



PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017



Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: Public Joint Stock Company "Oil company "LUKOIL".

Registration No. in the Unified State Register of Legal Entities
1027700035769.

Moscow, Russia.

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

Registration No. in the Unified State Register of Legal Entities 1027700125626.

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



Recoverability of Property, plant and equipment (PP&E) in exploration and production segment

Please refer to the Note 12 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2017. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models.</p> <p>We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.</p>

Estimation of oil and gas reserves and resources

Please refer to the Note 4 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The principal risk is in relation to management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above.</p>	<p>In this area our audit procedures included the assessment of the competence, capabilities and objectivity of reservoir engineers, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation. Where volumetric movements had a material impact on the consolidated financial statements, we validated these volumes against underlying information and documentation, along with checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations.</p>



Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis of Financial Condition and Results of Operations but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditors' report is:


A.I. Oussou
JSC "KPMG"
Moscow, Russia
20 March 2018



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

	Note	31 December 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	6	330,390	261,367
Accounts receivable, net	7	418,272	360,897
Other current financial assets		19,561	16,934
Inventories	8	398,186	404,284
Prepaid taxes	9	87,338	93,675
Other current assets	10	54,367	83,175
Assets held for sale	15	-	35,309
Total current assets		1,308,114	1,255,641
Property, plant and equipment	12	3,575,165	3,391,366
Investments in associates and joint ventures	11	164,286	162,405
Other non-current financial assets	13	79,717	101,812
Deferred income tax assets	27	25,128	29,079
Goodwill and other intangible assets	14	41,304	43,134
Other non-current assets		32,501	31,236
Total non-current assets		3,918,101	3,759,032
Total assets		5,226,215	5,014,673
Liabilities and equity			
Current liabilities			
Accounts payable	16	559,977	550,247
Short-term borrowings and current portion of long-term debt	17	128,713	58,429
Taxes payable	19	118,484	94,955
Provisions	21, 22	58,253	26,015
Other current liabilities	20	93,420	97,110
Liabilities related to assets held for sale	15	-	3,930
Total current liabilities		958,847	830,686
Long-term debt	18	487,647	640,161
Deferred income tax liabilities	27	237,980	239,811
Provisions	21, 22	47,962	69,944
Other non-current liabilities		3,380	6,407
Total non-current liabilities		776,969	956,323
Total liabilities		1,735,816	1,787,009
Equity	23		
Share capital		1,151	1,151
Treasury shares		(251,089)	(241,615)
Additional paid-in capital		129,641	129,514
Other reserves		27,090	28,975
Retained earnings		3,576,158	3,302,855
Total equity attributable to PJSC LUKOIL shareholders		3,482,951	3,220,880
Non-controlling interests		7,448	6,784
Total equity		3,490,399	3,227,664
Total liabilities and equity		5,226,215	5,014,673

 President of PJSC LUKOIL
 Alekperov V.Y.

 Chief accountant of PJSC LUKOIL
 Verkhov V.A.

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

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

	Note	2017	2016
Revenues			
Sales (including excise and export tariffs)	32	5,936,705	5,227,045
Costs and other deductions			
Operating expenses		(456,765)	(456,433)
Cost of purchased crude oil, gas and products		(3,129,864)	(2,609,764)
Transportation expenses		(272,792)	(299,017)
Selling, general and administrative expenses		(165,331)	(196,156)
Depreciation, depletion and amortisation		(325,054)	(311,588)
Taxes other than income taxes		(606,510)	(443,338)
Excise and export tariffs		(461,525)	(483,313)
Exploration expenses		(12,348)	(8,293)
Profit from operating activities		506,516	419,143
Finance income	25	15,151	14,756
Finance costs	25	(27,331)	(47,030)
Equity share in income of affiliates	11	16,864	7,967
Foreign exchange loss		(19,948)	(111,976)
Other income (expenses)	26	32,932	(10,345)
Profit before income taxes		524,184	272,515
Current income taxes		(99,976)	(58,170)
Deferred income taxes		(3,786)	(6,703)
Total income tax expense		(103,762)	(64,873)
Profit for the year		420,422	207,642
Profit for the year attributable to non-controlling interests		(1,617)	(848)
Profit for the year attributable to PJSC LUKOIL shareholders		418,805	206,794
Other comprehensive income (loss), net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		2,626	(74,175)
Change in fair value of available-for-sale financial assets		(2,180)	-
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan	22	(2,325)	(925)
Other comprehensive loss		(1,879)	(75,100)
Total comprehensive income for the year		418,543	132,542
Total comprehensive income for the year attributable to non-controlling interests		(1,650)	(871)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		416,893	131,671
Basic and diluted earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):	23	589.14	290.06

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

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

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664
Profit for the year	-	-	-	-	418,805	418,805	1,617	420,422
Other comprehensive income:	-	-	-	(1,885)	(27)	(1,912)	33	(1,879)
Total comprehensive income (loss)				(1,885)	418,778	416,893	1,650	418,543
Dividends on common shares	-	-	-	-	(145,475)	(145,475)	-	(145,475)
Stock purchased	-	(9,474)	-	-	-	(9,474)	-	(9,474)
Changes in non-controlling interests	-	-	127	-	-	127	(986)	(859)
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	3,482,951	7,448	3,490,399
31 December 2015	1,151	(241,615)	129,403	104,150	3,229,379	3,222,468	8,906	3,231,374
Profit for the year	-	-	-	-	206,794	206,794	848	207,642
Other comprehensive income:	-	-	-	(75,123)	-	(75,123)	23	(75,100)
Total comprehensive income (loss)				(75,123)	206,794	131,671	871	132,542
Dividends on common shares	-	-	-	-	(133,318)	(133,318)	-	(133,318)
Changes in non-controlling interests	-	-	111	(52)	-	59	(2,993)	(2,934)
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	3,220,880	6,784	3,227,664

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

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

	Note	2017	2016
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		418,805	206,794
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		325,054	311,588
Equity share in income of affiliates, net of dividends received		(7,401)	(4,040)
Dry hole write-offs		9,445	1,986
(Gain) loss on disposals and impairments of assets		(39,351)	7,031
Income tax expense		103,762	64,873
Non-cash foreign exchange loss		20,917	106,605
Non-cash investing activities		25	(127)
Finance income		(15,151)	(14,756)
Finance costs		27,331	47,030
Bad debt provision		6,139	6,401
All other items – net		3,995	25,175
Changes in operating assets and liabilities:			
Trade accounts receivable		(84,055)	9,220
Inventories		(9,350)	(133,754)
Accounts payable		27,720	219,603
Other taxes		21,538	24,984
Other current assets and liabilities		19,164	(69,822)
Income tax paid		(88,323)	(71,578)
Dividends received		7,907	4,385
Interests received		10,319	10,649
Net cash provided by operating activities		758,490	752,247
Cash flows from investing activities			
Acquisition of licenses		(612)	(2,549)
Capital expenditures		(511,496)	(497,130)
Proceeds from sale of property, plant and equipment		1,649	2,089
Purchases of financial assets		(5,926)	(17,471)
Proceeds from sale of financial assets		12,309	13,283
Sale of subsidiaries, net of cash disposed		80,939	907
Sale of equity method affiliates		957	4,940
Acquisitions of subsidiaries, net of cash acquired		(7,391)	-
Acquisitions of equity method affiliates		(3,715)	(4,412)
Net cash used in investing activities		(433,286)	(500,343)
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		9,526	12,449
Principal repayments of short-term borrowings		(7,575)	(23,309)
Proceeds from issuance of long-term debt		68,049	188,684
Principal repayments of long-term debt		(127,606)	(189,592)
Interests paid		(38,872)	(49,695)
Dividends paid on Company common shares		(138,810)	(127,345)
Dividends paid to non-controlling interest shareholders		(2,689)	(3,383)
Financing received from non-controlling interest shareholders		31	342
Purchase of Company's stock		(9,474)	-
Sale of non-controlling interests		30	-
Purchases of non-controlling interest		(5)	(1,285)
Net cash used in financing activities		(247,395)	(193,134)
Effect of exchange rate changes on cash and cash equivalents		(8,786)	(54,663)
Change in cash related to assets held for sale	15	-	(3)
Net increase in cash and cash equivalents		69,023	4,104
Cash and cash equivalents at beginning of year		261,367	257,263
Cash and cash equivalents at end of year	6	330,390	261,367

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

Note 1. Organisation and environment

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been prepared on a historical cost basis, except certain assets and liabilities measured at fair value.

