



LUKOIL

PJSC LUKOIL

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

For the three-month period ended 31 March 2016 and 2015

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 March 2016 and the results of its operations for the first quarter of 2016, compared to the first quarter of 2015, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards (“IFRS”) condensed interim consolidated financial statements and notes thereto.

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

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

Key financial and operational results

	3 months of		Change, %
	2016	2015	
	(millions of rubles)		
Sales.....	1,177,674	1,440,305	(18.2)
Profit for the period attributable to LUKOIL shareholders.....	42,825	104,031	(58.8)
EBITDA	145,479	214,296	(32.1)
Capital expenditures, including non-cash transactions	122,561	154,071	(20.5)
Free cash flow.....	36,415	62,911	(42.1)
Production, including our share in equity affiliates:			
Hydrocarbons, thousands of BOE.....	214,209	213,187	0.5
Hydrocarbons, thousands of BOE per day	2,354	2,369	(0.6)
Crude oil and natural gas liquids, thousands of barrels	182,583	182,968	(0.2)
Gas available for sale, millions of cubic meters.....	5,374	5,135	4.7
Production of refined products, thousands of tonnes	14,867	14,080	5.6

Our results for the first quarter of 2016 were affected by a decrease in average hydrocarbon prices and fluctuations of ruble exchange rates to the US dollar and euro. This, in turn, was partially compensated for by the decrease in mineral extraction tax and export tariffs. In the first quarter of 2016, our profit amounted to 43 billion RUB and our EBITDA amounted to 145 billion RUB, a decrease of 58.8% and 32.1%, respectively, compared to the first quarter of 2015. In the first quarter of 2016, our free cash flow was 36 billion RUB, compared to 63 billion RUB in the first quarter of 2015.

Business overview

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves that amounted to 16.6 billion BOE at 1 January 2016 and comprised of 12.6 billion barrels of crude oil and 23.8 trillion cubic feet of gas.

The primary activities of LUKOIL and its subsidiaries are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of a vertically integrated group of companies.

Our operations are divided into three main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Northern and Western Africa, Norway, Romania and Mexico.
- **Refining, Marketing and Distribution** – which includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services.
- **Corporate and other.**

Each of our three main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on page 9, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyse either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 28 “Segment information” to our condensed interim consolidated financial statements.

Changes in Group structure

In line with the Company's strategy of optimization its downstream operations in Europe, we sold petrol station networks in Poland, Latvia and Lithuania in the first quarter of 2016 and petrol stations networks in Ukraine and Estonia in the second quarter of 2015.

In August 2015, a Group company closed the transaction to sell the Group's 50% interest in Caspian Investment Resources Ltd, an exploration and production company operating in Kazakhstan, to a Sinopec group company for \$1,067 million (70.1 billion RUB). Related structural decrease in the Group's crude oil production amounted to approximately 20 thousand barrels per day.

Sectorial sanctions against the Russian companies

In July-September 2014, the United States (“US”), the European Union (“EU”) and other countries imposed a number of sectorial sanctions on certain Russian entities, including the Company. These sanctions restrict Russian entities' access to financial markets and prohibit US and the EU companies and individuals from the provision of goods, services (except for financial services to the Company) or technology that can be used on the territory of the Russian Federation in exploration and production of crude oil in deepwater, Arctic offshore and shale projects. Given that the Company is not on the financial restrictions list and is not currently involved in deepwater, Arctic offshore and shale projects, the Company assesses the impact of the sanctions on its activities as immaterial. Nevertheless, the Company continuously monitors these sanctions and analyses their effect on the Company's financial position and results of operations.

Operational highlights

Hydrocarbon production

The table below summarizes the results of our exploration and production activities.

	3 months of	
	2016	2015
Crude oil and natural gas liquids production⁽¹⁾	(thousand BOE per day)	
Consolidated subsidiaries		
Western Siberia	865	944
Timan-Pechora	346	325
Ural region	323	311
Volga region	133	139
Other in Russia	36	37
Total in Russia	1,703	1,756
Iraq ⁽²⁾	196	157
Other regions outside Russia	48	41
Total outside Russia	244	198
Total consolidated subsidiaries	1,947	1,954
Our share in equity affiliates		
in Russia	19	15
outside Russia	40	64
Total share in equity affiliates	59	79
Total crude oil and natural gas liquids	2,006	2,033
Natural gas production available for sale⁽³⁾		
Consolidated subsidiaries		
Western Siberia	168	180
Timan-Pechora	15	12
Ural region	15	25
Volga region	20	7
Total in Russia	218	224
Total outside Russia	121	101
Total consolidated subsidiaries	339	325
Share in equity affiliates		
in Russia	1	1
outside Russia	8	10
Total share in production of equity affiliates	9	11
Total natural gas available for sale	348	336
Total daily hydrocarbon production	2,354	2,369
	(millions of rubles)	
Hydrocarbon extraction expenses	54,077	51,834
- in Russia	39,711	36,081
- outside Russia	14,366	15,753
Mineral extraction tax in Russia	69,738	116,649
	(ruble per BOE)	
Hydrocarbon extraction expenses	259.13	252.18
- in Russia	227.60	202.85
- outside Russia	419.91	569.27
	(US dollar per BOE)	
Hydrocarbon extraction expenses	3.47	4.05
- in Russia	3.05	3.26
- outside Russia	5.63	9.15

⁽¹⁾ Natural gas liquids produced at the Group gas processing plants.

