excise and export tariffs.....	121,191	119,930	121,191	109,447

Compared to the fourth quarter of 2017, export tariffs increased by 4 billion RUB, or by 9.3%, as a result of higher export duty rates and increased volumes of refined products export. The volumes of crude oil export beyond the Customs Union decreased by 2.5% and the volumes of refined products exports increased by 5.6%. The decrease in excise tax expenses abroad was driven by a seasonal decrease in sales volumes. In Russia, excise tax expenses increased due to change in rates.

Compared to the first quarter of 2017, export tariffs didn't change significantly. The increase in export duty rates was offset by a decrease in the volumes of crude oil and refined product export beyond the Customs Union. The volumes of crude oil export decreased by 8.9% and refined products exports decreased by 5.6%. The increase in excise tax expenses in Russia was driven by increase in rates and domestic sales volumes, while outside Russia the excise tax expenses increased as a result of euro appreciation to ruble and increase in sales volumes subject to excise tax.

Foreign exchange (loss) gain

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of Russian entities that largely consists of accounts receivables, loans to our foreign subsidiaries and loans received in other currencies, and it's current structure results in exchange gains when the ruble devaluates and losses when it appreciates to those currencies. Nevertheless, in the fourth quarter of 2017, the Company's net monetary position in foreign currencies significantly decreased as a result of the change in the structure of intra-group financing.

As a result of this change, in the first quarter of 2018, foreign exchange loss amounted to 1 billion RUB compared to a foreign exchange gain of 5 billion RUB in the fourth quarter of 2017 and a foreign exchange loss of 43 billion RUB in the first quarter of 2017.

Other income (expenses)

Other income (expenses) include the financial effects of disposals of assets, impairment losses, extraordinary gains and losses, revisions of estimates and other non-operating gains and losses.

As a result of the test, during the fourth quarter of 2017, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 20.9 billion RUB and for its refining, marketing and distribution assets in Russia in the amount of 2.2 billion RUB.

The Group also recognized an impairment reversal in the amount of 22.2 billion RUB due to improvement of economic parameters of some of our production projects in Western Siberia and European Russia.

In the first quarter of 2018 and 2017, other income (expenses) comprised of a number of individually insignificant amounts.

Income taxes

The maximum statutory income tax rate in Russia is 20%. Nevertheless, the actual effective income tax rate may be higher due to non-deductible expenses or lower due to certain non-taxable gains and application of reduced regional income tax rates in Russia.

Compared to the fourth quarter of 2017, our total income tax expense decreased by 2 billion RUB, or by 9.1%. At the same time, our profit before income tax decreased by 14 billion RUB, or by 9.6%. In the first quarter of 2018, our effective income tax rate was 17.4%, compared to 17.3% in the fourth quarter of 2017.

Compared to the first quarter of 2017, our total income tax expense increased by 7 billion RUB, or by 46.6%. At the same time, our profit before income tax increased by 54 billion RUB, or by 69.0%. In the first quarter of 2018, our effective income tax rate was 17.4%, compared to 20.1% in the first quarter of 2017. The effective income tax rate decreased compared to the first quarter of 2017 generally due to downward revision of regional income tax rates in certain regions of Russia.

Non-GAAP items reconciliation

Reconciliation of profit for the period to EBITDA

EBITDA is not defined under IFRS. We define EBITDA as profit from operating activities before depreciation, depletion and amortization. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and to raise and service debt. EBITDA should not be considered in isolation as an alternative to profit or any other measure of performance under IFRS.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Profit for the period	109,425	121,159	109,425	62,684
Add back				
Income tax expense.....	23,117	25,421	23,117	15,765
Financial income.....	(3,514)	(5,489)	(3,514)	(3,299)
Financial costs	7,322	5,169	7,322	9,470
Foreign exchange loss (gain)	1,432	(5,201)	1,432	43,494
Equity share in income of affiliates	(5,249)	(5,194)	(5,249)	(3,730)
Other (income) expenses.....	(699)	11,672	(699)	2,487
Depreciation, depletion and amortization	87,690	76,198	87,690	80,774
EBITDA	219,524	223,735	219,524	207,645
EBITDA by operating segments				
Exploration and production.....	171,918	172,961	171,918	127,777
- in Russia	144,657	149,816	144,657	112,059
- outside Russia ⁽¹⁾	27,261	23,145	27,261	15,718
Refining, marketing and distribution segment	46,849	49,009	46,849	70,527
- in Russia	42,299	39,267	42,299	37,847
- outside Russia.....	4,550	9,742	4,550	32,680
Corporate and other.....	519	5,696	519	3,883
Elimination.....	238	(3,931)	238	5,458
EBITDA	219,524	223,735	219,524	207,645

⁽¹⁾ Including EBITDA of the West Qurna-2 project in the amounts of 5,735 million RUB in the first quarter of 2018 and 4,603 million RUB and 2,943 million RUB in the fourth and the first quarters of 2017, respectively.