The consolidated financial statements were authorised by the President of the Company on 20 March 2018.

Functional and presentation currency

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

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

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

Note 3. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of operations of the Company and controlled subsidiaries. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in companies that the Group does not control, but where it has the ability to exercise significant influence (Group's interests are between 20% and 50%) over operating and financial policies, are accounted for using the equity method. These investments include the Group's interests in associates, joint ventures and investments where the Company owns the majority of the voting interest but has no control. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Group's share in jointly controlled operations is recognised in the consolidated financial statements proportionally to its share in assets, liabilities, income and expenses. Jointly controlled operations are arrangements in which parties that have joint control over operating or financial policies have respective rights to use assets and responsibility for liabilities in the arrangements.

Other investments are classified as held-to-maturity or available-for-sale investments.

Business combinations

For each business combination the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the fair value of acquiree's identifiable net assets at the acquisition date.

Note 3. Summary of significant accounting policies (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated during the process of consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in a way that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Revenues

Revenues are recognised when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenue from the production of oil and natural gas in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts.

Note 3. Summary of significant accounting policies (continued)

Revenues from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Financial assets

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs are recognised in profit or loss as incurred.

If the Group has the positive intent and ability to hold an investment to maturity, then such financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be collected.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss.

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Note 3. Summary of significant accounting policies (continued)

Derivative instruments

The Group's derivative activity is limited to certain trading operations with oil and petroleum products and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities as not intended for hedging and doesn't use hedge accounting. The Group accounts for these activities at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. Unrealised gains and losses are carried as assets or liabilities in the consolidated statement of financial position.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other delivery costs. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The disposal of finished goods is accounted for using the first-in first-out principle, the disposal of other inventories by using the "average cost" method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment of major subsidiaries at 1 January 2014, the Group's date of transition to IFRSs, was determined by reference to its fair value at that date.

The Group recognises exploration and evaluation costs using the successful efforts method. Under this method, all costs related to exploration and evaluation are capitalised and accounted for as construction in progress in the amount incurred less impairment (if any) until the discovery (or absence) of economically feasible oil and gas reserves has been established. When the technical feasibility and commercial viability of reserves extraction is confirmed, exploration and evaluation assets should be reclassified into property, plant and equipment. Prior to reclassification these assets should be reviewed for impairment and impairment loss (if any) expensed to the financial results. If the exploration and evaluation activity is evaluated as unsuccessful, the costs incurred should be expensed.

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Depreciation, depletion and amortisation of the capitalised costs of risk service contract oil and gas properties is calculated using a depletion factor calculated as the ratio of value of the applicable crude oil production for the period to the total capitalised costs to be recovered.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	3 – 20 years

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Production and related overhead costs are expensed as incurred.

Note 3. Summary of significant accounting policies (continued)

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalised only to the extent that they are expected to result in future economic benefits to the Group. If capitalised, they are depreciated over their estimated economic lives.

Impairment of long-lived assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or related cash-generating unit ("CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to group of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Asset retirement obligations

The Group records the present value of the estimated future costs to settle its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired. Changes in the estimates of asset retirement obligations ("ARO") occur as a result of changes in cost and timing of liquidation or change of discount rates and are accounted as part of cost of property, plant and equipment in the current period.

Assets classified as held for sale

Assets classified as held for sale are separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the consolidated statement of financial position.

Note 3. Summary of significant accounting policies (continued)

Income taxes

Deferred income tax assets and liabilities are recognised in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated statement of financial position and their respective tax bases. But as opposed to deferred tax liabilities, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Similarly a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available. At the end of each reporting period realizability of deferred tax assets (both recognised and unrecognised) should be reassessed. In case of existence of previously unrecognised deferred tax assets, they can be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Treasury shares

Purchases by Group companies of the Company's outstanding shares are recorded at cost and classified as treasury shares within equity. Shares shown as Authorised and Issued include treasury shares. Shares shown as Outstanding do not include treasury shares.

Note 3. Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share is computed by dividing profit available for distribution to common shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting profit available for distribution to common shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Provisions and contingencies

Certain conditions may exist as of the consolidated financial statements date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

Liabilities of the Group with high level of probability of loss are recognised in the consolidated financial statements as provisions. Liabilities of the Group with the level of probability that do not meet the conditions in order to be recognised as provisions are considered to be contingent liabilities. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements if probability of disposal of certain resources aimed to settle this liability is not remote. If probability of disposal of certain resources is remote the information about such contingencies is not disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognised no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognised over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

Note 4. Use of estimates and judgments

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

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

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

- estimation of oil and gas reserves;
- estimation of useful lives of property, plant and equipment;
- impairment of non-current assets;
- assessment and recognition of provisions and contingent liabilities.

Oil and gas reserves estimates that are used for the reporting purposes are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission. Estimates are reassessed on an annual basis.

Note 5. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2017, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, issued in December 2016, addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is evaluating the effect of the adoption of IFRIC 22 and does not expect any material impact from its application on consolidated financial statements.

IFRS 2 *Share-based Payment* was amended in June 2016 by the *Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. The Group is evaluating the effect of the adoption of IFRS 2 and does not expect any material impact from its application on consolidated financial statements.

IFRS 9 *Financial instruments*, issued in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity financial assets, loans and receivables and available for sale financial assets. Based on preliminary assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans and investments in debt securities.

IFRS 9 replaces the current 'incurred loss' model with a forward-looking 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. Based on preliminary assessment, the Group has estimated that application of IFRS 9's impairment requirements at 1 January 2018 would not result in additional significant impairment losses.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue when a customer obtains control of the goods. Based on management's preliminary assessment this will not significantly impact the Group's revenue recognition.

Note 5. New standards and interpretations not yet adopted (continued)

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16 *Leases*, issued in January 2016, replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group is currently assessing the potential impact of adopting IFRS 16 on its consolidated financial statements.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

Note 6. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash held in RUB	70,611	33,151
Cash held in US dollars	239,405	162,673
Cash held in EUR	13,490	59,135
Cash held in other currencies	6,884	6,408
Total cash and cash equivalents	330,390	261,367

Note 7. Accounts receivable, net

	31 December 2017	31 December 2016
Trade accounts receivable (net of allowances of 18,777 million RUB and 18,270 million RUB at 31 December 2017 and 2016, respectively)	393,073	332,975
Other current accounts receivable (net of allowances of 3,182 million RUB and 1,919 million RUB at 31 December 2017 and 2016, respectively)	25,199	27,922
Total accounts receivable, net	418,272	360,897

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Note 8. Inventories

	31 December 2017	31 December 2016
Crude oil and petroleum products	345,216	349,153
Materials for extraction and drilling	19,925	20,182
Materials and supplies for refining	2,999	2,741
Other goods, materials and supplies	30,046	32,208
Total inventories	398,186	404,284

Note 9. Prepaid taxes

	31 December 2017	31 December 2016
Income tax prepaid	13,543	19,646
VAT and excise tax recoverable	38,930	34,436
Export duties prepaid	15,418	17,113
Other taxes prepaid	19,447	22,480
Total prepaid taxes	87,338	93,675

Note 10. Other current assets

	31 December 2017	31 December 2016
Advance payments	17,487	48,157
Prepaid expenses	23,072	23,172
Other assets	13,808	11,846
Total other current assets	54,367	83,175

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership			
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
<i>Joint Ventures:</i>					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	88,390	86,851
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	27,282	25,032
Turgai Petroleum	Kazakhstan	50.0%	50.0%	474	1,650
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	26,965	23,738
<i>Associates:</i>					
Associates				21,175	25,134
Total				164,286	162,405

TCO is engaged in development of hydrocarbon resources in Kazakhstan. The Group has classified its interest in TCO as a joint venture as it has rights to the net assets of the arrangement.