⁽²⁾ Compensation oil that represented approximately 47% of production from the West Qurna-2 field in the first quarter of 2016 and 53% in the first quarter of 2015.

⁽³⁾ Including petroleum gas sold to third parties.

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are LUKOIL-Western Siberia, LUKOIL-Komi and LUKOIL-PERM. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Saudi Arabia, Egypt, Ghana, Cote d'Ivoire, Norway, Cameroon, Nigeria and Mexico.

Crude oil production. In the first quarter of 2016, we produced (including the Company's share in equity affiliates) 24.5 million tonnes, or 179.2 million barrels, of crude oil.

The following table represents our crude oil production in the first quarter of 2016 and 2015 by major regions.

(thousands of tonnes)	3 months of 2016	Change to 2015			3 months of 2015
		Total, %	Change in structure	Organic change	
Western Siberia	10,437	(7.4)	–	(836)	11,273
Timan-Pechora	4,354	7.5	–	304	4,050
Ural region	3,774	2.2	–	80	3,694
Volga region	1,628	(3.1)	–	(52)	1,680
Other in Russia	457	(0.4)	–	(2)	459
Crude oil produced in Russia	20,650	(2.4)	–	(506)	21,156
Iraq ⁽¹⁾	2,601	26.3	–	542	2,059
Other outside Russia	561	17.4	–	83	478
Crude oil produced internationally	3,162	24.6	–	625	2,537
Total crude oil produced by consolidated subsidiaries	23,812	0.5	–	119	23,693
Our share in crude oil produced by equity affiliates:					
in Russia	226	29.9	–	52	174
outside Russia	457	(38.4)	(266)	(19)	742
Total crude oil produced	24,495	(0.5)	(266)	152	24,609

⁽¹⁾ Compensation oil that represented approximately 47% of production from the West Qurna-2 field in the first quarter of 2016 and 53% in the first quarter of 2015.

The main oil producing region for the Company is Western Siberia where we produced 43.8% of our crude oil in the first quarter of 2016 (47.6% in the first quarter of 2015).

Crude oil production in Western Siberia continued to decline due to natural depletion of reserves, increase in water cut and the Company's decision to reallocate capital to higher return projects in other regions of Russia, in particular those benefiting from tax incentives. At the same time, production in Timan-Pechora and Ural regions in Russia showed significant increase. Production growth in Timan-Pechora was primarily driven by ramp-up of Yaregskoye field and wellwork efficiency improvements at Rossikhina and Alabushina fields. Production growth in Ural region was primarily driven by bringing online new fields and efficient interventions on existing wellstock.

The increase in our international production was a result of higher production at the West Qurna-2 oilfield in Iraq (for details see p. 5).

The increase in our share in crude oil produced by equity affiliates in Russia was due to an increase in production at the Trebs and Titov oilfields by Bashneft-Polus, where the Group holds a 25.1% interest.

The decrease in our share in crude oil produced by equity affiliates outside Russia was due to the disposal of our 50% share in Caspian Investment Resources Ltd in the middle of 2015.

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

	3 months of			
	2016		2015	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Purchases in Russia.....	1,525	208	2,236	305
Purchases for trading internationally.....	46,142	6,295	38,402	5,239
Purchases for refining internationally.....	24,497	3,342	17,050	2,326
The West Qurna-2 compensation crude oil ⁽¹⁾	17,527	2,555	15,581	2,272
Total crude oil purchased.....	89,691	12,400	73,269	10,142

⁽¹⁾ Translated into barrels using conversion rate characterizing the density of the field.

Compared to the first quarter of 2015, our purchases for refining at international refineries increased by 43.7% and our purchases for trading increased by 20.2%. Moreover, in the first quarter of 2016, the Group received 2.6 million tonnes of compensation crude from Iraq's state-owned South Oil Company as cost compensation within the West Qurna-2 project (in the first quarter of 2015, the Group received 2.3 million tonnes of compensation crude oil).

Production of gas and natural gas liquids. In the first quarter of 2016, we produced 5,374 million cubic meters (31.6 million BOE) of gas available for sale (including our share in equity affiliates), that is 4.7% more than in the first quarter of 2015.