Reconciliation of Cash provided by operating activities to Free cash flow

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Net cash provided by operating activities	166,992	211,024	166,992	131,603
Capital expenditures.....	(121,057)	(137,726)	(121,057)	(130,228)
Free cash flow	45,935	73,298	45,935	1,375

Liquidity and capital resources

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Net cash provided by operating activities	166,992	211,024	166,992	131,603
including increase in working capital	(47,856)	(4,585)	(47,856)	(65,721)
Net cash used in investing activities	(128,400)	(141,970)	(128,400)	(127,948)
Net cash used in financing activities.....	(70,401)	(31,210)	(70,401)	(52,260)

Operating activities

Our primary source of cash flow is funds generated from our operations. Compared to the fourth and the first quarters of 2017, our cash generated from operations decreased by 44 billion RUB, or by 20.9%, and increased by 35 billion RUB, or by 26.9%, respectively. In the first quarters of 2018 and 2017, our cash flow from operating activities was significantly affected by the increase in working capital. Net of working capital changes, net cash provided by operating activities didn't change compared to the fourth quarter of 2017 and increased by 8.9% compared to the first quarter of 2017.

Investing activities

In the first quarter of 2018, cash used in investing activities decreased by 14 billion RUB, or by 9.6%, compared to previous quarter. Compared to the first quarter of 2017, it didn't change significantly.

Our capital expenditures decreased by 17 billion RUB, or by 12.1%, compared to the fourth quarter of 2017 and by 9 billion RUB, or by 7.0%, compared to the first quarter of 2017.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Capital expenditures				
Exploration and production				
Western Siberia	38,189	32,334	38,189	34,742
Timan-Pechora	21,737	19,048	21,737	19,944
Ural region	9,484	9,981	9,484	6,994
Volga region.....	8,391	17,098	8,391	12,918
Other in Russia.....	2,228	4,691	2,228	3,479
Total in Russia	80,029	83,152	80,029	78,077
Iraq	4,946	5,249	4,946	3,812
Other outside Russia	14,432	21,205	14,432	36,078
Total outside Russia	19,378	26,454	19,378	39,890
Total exploration and production	99,407	109,606	99,407	117,967
Refining, marketing and distribution				
Russia.....	15,267	22,263	15,267	8,363
- refining	9,588	10,022	9,588	4,969
- retail	2,016	6,581	2,016	701
- other	3,663	5,660	3,663	2,693
International	5,785	5,374	5,785	3,449
- refining	4,537	2,728	4,537	2,449
- retail	924	1,898	924	736
- other	324	748	324	264
Total refining, marketing and distribution	21,052	27,637	21,052	11,812
Corporate and other	598	483	598	449
Total capital expenditures	121,057	137,726	121,057	130,228

Compared to the previous quarter, upstream capital expenditures decreased by 10 billion RUB, or by 9.3%. In Russia, it related to a seasonal decline at our Caspian fields. Outside Russia, the decrease was due to completion of main construction works as part of Gissar and Kandym projects in Uzbekistan.

In Russian downstream, decrease in capital expenditures compared to the fourth quarter of 2017 was largely due to seasonality factor.

Compared to the first quarter of 2017, our capital expenditures in the exploration and production segment decreased by 19 billion RUB, or by 15.7%, mainly due to lower spending in Uzbekistan.

The increase in capital expenditures in the refining, marketing and distribution segment compared to the first quarter of 2017 was primarily due to payments in the first quarter of 2018 related to previously accrued expenditures.

The table below presents our exploration and production capital expenditures in new promising oil regions.

	Q1 2018	Q4 2017	Q1 2018	Q1 2017
	(millions of rubles)			
Western Siberia (Yamal).....	5,690	4,420	5,690	4,444
Caspian region (Projects in Russia).....	7,371	14,655	7,371	12,354
Timan-Pechora (Yaregkoye field).....	2,704	4,863	2,704	1,816
Iraq (West Qurna-2 project).....	4,816	4,430	4,816	3,449
Iraq (Block-10).....	130	819	130	363
Uzbekistan	9,533	14,351	9,533	28,852
Total	30,244	43,538	30,244	51,278

Financing activities

In the first quarter of 2018, net movements of short-term and long-term debt generated an outflow of 5 billion RUB, compared to an outflow of 17 billion RUB and an inflow of 8 billion RUB in the fourth and the first quarters of 2017, respectively.

Other information

Sectorial sanctions against the Russian companies

In July-September 2014, the United States (“US”), the European Union (“EU”) and several other countries imposed a set of sanctions on Russia, including sectoral sanctions which affect several Russian oil and gas companies. The US has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4. Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory.

In August-October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

The management believes that current sanctions do not have a material adverse effect on the Group’s oil projects. The Company continues to monitor and evaluate potential risks for its operations in connection with sanctions.

Operations in Iraq

The Group is exposed to various risks due to its operations in Iraq. The management monitors these risks and believes that there is no adverse effect on the Group’s financial position that can be reasonably estimated at present.