31 December 2017	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	245,662	17,397	4,319	5,037	36,489	308,904
Non-current assets	1,442,065	487,236	673	287,707	163,715	2,381,396
Current liabilities	151,856	107,246	1,248	9,104	38,201	307,655
Non-current liabilities	436,143	179,132	2,797	13,989	119,340	751,401
Net assets (100%)	1,099,728	218,255	947	269,651	42,663	1,631,244
Share in net assets	88,390	27,282	474	26,965	21,175	164,286

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Note 11. Investments in associates and joint ventures (continued)

31 December 2016	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	426,148	11,870	4,979	8,770	39,071	490,838
Non-current assets	1,173,533	548,193	2,387	256,657	162,144	2,142,914
Current liabilities	180,220	101,153	1,369	14,604	34,387	331,733
Non-current liabilities	426,482	258,656	2,697	13,445	116,483	817,763
Net assets (100%)	992,979	200,254	3,300	237,378	50,345	1,484,256
Share in net assets	86,851	25,032	1,650	23,738	25,134	162,405

2017	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Revenues	783,091	115,836	8,731	20,417	104,705	1,032,780
Net income (100%)	240,459	28,478	1,024	11,717	3,395	285,073
Share in net income	10,074	3,560	512	1,172	1,546	16,864

2016	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Revenues	697,252	107,417	9,445	22,988	99,919	937,021
Net income (100%)	125,675	18,504	432	14,182	3,357	162,150
Share in net income (net loss)	4,111	2,313	216	1,418	(91)	7,967

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Additions	500,325	66,628	2,292	569,245
Acquisitions through business combinations	4,471	5,180	1,067	10,718
Capitalised borrowing costs	16,487	68	-	16,555
Disposals	(35,131)	(14,564)	(1,273)	(50,968)
Changes in estimates of ARO	(5,901)	-	-	(5,901)
Foreign currency translation differences	(55,896)	24,797	(634)	(31,733)
Other	(138)	(945)	905	(178)
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Depreciation for the period	(218,460)	(94,681)	(3,557)	(316,698)
Impairment loss	(22,382)	(3,241)	-	(25,623)
Impairment reversal	24,193	-	-	24,193
Disposals	15,603	10,205	353	26,161
Foreign currency translation differences	28,968	(8,846)	163	20,285
Other	(523)	759	(782)	(546)
31 December 2017	(1,230,717)	(403,445)	(15,617)	(1,649,779)
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	65,293
31 December 2017	10,732	2,717	133	13,582
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	3,391,366
31 December 2017	2,682,282	835,824	57,059	3,575,165

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Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2015	3,232,673	1,206,252	103,587	4,542,512
Additions	452,115	60,317	3,449	515,881
Capitalised borrowing costs	11,738	427	1	12,166
Transfer to assets held for sale	-	-	(34,315)	(34,315)
Disposals	(13,482)	(23,935)	(1,138)	(38,555)
Changes in estimates of ARO	1,746	-	-	1,746
Foreign currency translation differences	(201,105)	(93,609)	(2,582)	(297,296)
Other	(5,635)	5,936	1,184	1,485
31 December 2016	3,478,050	1,155,388	70,186	4,703,624
Depreciation and impairment				
31 December 2015	(953,254)	(259,515)	(14,627)	(1,227,396)
Depreciation for the period	(211,034)	(92,561)	(6,120)	(309,715)
Transfer to assets held for sale	-	-	7,846	7,846
Impairment loss	(7,632)	(1,172)	-	(8,804)
Disposals	2,793	13,704	636	17,133
Foreign currency translation differences	111,097	31,656	585	143,338
Other	(86)	247	(114)	47
31 December 2016	(1,058,116)	(307,641)	(11,794)	(1,377,551)
Advance payments for property, plant and equipment				
31 December 2015	94,619	1,280	138	96,037
31 December 2016	64,764	486	43	65,293
Carrying amounts				
31 December 2015	2,374,038	948,017	89,098	3,411,153
31 December 2016	2,484,698	848,233	58,435	3,391,366

The cost of assets under construction included in Property, plant and equipment was 514,886 million RUB and 593,970 million RUB at 31 December 2017 and 2016, respectively.

Exploration and evaluation assets

	2017	2016
1 January	69,829	52,302
Capitalised expenditures	34,266	28,653
Reclassified to development assets	(8,627)	(6,525)
Charged to expenses	(10,030)	(2,775)
Foreign currency translation differences	(510)	(1,700)
Other movements	1,206	(126)
31 December	86,134	69,829

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually.

As a result of the test in 2017 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,886 million RUB, for its international exploration and production assets in the amount of 1,496 million RUB and for its refining, marketing and distribution assets in Russia in the amount of 2,219 million RUB.

Note 12. Property, plant and equipment (continued)

The recoverable amount of CGUs subject to impairment in 2017 in the amount of 41,026 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets – from 11.3% to 15%.

The Group recognised an impairment reversal of 24,193 million RUB in 2017, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia in the amount of 22,202 million RUB. The recoverable amount of CGUs subject to impairment reversal was determined as 63,815 million RUB.

As a result of the test in 2016 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,696 million RUB, for its international exploration and production assets in the amount of 1,936 million RUB and for its refining, marketing and distribution assets in the amount of 1,172 million RUB.

The recoverable amount of CGUs subject to impairment in 2016 in the amount of 17,531 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets – from 10% to 11.9%, for refining, marketing and distribution assets – 11.9%.

Impairment reversal and impairment loss are included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income.

For impairment test purposes at 31 December 2017 the following Brent Blend price assumptions have been used: \$60 per barrel in 2018, \$71 per barrel in 2019, \$76 per barrel in 2020, \$77 per barrel in 2021–2022, \$79 per barrel in 2023–2025 and \$82 per barrel from 2026.

Further downward revisions to our oil and gas price outlook based on consensus estimates at year end by 10% may lead to further impairments, which mostly relate to our international upstream portfolio and in aggregate may be material. However, considering substantial uncertainty relevant to other assumptions that would be triggered by a 10% decrease in commodity price forecast, it is impracticable to estimate the possible effect of changes in these assumptions.