(millions of cubic meters)	Change to 2015				
	3 months of 2016	Total, %	Change in structure	Organic change	3 months of 2015
Western Siberia.....	2,598	(5.3)	–	(145)	2,743
Timan-Pechora.....	235	29.8	–	54	181
Ural region.....	223	(41.8)	–	(160)	383
Volga region.....	301	181.3	–	194	107
Other in Russia.....	5	–	–	–	5
Gas produced in Russia.....	3,362	(1.7)	–	(57)	3,419
Gas produced internationally.....	1,875	21.6	–	333	1,542
Total gas produced by consolidated subsidiaries.....	5,237	5.6	–	276	4,961
Our share in gas produced by equity affiliates:					
in Russia.....	7	(50.0)	–	(7)	14
outside Russia.....	130	(18.8)	(31)	1	160
Total gas produced.....	5,374	4.7	(31)	270	5,135

Our major gas production field is the Nakhodkinskoe field, where we produced 1,776 million cubic meters of natural gas in the first quarter of 2016 (1,866 million cubic meters in the first quarter of 2015). This decrease was compensated for by commencement of gas production at the Yu. Korchagin field. Decrease in production in Ural region was a result of increase in gas own consumption. Our international gas production (including our share in affiliates' production) increased by 17.8%, compared to the first quarter of 2015, largely resulting from the increase in production in Uzbekistan and Azerbaijan.

In the first quarter of 2016, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volgograd regions of Russia was 3.4 million BOE, compared to 2.7 million BOE in the first quarter of 2015.

West Qurna-2 project. On 12 December 2009, a consortium of a Group company and Statoil won the tender for development of the West Qurna-2 field in Iraq, one of the largest crude oil fields discovered in the world, with estimated recoverable oil reserves of 12.9 billion barrels (1.8 billion tonnes). The service agreement for West Qurna-2 field development and production was signed on 31 January 2010 and then ratified by the Ministry cabinet of the Iraq Republic. After Statoil withdrew from the West Qurna-2 project in May 2012, the parties of the project are Iraq's state-owned South Oil Company and a consortium of contractors, consisting of a Group company (75% interest) and Iraq's state-owned North Oil Company (25% interest).

The Group launched the “Mishrif Early Oil” stage on the West Qurna-2 field and reached the planned production of 120 thousand barrels per day in March 2014. According to the service agreement, costs are compensated after this level of production is achieved and maintained during any 90 days within a 120-day period. In June 2014, we met this term and from the second quarter of 2014 started to receive cost compensation. The project’s target production level is 1.2 million barrels per day and the total term of the contract is 25 years.

Accounting for the cost compensation within the West Qurna-2 project in the Group consolidated statement of profit or loss and other comprehensive income is as follows. The crude oil sales revenue is recognized after the Iraqi party has approved the actual invoice for the spending quarter. The invoice total amount depends on crude oil production volumes and the market prices for crude oil during the period. It also includes our remuneration fee. Subsequently, crude oil purchases based on actual crude oil shipments by the Iraqi party against its debt for cost compensation are recognized in *Cost of purchased crude oil, gas and products*. This crude oil is either sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

The West Qurna-2 project’s summary is presented below:

	3 months of			
	2016			2015
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production.....	38,018	5,542	26,673	3,889
Production related to cost compensation and remuneration	17,840	2,601	14,121	2,059
Shipment of compensation crude oil ⁽¹⁾	17,527 ⁽²⁾	2,555	15,581 ⁽²⁾	2,272
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	29,479	395	38,061	612
Remuneration fee	2,439	33	1,866	30
Cost of compensation crude oil, received as debt settlement (included in <i>Cost of purchased crude oil, gas and products</i>) ⁽¹⁾	29,476	395	42,042	676
Extraction expenses	10,203	137	12,563	202
Depreciation, depletion and amortization.....	19,377	257	22,887	368
EBITDA.....	21,555	289	27,240	438

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

⁽²⁾ Translated into barrels using conversion rate characterizing the density of the field.

The following table summarizes the amount of capital and operating cost recognized, compensation crude oil received, costs yet unrecovered and remuneration fee.

	Costs recognized (including prepayments)	Compensation crude oil received	Unrecovered costs	Remuneration fee
	(millions of US dollars)			
Cumulative at 31 December 2015.....	6,801	5,169	1,632	198
Change during the first quarter of 2016..	264	395	(131)	33
Cumulative at 31 March 2016.....	7,065	5,564	1,501	231

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

Refining, marketing and trading

Refining. We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands.

Compared to the first quarter of 2015, the total volume of refined products produced by the Group increased by 5.6%. In Russia, our production volumes increased by 0.2%. Internationally, the increase amounted to 16.6% against the background of low production volumes in the first quarter of 2015 due to overhauls at our Italian refinery.