Note 13. Other non-current financial assets

	31 December 2017	31 December 2016
Long-term loans	69,840	86,387
including loans to associates	69,668	86,181
Non-current accounts and notes receivable	4,680	7,916
Other non-current financial assets	5,197	7,509
Total other non-current financial assets	79,717	101,812

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Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2016	16,384	2,359	46,419	30,701	95,863
Additions as a result of internal developments	634	610	-	-	1,244
Acquisitions	-	-	16	-	16
Additions – separately acquired	-	-	4,028	-	4,028
Disposals	(580)	(4)	(1,114)	-	(1,698)
Foreign currency translation differences	(55)	(1)	(989)	1,546	501
Other	30	4	(25)	-	9
31 December 2017	16,413	2,968	48,335	32,247	99,963
Amortisation and impairment					
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	(52,729)
Amortisation for the year	(1,267)	(237)	(5,886)	-	(7,390)
Impairment loss	-	-	(22)	-	(22)
Disposals	580	3	824	-	1,407
Foreign currency translation differences	68	-	647	(755)	(40)
Other	2	(5)	118	-	115
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	(58,659)
Carrying amounts					
31 December 2016	3,719	1,899	15,946	21,570	43,134
31 December 2017	3,131	2,269	13,543	22,361	41,304
Cost					
31 December 2015	14,722	1,592	54,276	35,765	106,355
Additions as a result of internal developments	119	870	-	-	989
Additions – separately acquired	-	-	4,405	-	4,405
Disposals	(6)	(21)	(1,018)	-	(1,045)
Foreign currency translation differences	(272)	(1)	(7,554)	(4,621)	(12,448)
Other	1,821	(81)	(3,690)	(443)	(2,393)
31 December 2016	16,384	2,359	46,419	30,701	95,863
Amortisation and impairment					
31 December 2015	(10,110)	(263)	(32,359)	(11,912)	(54,644)
Amortisation for the year	(1,512)	(166)	(5,777)	-	(7,455)
Impairment loss	-	-	(82)	-	(82)
Disposals	2	4	900	-	906
Foreign currency translation differences	225	1	3,943	2,231	6,400
Other	(1,270)	(36)	2,902	550	2,146
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	(52,729)
Advance payments for intangible assets					
31 December 2015	-	-	38	-	38
31 December 2016	-	-	-	-	-
Carrying amounts					
31 December 2015	4,612	1,329	21,955	23,853	51,749
31 December 2016	3,719	1,899	15,946	21,570	43,134

Goodwill was tested for impairment and no impairment was identified.

Note 15. Assets held for sale

In December 2016, the Company entered into a contract with a company of the “Otkrytie Holding” group to sell the Group’s 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction 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).

Note 16. Accounts payable

	31 December 2017	31 December 2016
Trade accounts payable	508,078	478,673
Other accounts payable	51,899	71,574
Total accounts payable	559,977	550,247

Note 17. Short-term borrowings and current portion of long-term debt

	31 December 2017	31 December 2016
Short-term borrowings from third parties	15,499	14,305
Short-term borrowings from related parties	3,170	3,743
Current portion of long-term debt	110,044	40,381
Total short-term borrowings and current portion of long-term debt	128,713	58,429

Short-term borrowings from third parties include amounts repayable in US dollars of 5,235 million RUB and 667 million RUB and amounts repayable in other currencies of 10,264 million RUB and 13,638 million RUB at 31 December 2017 and 2016, respectively. The weighted-average interest rate on short-term borrowings from third parties was 11.30% and 9.42% per annum at 31 December 2017 and 2016, respectively. Approximately 33% of total short-term borrowings from third parties at 31 December 2017 are secured by inventories.

Note 18. Long-term debt

	31 December 2017	31 December 2016
Long-term loans and borrowings from third parties	244,000	277,404
6.356% non-convertible US dollar bonds, maturing 2017	-	30,328
3.416% non-convertible US dollar bonds, maturing 2018	86,384	90,689
7.250% non-convertible US dollar bonds, maturing 2019	34,466	36,304
6.125% non-convertible US dollar bonds, maturing 2020	57,506	60,585
6.656% non-convertible US dollar bonds, maturing 2022	28,748	30,328
4.563% non-convertible US dollar bonds, maturing 2023	86,274	90,689
4.750% non-convertible US dollar bonds, maturing 2026	57,467	60,657
Finance lease obligations	2,846	3,558
Total long-term debt	597,691	680,542
Current portion of long-term debt	(110,044)	(40,381)
Total non-current portion of long-term debt	487,647	640,161

Note 18. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 194,251 million RUB and 155,720 million RUB, amounts repayable in euros of 49,749 million RUB and 50,496 million RUB, amounts repayable in Russian rubles of nil and 70,000 million RUB and amounts repayable in other currencies of nil and 1,188 million RUB at 31 December 2017 and 2016, respectively. This debt has maturity dates from 2018 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.33% and 6.06% per annum at 31 December 2017 and 2016, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 27% of total long-term loans and borrowings from third parties at 31 December 2017 are secured by shares of an associated company, export sales and property, plant and equipment.

US dollar non-convertible bonds

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion (57.6 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion (172.8 billion RUB). The first tranche totaling \$1.5 billion (86.4 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion (86.4 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (57.6 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (46.1 billion RUB) was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million (11.5 billion RUB) was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling \$1.5 billion (86.4 billion RUB). The first tranche totaling \$900 million (51.8 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling \$600 million (34.6 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (57.6 billion RUB). \$500 million (28.8 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (28.8 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

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Note 18. Long-term debt (continued)

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Capital lease obligation	Other liabilities	Total
31 December 2016	295,452	399,580	3,558	58,301	756,891
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	9,526	-	-	-	9,526
Principal repayments of short-term borrowings	(7,575)	-	-	-	(7,575)
Proceeds from issuance of long-term debt	68,049	-	-	-	68,049
Principal repayments of long-term debt	(97,977)	(28,573)	(1,056)	-	(127,606)
Interest paid	-	-	-	(38,872)	(38,872)
Dividends paid on Company common stock	-	-	-	(138,810)	(138,810)
Total changes from financing cash flows	(27,977)	(28,573)	(1,056)	(177,682)	(235,288)
Other changes:					
Interest accrued	-	-	-	40,483	40,483
Dividends declared on Company common stock	-	-	-	145,475	145,475
Changes arising from obtaining or losing control of subsidiaries or other businesses	(480)	-	-	310	(170)
The effect of changes in foreign exchange rates	(3,299)	(20,367)	(17)	(406)	(24,089)
Other changes	(1,027)	205	361	(1,915)	(2,376)
Total other changes	(4,806)	(20,162)	344	183,947	159,323
31 December 2017	262,669	350,845	2,846	64,566	680,926

Note 19. Taxes payable

	31 December 2017	31 December 2016
Income tax payable	8,963	6,591
Mineral extraction tax	47,175	37,583
VAT	34,147	23,960
Excise taxes	17,750	16,606
Property tax	3,652	3,899
Other taxes	6,797	6,316
Total taxes payable	118,484	94,955

Note 20. Other current liabilities

	31 December 2017	31 December 2016
Advances received	27,698	35,261
Dividends payable	62,254	55,285
Other	3,468	6,564
Total other current liabilities	93,420	97,110

Note 21. Provisions

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2016	37,460	35,803	4,489	8,049	4,913	5,245	95,959
Incl.: Non-current	35,939	23,377	2,523	6,531	60	1,514	69,944
Current	1,521	12,426	1,966	1,518	4,853	3,731	26,015
31 December 2017	36,668	36,172	4,176	10,367	5,472	13,360	106,215
Incl.: Non-current	36,478	14	1,683	8,292	54	1,441	47,962
Current	190	36,158	2,493	2,075	5,418	11,919	58,253

Note 21. Provisions (continued)

Asset retirement obligations changed as follows during 2017 and 2016:

	2017	2016
1 January	37,460	32,919
Provisions made during the year	4,951	5,873
Reversal of provisions	(200)	(586)
Provisions used during the year	(1,322)	(103)
Accretion expense	2,687	2,305
Change in discount rate	(2,378)	4,301
Changes in estimates	(4,073)	(2,394)
Foreign currency translation differences	(666)	(3,221)
Other movements	209	(1,634)
31 December	36,668	37,460

Note 22. Pension obligation

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payments are managed by a non-state pension fund, JSC "NPF LUKOIL-GARANT" ("LUKOIL-GARANT"). The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2017 and 2016.

The following table sets out movement in the net liabilities before taxation during 2017 and 2016.

	2017	2016
1 January	8,049	7,913
Components of defined benefit costs recorded in profit or loss	1,009	1,097
Components of defined benefit costs recorded in other comprehensive loss	2,709	1,132
Contributions from employer	(1,702)	(951)
Benefits paid	(666)	(734)
Opening balance adjustment	6	-
Liability assumed in business combination	119	6
Other	843	(414)
31 December	10,367	8,049

Note 23. Equity

Common shares

	31 December 2017 (thousands of shares)	31 December 2016 (thousands of shares)
Authorised and issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(140,930)	(137,630)
Outstanding common shares	709,633	712,933

Note 23. Equity (continued)

Dividends

At the extraordinary shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share.

At the annual shareholders' meeting on 21 June 2017, dividends for 2016 were approved in the amount of 120.00 RUB per common share. At the extraordinary shareholders' meeting on 5 December 2016, interim dividends for 2016 were approved in the amount of 75.00 RUB per common share. Total dividends for 2016 were approved in the amount of 195.00 RUB per common share.

Dividends on the Company's shares payable of 61,283 million RUB and 54,301 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2017 and 2016, respectively.

Earnings per share

The weighted average number of outstanding common shares, used for calculation of earnings per share, was 710,871 and 712,933 thousand shares during the year ended 31 December 2017 and 2016, respectively. There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Note 24. Personnel expenses

Personnel expenses were as follows:

	2017	2016
Salary	127,851	136,035
Statutory insurance contributions	35,387	28,879
Share-based compensation	1,135	20,370
Total personnel expenses	164,373	185,284

Note 25. Finance income and costs

Finance income was as follows:

	2017	2016
Interest income from deposits	5,222	5,878
Interest income from loans	6,715	7,306
Other finance income	3,214	1,572
Total finance income	15,151	14,756

Finance costs were as follows:

	2017	2016
Interest expense	23,116	40,283
Accretion expense	2,705	2,323
Other finance costs	1,510	4,424
Total finance costs	27,331	47,030

Note 26. Other income and expenses

Other income was as follows:

	2017	2016
Gain on disposal of assets	58,233	14,449
Reversal of impairment of assets	28,448	891
Other income	18,176	17,083
Total other income	104,857	32,423

Note 26. Other income and expenses (continued)

Other expenses were as follows:

	2017	2016
Impairment loss	31,386	9,471
Loss on disposal of assets	15,944	12,900
Charity expenses	9,009	12,060
Other expenses	15,586	8,337
Total other expenses	71,925	42,768

Note 27. Income tax

Before 2017, operations in the Russian Federation were subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

For the period from 2017 till 2020 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate varies from 12.5% to 17.0% at the discretion of the individual regional administration.

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.

Income tax was as follows:

	2017	2016
Current income tax expense for the year	97,573	55,567
Adjustment for prior periods	2,403	2,603
Current income taxes	99,976	58,170
Deferred income tax	3,786	6,703
Total income tax expense	103,762	64,873

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to profit before income taxes to total income taxes.

	2017	2016
Profit before income taxes	524,184	272,515
Notional income tax at the Russian statutory rate	104,837	54,503
Increase (reduction) in income tax due to:		
Non-deductible items, net	14,614	15,355
Domestic and foreign rate differences	(16,823)	(3,789)
Change in recognised deductible temporary differences	1,134	(1,196)
Total income tax expense	103,762	64,873

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Note 27. Income tax (continued)

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

	31 December 2017	31 December 2016
Property, plant and equipment	6,666	8,422
Inventories	6,010	4,556
Accounts receivable	922	678
Accounts payable and provisions	10,931	10,242
Operating loss carry forward	33,516	35,086
Other	1,483	1,718
Total deferred income tax assets	59,528	60,702
Set off of tax	(34,400)	(31,623)
Deferred income tax assets	25,128	29,079
Property, plant and equipment	(254,956)	(253,591)
Investments	(3,348)	(3,452)
Inventories	(6,187)	(6,979)
Accounts receivable	(5,065)	(4,681)
Accounts payable and provisions	(63)	(76)
Other	(2,761)	(2,655)
Total deferred income tax liabilities	(272,380)	(271,434)
Set off of tax	34,400	31,623
Deferred income tax liabilities	(237,980)	(239,811)
Net deferred income tax liabilities	(212,852)	(210,732)

	31 December 2016	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2017
Property, plant and equipment	(245,169)	(3,194)	(918)	991	(248,290)
Investments	(3,452)	94	-	10	(3,348)
Inventories	(2,423)	2,249	-	(3)	(177)
Accounts receivable	(4,003)	(322)	-	182	(4,143)
Accounts payable	10,166	389	(2)	315	10,868
Operating loss carry forward	35,086	(2,665)	-	1,095	33,516
Other	(937)	(337)	3	(7)	(1,278)
Net deferred income tax liabilities	(210,732)	(3,786)	(917)	2,583	(212,852)

	31 December 2015	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2016
Property, plant and equipment	(234,596)	(15,048)	2,424	2,051	(245,169)
Investments	(4,280)	592	-	236	(3,452)
Inventories	(1,968)	(1,167)	529	183	(2,423)
Accounts receivable	(5,500)	1,482	(15)	30	(4,003)
Accounts payable	6,645	3,802	(618)	337	10,166
Operating loss carry forward	36,156	3,134	(2,108)	(2,096)	35,086
Other	(1,829)	502	130	260	(937)
Net deferred income tax liabilities	(205,372)	(6,703)	342	1,001	(210,732)

Note 27. Income tax (continued)

Deferred tax assets have not been recognised in respect of the temporary differences related to the following items:

	31 December 2017	31 December 2016
Property, plant and equipment	2,433	3,602
Operating loss carry forward	10,790	16,260
Other	1,090	505
Total deferred tax assets	14,313	20,367

Management believes that it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

Amounts recognised in other comprehensive income during 2017:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	2,626	-	2,626
Change in fair value of available-for-sale financial assets	(2,180)	-	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	(2,709)	384	(2,325)
Total	(2,263)	384	(1,879)

Amounts recognised in other comprehensive income during 2016:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(74,175)	-	(74,175)
Remeasurements of defined benefit liability/asset of pension plan	(1,132)	207	(925)
Total	(75,307)	207	(75,100)

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment included 585,547 million RUB and 644,200 million RUB at 31 December 2017 and 2016, respectively. Such amounts are considered to be indefinitely invested and it is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

The consequences of taxation in Russia of certain profits of controlled foreign corporation in accordance with applicable tax legislation are accounted for within current and deferred tax liabilities.

Note 28. Operating lease

At 31 December 2017 and 2016, Group companies had commitments primarily for the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows:

	31 December 2017	31 December 2016
Less than a year	24,753	31,184
1-5 years	54,917	57,429
More than 5 years	88,277	103,199
Total	167,947	191,812

Note 29. Commitments and contingencies

Capital commitments

At 31 December 2017, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 413,712 million RUB.

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are recognised in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose substantial fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors significantly increase taxation risks in the Russian Federation and other emerging markets where Group companies operate, comparing to other countries where taxation regimes have been subject to development and clarification over longer periods.

Note 29. Commitments and contingencies (continued)

The tax authorities in each region of the Russian Federation may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessfully defended by the Group in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation. The Group is subject to tax authority audits on an ongoing basis, which is a normal practice in the Russian Federation and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) issued an order on initiation of criminal proceeding and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor’s Office added bad faith use of the company’s credit and money laundering charges for 2008–2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim was not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group were also considered to be suspects in this criminal case. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. On 3 November 2017, the Prosecutor’s Office issued an order on discontinuance of criminal proceeding started in June 2014 against PETROTEL-LUKOIL S.A. and its general director on alleged tax evasion and money laundering. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L. and a number of other companies were also dismissed from similar charges. Due to discontinuance of the proceeding all the security measures against PETROTEL-LUKOIL S.A. (seizure of fixed assets and accounts blocking for the amount of more than \$24 million (1.4 billion RUB)) have been removed.