Along with our own production of refined products we refine crude oil at third party refineries depending on market conditions and other factors. In the periods considered, we processed our crude oil at third party refineries in Belarus and Kazakhstan.

The following table summarizes key figures for our refining activities.

	3 months of	
	2016	2015
	(thousand barrels per day)	
Refinery throughput at the Group refineries	1,274	1,220
- in Russia	810	808
- outside Russia ⁽¹⁾	464	412
Refinery throughput at third party refineries	3	17
Total refinery throughput	1,277	1,237
	(thousands of tonnes)	
Production of the Group refineries in Russia	9,453	9,436
Production of the Group refineries outside Russia	5,414	4,644
Refined products produced by the Group	14,867	14,080
Refined products produced at third party refineries	88	200
Total refined products produced	14,955	14,280
	(millions of RUB)	
Refining expenses at the Group refineries.....	22,450	22,168
- in Russia	10,135	8,522
- outside Russia	12,315	13,646
Refining expenses at third party refineries	248	553
Capital expenditures.....	12,284	24,536
- in Russia	9,941	17,446
- outside Russia	2,343	7,090

⁽¹⁾ Including refined product processed.

Marketing and trading. Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia, Central America and retail operations in the USA, Central and Eastern Europe and other regions. In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

The table below summarizes figures for our trading activities.

	3 months of	
	2016	2015
	(thousands of tonnes)	
Retail sales	3,169	3,204
Wholesale sales	25,640	26,263
Total refined products sales	28,809	29,467
Refined products purchased in Russia.....	370	344
Refined products purchased internationally	15,097	15,606
Total refined products purchased.....	15,467	15,950

In the first quarter of 2016, in line with the strategy to optimize its downstream operations, a Group company sold 100% of the Group's interest in LUKOIL Poland, LUKOIL Baltija and LUKOIL Baltija R, distribution companies operating over 270 petrol stations in Poland, Lithuania and Latvia. In July 2015, we sold 100% of interest in LUKOIL Eesti, and in April 2015 – 100% of the Group's interest in LUKOIL Ukraine.

Exports of crude oil and refined products from Russia. The volumes of crude oil and refined products exported from Russia by our subsidiaries are summarized as follows:

	3 months of			
	2016		2015	
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil to Customs Union	7,198	982	7,154	976
Exports of crude oil beyond Customs Union	57,709	7,873	60,634	8,272
Total crude oil exports	64,907	8,855	67,788	9,248
Exports of refined products.....		4,931		5,259

In the first quarter of 2016, the volume of our crude oil exports from Russia decreased by 4.2%, and we exported 42.9% of our domestic crude oil production (43.7% in the first quarter of 2015) and 105 thousand tonnes of crude oil purchased from our affiliates and third parties (218 thousand tonnes in the first quarter of 2015). The decrease in crude oil exports was a result of lower domestic production. The volume of our refined products exports decreased by 6.2% compared to the first quarter of 2015 due to higher domestic sales volumes driven by favourable netbacks.

Substantially, we use the Transneft infrastructure to export our crude oil. Nevertheless, in the first quarter of 2016, we exported 1,913 thousand tonnes through our own infrastructure (1,824 thousand tonnes in the first quarter of 2015). All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

In the first quarter of 2016, the Company exported 300 thousand tonnes of light crude oil through the Eastern Siberia – Pacific Ocean pipeline compared to 365 thousand tonnes in the first quarter of 2015. This allowed us to preserve the premium quality of crude oil and thus increased the efficiency of exports, compared to exports to traditional Western markets.

During the first quarter of 2016, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to 135 billion RUB and 88 billion RUB, respectively (199 billion RUB for crude oil and 121 billion RUB for refined products in the first quarter of 2015).

Main macroeconomic factors affecting our results of operations

Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. During the first quarter of 2016, the price for Brent crude oil fluctuated between \$26 and \$40 per barrel, reached its maximum of \$40.25 in the middle of March and minimum of \$25.98 in the beginning of January, and averaged 37.1% less than in the first quarter of 2015. Nevertheless, as a result of ruble devaluation, the prices expressed in rubles decreased less significantly.

Substantially all the crude oil the Group exports is Urals blend. The following tables show the average crude oil and refined product prices in the first quarter of 2016 and 2015.

	3 months of		
	2016	2015	Change, %
	(in US dollars per barrel, except for figures in percent)		
Brent crude.....	33.94	53.94	(37.1)
Urals crude (CIF Mediterranean) ⁽¹⁾	32.72	53.26	(38.6)
Urals crude (CIF Rotterdam) ⁽¹⁾	31.66	52.59	(39.8)
	(in US dollars per metric tonne, except for figures in percent)		
Fuel oil 3.5% (FOB Rotterdam).....	135.28	276.29	(51.0)
Diesel fuel 10 ppm (FOB Rotterdam).....	312.55	530.15	(41.0)
High-octane gasoline (FOB Rotterdam).....	386.04	548.78	(29.7)

Source: Platts.

	3 months of		
	2016	2015	Change, %
	(in rubles per barrel, except for figures in percent)		
Brent crude.....	2,532.81	3,354.42	(24.5)
Urals crude (CIF Mediterranean) ⁽¹⁾	2,441.75	3,312.15	(26.3)
Urals crude (CIF Rotterdam) ⁽¹⁾	2,362.49	3,270.71	(27.8)
	(in rubles per metric tonne, except for figures in percent)		
Fuel oil 3.5% (FOB Rotterdam).....	10,095.82	17,183.06	(41.2)
Diesel fuel 10 ppm (FOB Rotterdam).....	23,325.10	32,971.24	(29.3)
High-octane gasoline (FOB Rotterdam).....	28,809.34	34,129.70	(15.6)

Translated into rubles using average exchange rate for the period.

⁽¹⁾ The Company sells various crude oil blends on foreign markets on various delivery terms. Thus, our average realized sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern Europe markets.

Domestic crude oil and refined products prices

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of competition and economic conditions in those regions.

Domestic prices for refined products are determined to some extent by world market prices, but they are also directly affected by local demand and competition.

The table below represents average domestic wholesale prices of refined products in the first quarter of 2016 and 2015.

	3 months of		Change, %
	2016	2015	
	(in rubles per metric tonne, except for figures in percent)		
Fuel oil.....	4,555.08	6,384.18	(28.7)
Diesel fuel.....	27,186.44	28,336.86	(4.1)
High-octane gasoline (Regular)	31,637.01	28,354.52	11.6
High-octane gasoline (Premium)	33,497.18	29,766.95	12.5

Source: InfoTEK (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

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

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

	3 months of	
	2016	2015
Ruble inflation (CPI), %	2.1	7.4
Average exchange rate for the period (ruble to US dollar)	74.6	62.2
Exchange rate at the end of the period (ruble to US dollar)	67.6	58.5
Average exchange rate for the period (ruble to euro).....	82.3	70.4
Exchange rate at the end of the period (ruble to euro).....	76.5	63.4

Tax burden

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. Starting from 1 January 2015, the method for calculation of certain tax and duty rates was amended. The mineral extraction tax rate increased significantly along with simultaneous decrease in export duty rates and excises.

The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is determined by adjusting the base rate depending on the international market price of Urals blend and the ruble-dollar exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to \$15.00 per barrel. Each \$1.00 per barrel increase in the international Urals blend price over the threshold (\$15.00 per barrel) results in an increase in the tax rate by 200 rubles per tonne extracted above the base rate.

In the first quarter of 2016, the base rate was 857 rubles per metric tonne extracted (766 rubles in the first quarter of 2015).

The crude oil extraction tax rate varies depending on the development, depletion and complexity of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea, the Nenetsky Autonomous District and some other regions, depending on the period and volume of production.

The Group produces crude oil in the Caspian Sea, extra-heavy crude oil in Timan-Pechora and benefits from the application of a zero extraction tax rate.

Natural gas extraction tax rate. The base rate amounts to 35 rubles per thousand cubic meters and is adjusted depending on average wholesale natural gas price in Russia, share of gas production in total hydrocarbon production of particular taxpayer, and complexity of particular gas field. In the first quarter of 2016, actual average natural gas extraction tax rate calculated for our major gas field – Nakhodkinskoe in Western Siberia amounted to 208.00 rubles per thousand cubic meters (143.23 rubles in the first quarter of 2015).

Crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to \$15.00 per barrel (\$109.50 per metric tonne). If the Urals blend price is between \$15.00 and \$20.00 per barrel (\$146.00 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$15.00 results in an increase in the crude oil export duty rate by \$0.35 per barrel exported. If the Urals blend price is between \$20.00 and \$25.00 per barrel (\$182.50 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$20.00 results in an increase in the crude oil export duty rate by \$0.45 per barrel exported. Each \$1.00 per barrel increase in the Urals blend price over \$25.00 per barrel results in an increase in the crude oil export duty rate by no more than \$0.42 per barrel exported.

The crude oil export duty rate is revised monthly on the basis of the preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. The list of the oilfields where the reduced rate is applied includes our Yu. Korchagin and V. Filanovsky oilfields located in the Caspian Sea and extra-heavy crude oil fields in Timan-Pechora.

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

	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
Multiplier for:		
Light and middle distillates.....	0.40	0.48
Diesel fuel.....	0.40	0.48
Gasolines.....	0.61	0.78
Straight-run gasoline.....	0.71	0.85
Fuel oil.....	0.82	0.76

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

Crude oil and refined products exported to the member countries of the Custom Union – Belarus and Kazakhstan, are not subject to export duties.