In July 2015, a charge in respect of bad faith use of the company’s credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. Similar charges was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011–2014. On 3 August 2015, the Prosecutor’s Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company’s credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor’s Office revised the amount of damage claimed from \$2.2 billion (126.7 billion RUB) to \$1.5 billion (86.4 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor’s Office. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, on 22 January 2016 the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. On 27 January 2017, a court hearing took place and the attorneys requested that an expert examination be performed. On 19 May 2017, the Prahova Tribunal issued a decision on appointment of experts. On 12 October 2017, expert examination was completed and expert conclusion was sent to the Prahova Tribunal. Last hearing when statement of the accused was repeated due to replacement of the judge in the proceeding was held on 12 March 2018. Next hearing is scheduled on 16 April 2018. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor’s Office. Management does not believe that the outcome of this matter will have a material adverse effect on the Group’s financial position.

Note 29. Commitments and contingencies (continued)

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with respect to cost recovery in 2010–2013 (the “CR”) and the calculation of the “Fairness index” (the “FI”) in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration which is at its initial stage, and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact of the disclosure on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group’s financial position.

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

Political situation

In July – September 2014, the United States (“US”), the European Union (“EU”) and 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.

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.

The Group is exposed to political, economic and legal risks due to its operations in Iraq. 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.

Note 30. Related party transactions

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

Note 30. Related party transactions (continued)

Outstanding balances with related parties:

	31 December 2017	31 December 2016
Accounts receivable	10,567	8,209
Other financial assets	82,288	93,453
Total assets	92,855	101,662
Accounts payable	6,696	8,436
Loans and borrowings	3,170	3,743
Total liabilities	9,866	12,179

Related party transactions were as follows:

	2017	2016
Sales of oil and oil products	14,927	19,972
Other sales	4,055	6,576
Purchases of oil and oil products	86,548	78,060
Other purchases	7,388	6,983
Loans given	4,988	16,279
Loans received	3,912	4,625

During 2017, a Group company acquired from a related party 3 300 000 shares of the Company for 9,474 million RUB.

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,588 million RUB and 5,519 million RUB during 2017 and 2016, respectively. These amounts also include accruals related to compensation plan, which is disclosed in Note 31 “Compensation plan”.

Note 31. Compensation plan

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

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.1%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company’s shares for the previous seven year period up to January 2013.

Related to this share plan the Group recognised 35,878 million RUB of compensation expense for the whole period, of which 1,135 million RUB and 20,370 million RUB during 2017 and 2016, respectively. At 31 December 2017 and 2016 amounts of 24,602 million RUB and 26,921 million RUB related to this plan were included in “Provisions” of the consolidated statement of financial position, respectively. The total recognized tax benefits related to these accruals amounted to 7,089 million RUB for the whole period, of which 227 million RUB and 3,987 million RUB during 2017 and 2016, respectively.

In late December 2017, the Company introduced a new compensation plan to certain members of management. The Group is currently in the process of implementing the program.

Note 32. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments.

The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group’s traditional operations.

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

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

Operating segments

2017	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	160,780	5,745,957	29,968	-	5,936,705
Inter-segment	1,553,442	71,140	45,522	(1,670,104)	-
Total revenues	1,714,222	5,817,097	75,490	(1,670,104)	5,936,705
Operating expenses	265,911	235,052	21,432	(65,630)	456,765
Selling, general and administrative expenses	48,671	129,902	25,496	(38,738)	165,331
Profit for the year	269,670	135,102	15,466	(1,433)	418,805
Operating earnings	560,861	267,412	31,081	447	859,801
Income tax expense					(103,762)
Finance income					15,151
Finance costs					(27,331)
Depreciation, depletion and amortisation					(325,054)
Profit for the year attributable to PJSC LUKOIL shareholders					418,805

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Note 32. Segment information (continued)

2016	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	156,834	5,029,489	40,722	-	5,227,045
Inter-segment	1,445,827	67,509	47,433	(1,560,769)	-
Total revenues	1,602,661	5,096,998	88,155	(1,560,769)	5,227,045
Operating expenses	265,216	217,010	22,022	(47,815)	456,433
Selling, general and administrative expenses	38,926	131,561	58,491	(32,822)	196,156
Profit (loss) for the year	215,922	113,703	(129,924)	7,093	206,794
Operating earnings	496,541	228,766	(114,037)	4,259	615,529
Income tax expense					(64,873)
Finance income					14,756
Finance costs					(47,030)
Depreciation, depletion and amortisation					(311,588)
Profit for the year attributable to PJSC LUKOIL shareholders					206,794

Geographical segments

	2017	2016
Sales of crude oil within Russia	37,525	94,985
Export of crude oil and sales of crude oil by foreign subsidiaries	1,641,238	1,353,334
Sales of petroleum products within Russia	776,002	634,326
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,144,226	2,818,058
Sales of chemicals within Russia	34,451	38,092
Export of chemicals and sales of chemicals by foreign subsidiaries	48,187	34,711
Sales of gas within Russia	31,109	27,030
Sales of gas by foreign subsidiaries	54,611	33,663
Sales of energy and related services within Russia	61,028	61,920
Sales of energy and related services by foreign subsidiaries	12,884	14,178
Other sales within Russia	45,727	46,867
Other export sales and other sales of foreign subsidiaries	49,717	69,881
Total sales	5,936,705	5,227,045

2017	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,064,086	4,872,619	-	5,936,705
Inter-segment	1,197,440	3,713	(1,201,153)	-
Total revenues	2,261,526	4,876,332	(1,201,153)	5,936,705
Operating expenses	333,178	117,467	6,120	456,765
Selling, general and administrative expenses	97,804	72,724	(5,197)	165,331
Profit for the year	381,351	40,411	(2,957)	418,805
Operating earnings	706,878	155,649	(2,726)	859,801

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Note 32. Segment information (continued)

2016	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	947,461	4,279,584	-	5,227,045
Inter-segment	1,027,215	2,497	(1,029,712)	-
Total revenues	1,974,676	4,282,081	(1,029,712)	5,227,045
Operating expenses	322,258	117,794	16,381	456,433
Selling, general and administrative expenses	111,297	88,610	(3,751)	196,156
Profit for the year	196,150	4,792	5,852	206,794
Operating earnings	467,329	141,575	6,625	615,529

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

	2017	2016
Sales revenues		
in Switzerland	2,755,567	2,380,957
in the USA	572,264	421,930
in Singapore	457,913	341,396

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

Note 33. Subsidiaries

Key subsidiaries

The most significant subsidiaries of the Group are presented below:

Subsidiary	Country of incorporation	31 December 2017		31 December 2016	
		Total shares	Voting shares	Total shares	Voting shares
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Perm LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK JSC	Russia	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftochim Bourgas AD	Bulgaria	99.83%	99.83%	99.82%	99.82%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
Soyuzneftegaz Vostok Limited	Cyprus	100.00%	100.00%	100.00%	100.00%

Note 34. Fair value

There are the following methods of fair value measurement based on the valuation method:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3 – unobservable inputs.