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

		3 months of		
		2016	2015	Change, %
Export tariffs on crude oil.....	\$/tonne	55.00	130.19	(57.8)
Export tariffs on refined products				
Light and middle distillates.....	\$/tonne	21.99	62.40	(64.8)
Fuel oil.....	\$/tonne	45.05	98.92	(54.5)
Gasoline.....	\$/tonne	33.51	101.50	(67.0)
Straight-run gasoline.....	\$/tonne	39.01	110.61	(64.7)
Diesel fuel.....	\$/tonne	21.99	62.40	(64.8)

		3 months of		
		2016	2015	Change, %
Export tariffs on crude oil ⁽¹⁾	RUB/tonne	4,104.36	8,096.87	(49.3)
Export tariffs on refined products ⁽¹⁾				
Light and middle distillates	RUB/tonne	1,641.24	3,880.86	(57.7)
Fuel oil	RUB/tonne	3,362.19	6,152.26	(45.4)
Gasoline	RUB/tonne	2,500.44	6,312.65	(60.4)
Straight-run gasoline	RUB/tonne	2,911.39	6,878.94	(57.7)
Diesel fuel	RUB/tonne	1,641.24	3,880.86	(57.7)
Mineral extraction tax				
Crude oil	RUB/tonne	4,080.06	6,833.88	(40.3)

⁽¹⁾ Translated from US dollars using average exchange rates for the period.

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

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

Excise rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for the first quarter of 2016 and 2015 are listed below.

		3 months of		
		2016	2015	Change, %
Gasoline				
Euro-4 and below	RUB/tonne	10,500.00	7,300.00	43.8
Euro-5	RUB/tonne	7,530.00	5,530.00	36.2
Diesel fuel				
All ecological classes	RUB/tonne	4,150.00	3,450.00	20.3
Motor oils	RUB/tonne	6,000.00	6,500.00	(7.7)
Straight-run gasoline	RUB/tonne	10,500.00	11,300.00	(7.1)

Income tax. The federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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

Transportation of crude oil and refined products in Russia

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, access by crude oil production companies to the markets is dependent on the extent of diversification of the transport infrastructure and access to it. As a result, transportation cost is an important macroeconomic factor affecting our net income.

Transportation of crude oil produced in Russia to refineries and export destinations is primarily through the trunk oil pipeline system of the state-owned company, Transneft, or by railway transport.

Transportation of refined products in Russia is by railway transport and the pipeline system of Transneftproduct. The Russian railway infrastructure is owned and operated by Russian Railways. Both these companies are state-owned. We transport the major part of our refined products by railway transport.

In Russia, gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System ("UGSS"). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. The Federal Service for Tariffs of the Russian Federation regulates natural gas transportation tariffs. We are not able to sell our gas other than through UGSS.

Three months ended 31 March 2016, compared to three months ended 31 March 2015

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

	3 months of	
	2016	2015
	(millions of rubles)	
Revenues		
Sales (including excise and export tariffs)	1,177,674	1,440,305
Costs and other deductions		
Operating expenses	(113,244)	(105,681)
Cost of purchased crude oil, gas and products	(537,733)	(700,065)
Transportation expenses	(86,699)	(78,785)
Selling, general and administrative expenses	(47,823)	(41,185)
Depreciation, depletion and amortization	(84,348)	(78,463)
Taxes other than income taxes	(83,553)	(129,835)
Excise and export tariffs	(114,949)	(172,849)
Exploration expenses	(1,681)	(1,197)
Profit from operating activities.....	107,644	132,245
Finance income	3,831	4,531
Finance costs.....	(10,371)	(11,460)
Equity share in income of affiliates	2,353	4,093
Foreign exchange (loss) gain	(45,378)	5,675
Other expenses.....	(3,343)	(5,772)
Profit before income taxes.....	54,736	129,312
Current income taxes	(10,476)	(22,940)
Deferred income taxes	(1,290)	(1,933)
Total income tax expense	(11,766)	(24,873)
Profit for the period.....	42,970	104,439
Profit for the period attributable to non-controlling interests.....	(145)	(408)
Profit for the period attributable to PJSC LUKOIL shareholders	42,825	104,031
Earning per share of common stock attributable to PJSC LUKOIL shareholders (in rubles):		
Basic	60.07	145.92
Diluted	60.07	143.02

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

Sales revenues

Sales breakdown

	3 months of	
	2016	2015
(millions of rubles)		
Crude oil		
Exports and sales on international markets other than Customs Union	280,146	365,914
Exports and sales to Customs Union	12,402	14,323
Domestic sales	21,340	37,373
	313,888	417,610
Refined products		
Exports and sales on international markets		
Wholesale.....	546,573	722,754
Retail.....	78,314	80,032
Domestic sales		
Wholesale.....	48,797	52,974
Retail.....	81,379	78,005
	755,063	933,765
Petrochemicals		
Exports and sales on international markets	10,158	8,214
Domestic sales	9,179	3,098
	19,337	11,312
Gas and gas products		
Exports and sales on international markets	24,408	27,672
Domestic sales	9,238	9,298
	33,646	36,970
Sales of energy and related services		
Sales on international markets	3,728	2,490
Domestic sales	19,036	17,897
	22,764	20,387
Other		
Exports and sales on international markets	22,757	11,430
Domestic sales	10,219	8,831
	32,976	20,261
Total sales	1,177,674	1,440,305