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

31 December 2017	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	11,634	-	11,634	-	11,634
Available for sale securities	5,106	-	-	5,106	5,106
Financial liabilities:					
Commodity derivative contracts	11,978	-	11,978	-	11,978
Loans and borrowings	597,691	368,811	-	260,214	629,025
31 December 2016					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	13,380	-	13,380	-	13,380
Available for sale securities	7,437	-	-	7,437	7,437
Financial liabilities:					
Commodity derivative contracts	36,935	-	36,935	-	36,935
Loans and borrowings	680,542	414,214	-	290,622	704,836

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

Note 35. Capital and risk management

The Group's governing bodies pay great attention to risk management issues to provide a reasonable guarantee for the achievement of the set objectives under the conditions characterized by uncertainties and negative impact factors. The Group is constantly identifying, describing, estimating and monitoring the possible events that may affect its activities, and is elaborating measures to prevent them or mitigate their negative impact to the greatest extent possible if such events do take place.

The Group seeks to actively promote risk management and is presently focusing its efforts on the improvement of a general enterprise risk management system (ERM) based on the best international practices. The Group is constantly improving the applicable regulatory methodological risk management base that establishes requirements aimed at organizing the risk management process at all stages, and defines management standards for certain risk types of utmost importance, which are uniform for all of Group organizations. The Risk Committee, a dedicated body under the President of the Company, was set up and began its work in 2011.

Note 35. Capital and risk management (continued)

The information with regard to key financial risks of the Group is presented below.

Credit risk

The Group's most significant credit risks include first of all the risk of failure by its counterparties to perform their obligations in terms of payment for the products supplied by the Group. In order to mitigate these risks, the Group focuses on partnerships with counterparties that have high credit ratings, accepts letters of credit and guarantees issued by reputable banks and sometimes demands prepayment for the products supplied. In addition, it utilizes tools to limit the credit risks of a given counterparty.

Another group of credit risks includes risks associated with contractor banks' activities and potential impairment of their financial stability. In order to mitigate these risks, the Group is involved in centralized treasury operations, part of which are aimed at fund raising, investment and operations involving currency exchange and financial derivatives. The credit ratings of contractor banks are monitored on a regular basis.

The carrying amount of financial assets represents the maximum exposure to credit risk.

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2017	31 December 2016
Not past due	352,629	305,183
Past due less than 90 days	33,825	22,973
Past due from 90 to 180 days	4,587	17,994
Past due from 180 to 270 days	6,999	9,318
Past due from 270 to 365 days	5,537	1,665
Past due more than 365 days	14,695	3,764
Total trade and other receivables	418,272	360,897

Not past due accounts receivable are not considered of high credit risk.

Allowance for doubtful accounts receivable changed as follows:

	2017	2016
1 January	20,189	18,921
Increase in allowance for doubtful debts charged to profit and loss	6,130	6,192
Write-off	(2,922)	(2,187)
Foreign currency translation differences	(579)	(2,615)
Other	(859)	(122)
31 December	21,959	20,189

Financial instruments used by the Group and potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter production contracts and trade receivables. The cash and cash equivalents are held with banks, which are generally highly rated.

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the Intercontinental Exchange (ICE Futures).

Note 35. Capital and risk management (continued)

Liquidity risk

The Group's liquidity is managed on a centralized basis. There is an efficient global system in place to manage the Group's liquidity, which includes an automated system of concentrating and re-distributing the funds, corporate dealing and also rolling cash-flow forecasts. The liquidity indicators are monitored on a continuous basis.

Contractual maturities of the Group's financial liabilities (the Group itself determines the grouping of the maturity based on contractual maturities and, where relevant, on judgment):

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	263,202	304,938	52,147	50,855	158,868	43,068
Bonds, including interest expense	353,595	421,167	103,998	46,588	111,993	158,588
Finance lease obligations	2,846	5,344	1,398	1,311	2,635	-
Trade and other payables	545,734	545,734	545,113	192	319	110
Derivative financial liabilities	11,978	11,978	11,978	-	-	-
31 December 2017	1,177,355	1,289,161	714,634	98,946	273,815	201,766

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	296,425	374,611	44,220	38,968	247,138	44,285
Bonds, including interest expense	402,607	500,552	50,800	109,234	134,143	206,375
Finance lease obligations	3,558	5,495	1,149	1,151	3,167	28
Trade and other payables	510,333	510,333	509,755	134	302	142
Derivative financial liabilities	36,935	36,935	36,935	-	-	-
31 December 2016	1,249,858	1,427,926	642,859	149,487	384,750	250,830

Currency risk

The Group is subject to foreign exchange risks since it operates in a number of countries. The exchange rate of the Russian ruble to the US dollar produces the greatest impact on transaction results, since the Group's export proceeds are denominated in dollars, while the major costs are incurred in Russia and are denominated in Russian rubles.

As part of the centralized approach to management of the treasury operations and liquidity of the Group, the risks associated with unfavorable changes in the exchange rates are generally consolidated at the corporate level. In a number of cases currency risks at trading floors are minimized due to the financial derivative operations conducted as part of the corporate dealing process. Moreover, to mitigate its foreign exchange risks, the loans to Group companies are granted in local currencies as part of inter-group financing.

Note 35. Capital and risk management (continued)

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2017 and 2016 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

31 December 2017	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	68,136	11,781	1,034
Trade and other receivables	162,005	1,787	4,727
Loans	175,173	3,548	-
Other financial assets	2,181	6	12
Financial liabilities:			
Loans and borrowings	(103,680)	(33,041)	(87)
Trade and other payables	(68,694)	(5,688)	(7,146)
Net exposure	235,121	(21,607)	(1,460)

31 December 2016	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	112,147	57,632	727
Trade and other receivables	123,313	2,365	564
Loans	469,756	6,246	-
Other financial assets	961	12	10
Financial liabilities:			
Loans and borrowings	(67,790)	(59,999)	(1,188)
Trade and other payables	(32,489)	(4,337)	(624)
Net exposure	605,898	1,919	(511)

The following exchange rates applied:

	31 December 2017	31 December 2016
USD	57.60	60.66
EUR	68.87	63.81

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2017 and 2016 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2017	2016
US Dollar (increase by 10%)	22,026	55,080
Euro (increase by 10%)	(249)	3,138
Russian ruble (increase by 10%)	(19,384)	(52,445)

The weakening of these currencies by 10% will have equal effect on profit (loss) but with opposite sign.

Interest rate risk

The Group is exposed to a significant interest rate risk both in the short- and long-term. A change in interest rates may affect the cost of funds borrowed by the Group as well as the size of cash flows.

Note 35. Capital and risk management (continued)

To mitigate this risk, the Group is constantly monitoring market conditions, taking measures to improve the debt structure by reaching an optimum balance between fixed and variable interest rates, controlling the need for additional financing and outstanding debt refinancing, extending the term of debt obligations.

The interest rate profiles of the Group are presented below:

	31 December 2017	31 December 2016
<i>Fixed rate instruments:</i>		
Financial assets	45,354	79,951
Financial liabilities	(367,525)	(417,333)
Net exposure	(322,171)	(337,382)
<i>Variable rate instruments:</i>		
Financial assets	49,244	30,879
Financial liabilities	(248,835)	(281,257)
Net exposure	(199,591)	(250,378)

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2017 and 2016 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
2017		
Net financial liabilities	(1,996)	1,996
2016		
Net financial liabilities	(2,504)	2,504

Capital management

The Group's capital management objectives are to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. The Company's management performs regular assessment of the net debt to capital ratio to ensure it meets the Company's current rating requirements. The capital consists of debt obligations, which include long and short-term loans and borrowings, equity that includes share capital, reserves and retained earnings, as well as non-controlling interests. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings, as presented in the consolidated statement of financial position, less cash and cash equivalents. Net debt to equity ratio enables the users to see how significant net debt is.