Sales volumes

	3 months of	
	2016	2015
(thousands of barrels)		
Crude oil		
Exports and sales on international markets other than Customs Union	129,162	117,067
Exports and sales to Customs Union	7,132	6,773
Domestic sales	13,795	18,977
	150,089	142,817
(thousands of tonnes)		
Crude oil		
Exports and sales on international markets other than Customs Union	17,621	15,971
Exports and sales to Customs Union	973	924
Domestic sales	1,882	2,589
	20,476	19,484
(thousands of tonnes)		
Refined products		
Exports and sales on international markets		
Wholesale.....	23,081	24,055
Retail.....	1,035	1,056
Domestic sales		
Wholesale.....	2,559	2,208
Retail.....	2,134	2,148
	28,809	29,467
Total sales volume of crude oil and refined products.....	49,285	48,951

Realized average sales prices

		3 months of	
		2016	2015
Average realized price international			
Oil (excluding Customs Union)	(RUB/barrel)	2,168.95	3,125.59
Oil (Customs Union)	(RUB/barrel)	1,738.90	2,115.35
Refined products			
Wholesale	(RUB/tonne)	23,680.69	30,045.88
Retail.....	(RUB/tonne)	75,665.70	75,787.88
Oil (excluding Customs Union)	(\$/barrel)	29.06	50.26
Oil (Customs Union)	(\$/barrel)	23.30	34.01
Refined products			
Wholesale	(\$/tonne)	317.32	483.11
Retail.....	(\$/tonne)	1,013.91	1,218.61
Average realized price within Russia			
Oil.....	(RUB/barrel)	1,546.93	1,969.57
Refined products			
Wholesale	(RUB/tonne)	19,068.78	23,986.87
Retail.....	(RUB/tonne)	38,134.49	36,311.21

In the first quarter of 2016, our revenues decreased by 263 billion RUB, or by 18.2%, compared to the first quarter of 2015. Our revenues from crude oil sales decreased by 104 billion RUB, or by 24.8%, and our revenues from sales of refined products decreased by 179 billion RUB, or by 19.1%. The main reason for this was the decrease in sales prices.

Sales of crude oil

Our international crude oil sales revenue decreased by 23.4%, or by 86 billion RUB, compared to the first quarter of 2015. Our international sales volumes (beyond the Customs Union) increased by 1,650 thousand tonnes, or by 10.3%, in the first quarter of 2016 largely as a result of increased production from the West Qurna-2 field. That was offset by the continued decrease in the average international realized crude oil prices, that decreased by 30.6% compared to the first quarter of 2015.

Our realized domestic crude oil price decreased by 21.5%, as compared to the first quarter of 2015, and our domestic sales volumes decreased by 707 thousand tonnes, or by 27.3%. As a consequence, in the first quarter of 2016, our domestic sales revenue decreased by 42.9%, or by 16 billion RUB.

In the first quarter of 2016, our revenue from crude oil export from Russia both to Group companies and third parties amounted to 135 billion RUB (199 billion RUB in the first quarter of 2015).

Sales of refined products

Compared to the first quarter of 2015, our revenue from the wholesale of refined products outside Russia decreased by 176 billion RUB, or by 24.4%. Our dollar and ruble realized prices decreased by 34.3% and 21.2%, respectively. Moreover, our sales volumes decreased by 4.0% as a result of lower volumes of trading.

In the first quarter of 2016, our dollar and ruble realized retail prices outside Russia decreased by 16.8% and 0.2%, respectively, and sales volumes decreased by 2.0%, so our international retail revenue decreased by 2 billion RUB, or by 2.1%, compared to the first quarter of 2015.

In the first quarter of 2016, our revenue from the wholesale of refined products on the domestic market decreased by 7.9%, or by 4 billion RUB. Our realized prices decreased by 20.5% and our sales volumes increased by 15.9%.

In the first quarter of 2016, our revenue from retail sales in Russia increased by 3 billion RUB, or by 4.3%. Our average domestic retail prices increased by 5.0%, while our retail volumes did not change significantly.

In the first quarter of 2016, our revenue from export of refined products from Russia both to Group companies and third parties amounted to 88 billion RUB (121 billion RUB in the first quarter of 2015).