The Group's net debt to equity ratio was as follows:

	31 December 2017	31 December 2016
Total debt	616,360	698,590
Less cash and cash equivalents	(330,390)	(261,367)
Net debt	285,970	437,223
Equity	3,490,399	3,227,664
Net debt to equity ratio	8.19%	13.55%

Supplementary Information on Oil and Gas Exploration and Production Activities

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

- I. Capitalised costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
- IV. Reserve quantity information.
- V. Standardised measure of discounted future net cash flows.
- VI. Principal sources of changes in the standardised measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,885	78,372	140,257	22,684
Proved oil and gas properties	1,104,857	2,657,153	3,762,010	185,749
Accumulated depreciation, depletion, and amortisation	(571,017)	(659,700)	(1,230,717)	(53,333)
Net capitalised costs	595,725	2,075,825	2,671,550	155,100

31 December 2016	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,053	66,764	127,817	25,492
Proved oil and gas properties	1,013,911	2,336,322	3,350,233	174,337
Accumulated depreciation, depletion, and amortisation	(569,135)	(488,981)	(1,058,116)	(59,880)
Net capitalised costs	505,829	1,914,105	2,419,934	139,949

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	1,520	1,520	-
Acquisition of properties – unproved	-	2,972	2,972	-
Exploration costs	6,715	26,791	33,506	1,382
Development costs	129,468	299,738	429,206	8,897
Total costs incurred	136,183	331,021	467,204	10,279

2016	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	354	354	-
Acquisition of properties – unproved	-	123	123	-
Exploration costs	13,828	22,467	36,295	885
Development costs	137,582	269,076	406,658	14,624
Total costs incurred	151,410	292,020	443,430	15,509

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III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. Sales and transfers to Group companies are based on market prices, income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	112,088	704,254	816,342	47,044
Transfers	-	705,802	705,802	1,243
Total revenues	112,088	1,410,056	1,522,144	48,287
Production costs (excluding production taxes)	(31,405)	(177,554)	(208,959)	(6,125)
Exploration expense	(2,775)	(9,573)	(12,348)	(21)
Depreciation, depletion, and amortisation	(43,949)	(174,683)	(218,632)	(7,446)
Taxes other than income taxes	(475)	(709,670)	(710,145)	(10,955)
Related income taxes	(6,766)	(53,041)	(59,807)	(8,544)
Total results of operations for producing activities	26,718	285,535	312,253	15,196

2016	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	134,682	635,130	769,812	41,014
Transfers	-	555,018	555,018	1,331
Total revenues	134,682	1,190,148	1,324,830	42,345
Production costs (excluding production taxes)	(45,813)	(165,641)	(211,454)	(7,373)
Exploration expense	(6,232)	(2,061)	(8,293)	(1)
Depreciation, depletion, and amortisation	(57,521)	(154,226)	(211,747)	(7,098)
Taxes other than income taxes	(1,072)	(549,150)	(550,222)	(12,349)
Related income taxes	(4,638)	(58,686)	(63,324)	(5,590)
Total results of operations for producing activities	19,406	260,384	279,790	9,934

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 65% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

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Estimated net proved oil and gas reserves and changes thereto for 2017 and 2016 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Crude oil				
31 December 2015	542	11,780	12,322	263
Revisions of previous estimates	127	(117)	10	47
Extensions and discoveries	10	512	522	4
Production	(51)	(614)	(665)	(21)
31 December 2016	628	11,561	12,189	293
Revisions of previous estimates	(128)	(55)	(183)	(5)
Purchase of hydrocarbons in place	-	11	11	-
Extensions and discoveries	8	408	416	14
Production	(29)	(609)	(638)	(20)
31 December 2017	479	11,316	11,795	282

Proved developed reserves

31 December 2016	287	7,614	7,901	124
31 December 2017	250	7,331	7,581	131

The non-controlling interest share included in the above total proved reserves was 94 million barrels and 74 million barrels at 31 December 2017 and 2016, respectively. The non-controlling interest share included in the above proved developed reserves was 57 million barrels and 37 million barrels at 31 December 2017 and 2016, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Natural gas				
31 December 2015	7,118	16,490	23,608	230
Revisions of previous estimates	201	192	393	(35)
Extensions and discoveries	9	168	177	-
Production	(270)	(580)	(850)	(30)
31 December 2016	7,058	16,270	23,328	165
Revisions of previous estimates	157	563	720	29
Extensions and discoveries	140	281	421	5
Production	(349)	(638)	(987)	(32)
31 December 2017	7,006	16,476	23,482	167

Proved developed reserves:

31 December 2016	2,960	5,309	8,269	105
31 December 2017	5,409	5,558	10,967	121

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2017 and 2016. The non-controlling interest share included in the above proved developed reserves was 13 and 15 billion cubic feet at 31 December 2017 and 2016, respectively. All non-controlling interests relate to reserves in the Russian Federation.

V. Standardised measure of discounted future net cash flows

Estimated future cash inflows from hydrocarbons production are computed by applying the 12-months average price for oil and gas and the year-end exchange rates to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

			Total consolidated companies	Group's share in equity companies
31 December 2017	International	Russia		
Future cash inflows	2,460,227	23,774,561	26,234,788	685,571
Future production and development costs	(1,663,223)	(17,196,531)	(18,859,754)	(447,375)
Future income tax expenses	(54,737)	(1,018,876)	(1,073,613)	(43,283)
Future net cash flows	742,267	5,559,154	6,301,421	194,913
Discount for estimated timing of cash flows (10% p.a.)	(331,525)	(3,110,698)	(3,442,223)	(100,127)
Discounted future net cash flows	410,742	2,448,456	2,859,198	94,786
Non-controlling share in discounted future net cash flows	-	22,136	22,136	-
			Total consolidated companies	Group's share in equity companies
31 December 2016	International	Russia		
Future cash inflows	2,337,071	20,052,599	22,389,670	581,197
Future production and development costs	(1,855,925)	(14,044,066)	(15,899,991)	(446,695)
Future income tax expenses	(51,750)	(920,857)	(972,607)	(25,659)
Future net cash flows	429,396	5,087,676	5,517,072	108,843
Discount for estimated timing of cash flows (10% p.a.)	(261,818)	(2,875,407)	(3,137,225)	(63,593)
Discounted future net cash flows	167,578	2,212,269	2,379,847	45,250
Non-controlling share in discounted future net cash flows	-	18,805	18,805	-

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of Russian rubles, unless otherwise noted)***VI. Principal sources of changes in the standardised measure of discounted future net cash flows***

Consolidated companies	2017	2016
Discounted present value at 1 January	2,379,847	3,904,557
Net changes due to purchases and sales of minerals in place	2,167	60
Sales and transfers of oil and gas produced, net of production costs	(590,692)	(554,861)
Net changes in prices and production costs estimates	1,641,159	(4,451,693)
Net changes in mineral extraction taxes	(1,129,879)	2,667,624
Extensions and discoveries, less related costs	104,704	98,911
Previously estimated development cost incurred during the year	349,720	469,271
Revisions of previous quantity estimates	(26,040)	(45,374)
Net change in income taxes	(44,824)	346,583
Accretion of discount	262,831	436,285
Other changes	(89,795)	(491,516)
Discounted present value at 31 December	2,859,198	2,379,847
Group's share in equity companies	2017	2016
Discounted present value at 1 January	45,250	101,224
Net changes due to purchases and sales of minerals in place	-	62
Sales and transfers of oil and gas produced, net of production costs	(31,186)	(22,622)
Net changes in prices and production costs estimates	101,022	(120,495)
Net changes in mineral extraction taxes	(47,336)	61,202
Extensions and discoveries, less related costs	4,402	590
Previously estimated development cost incurred during the year	27,167	14,312
Revisions of previous quantity estimates	(316)	6,950
Net change in income taxes	(7,185)	10,302
Accretion of discount	5,791	11,365
Other changes	(2,823)	(17,640)
Discounted present value at 31 December	94,786	45,250