Sales of petrochemical products

In the first quarter of 2016, our revenue from sales of petrochemical products increased by 8 billion RUB, or by 70.9%, largely due to the three-fold increase in domestic sales volumes against the background of low production as a consequence of a fire at our plant in the Stavropol region of Russia at the end of the first quarter of 2014. In early April 2015, production at the plant was resumed.

Sales of gas and gas products

Sales of gas and gas refined products decreased by 3 billion RUB, or by 9.0%, compared to the first quarter of 2015, mainly as a result of the decrease in sales prices.

Natural gas sales revenue decreased by 2 billion RUB, or by 10.5%. Gas products revenue decreased by 1 billion RUB, or by 7.1%.

Sales of energy and related services

In the first quarter of 2016, our revenue from sales of electricity, heat and related services increased by 2 billion RUB, or by 11.7%. In Russia, the increase was largely due to putting in operation a combined cycle gas turbine with a capacity of 135 MW at the Group's power plant in the Stavropol region of Russia in March 2015. Our international revenue increased as a result of the significant increase in volumes of electricity sales in Sicily, Italy.

Sales of other products

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

In the first quarter of 2016, revenue from other sales increased by 13 billion RUB, or by 62.8%, compared to the first quarter of 2015. The non-petrol revenue of our retail network increased by 1 billion RUB, or by 18.6%. Revenue from transportation services abroad increased by 3 billion RUB, or by 84.0%. In the first quarter of 2016 and 2015, our other sales also included revenue from sales of diamonds in the amount of 8 billion RUB and 2 billion RUB, respectively.

Operating expenses

Operating expenses include the following:

	3 months of	
	2016	2015
	(millions of rubles)	
Hydrocarbon extraction expenses	54,077	51,834
Own refining expenses	22,450	22,168
Refining expenses at third parties refineries	248	553
Expenses for crude oil transportation to refineries	12,311	10,508
Power generation and distribution expenses	10,271	9,067
Petrochemical expenses	3,313	2,383
Other operating expenses	10,574	9,168
Total operating expenses	113,244	105,681

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

In the first quarter of 2016, our operating expenses increased by 8 billion RUB, or by 7.2%, compared to the first quarter of 2015, largely a result of inflation in Russia and the effect of the ruble devaluation on the ruble value of foreign subsidiaries' expenses.

Hydrocarbon extraction expenses

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

In the first quarter of 2016, our extraction expenses increased by 2 billion RUB, or by 4.3%. In the first quarter of 2016 and 2015, our extraction expenses included production expenses related to the West Qurna-2 project in the amount of 10 billion RUB and 13 billion RUB, respectively. The decrease in expenses at West Qurna-2 was a result of completion of commissioning stage of the field development and consecutive decrease in personnel involved and associated transportation, security and other related services provided.

Our average hydrocarbon extraction expenses increased from 252.18 RUB per BOE in the first quarter of 2015 to 259.13 RUB per BOE in the first quarter of 2016, or by 2.8%. In Russia, average hydrocarbon extraction expenses increased by 12.2% to 227.60 RUB per BOE in the first quarter of 2016. Our domestic expenses increased driven by higher costs of materials and services and shift towards more cost-intensive projects benefiting from tax exemptions.

At the same time, our average hydrocarbon extraction expenses decreased from \$4.05 per BOE in the first quarter of 2015 to \$3.47 per BOE in the first quarter of 2016, or by 14.4%. In Russia, average hydrocarbon extraction expenses decreased by 6.5% to \$3.05 per BOE in the first quarter of 2016.

Own refining expenses

In 2015, our own refining expenses did not change significantly.

Refining expenses at our domestic refineries increased by 18.9%, or by 2 billion RUB, as a result of increase in consumption and costs of additives, commissioning of new units at our refineries in Nizhny Novgorod and Volgograd.

Refining expenses at our refineries outside Russia decreased by 1 billion RUB, or by 9.8%, against the background of high overhaul costs in the first quarter of 2015.

Expenses for crude oil transportation to refineries

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

Our expenses for crude oil transportation to refineries increased by 2 billion RUB, or by 17.2%, largely as a result of the increase in international refining volumes and the effect of the ruble devaluation.

Petrochemical expenses

In the first quarter of 2016, operating expenses of our petrochemical plants increased by 1 billion RUB, or by 39.0%, due to the increase in domestic production volumes after commencement of production at our petrochemical plant in the Stavropol region of Russia in April 2015.

Other operating expenses

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

In the first quarter of 2016, other operating expenses increased by 1 billion RUB, or by 15.3%, largely as a result of the increased cost of non-petrol sales of our retail network and the increase in the ruble value of other operating expenses of our foreign subsidiaries.

Cost of purchased crude oil, gas and products

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

The cost of purchased crude oil, gas and products decreased by 162 billion RUB, or by 23.2%, following the decrease in hydrocarbon prices. Crude oil purchases in the first quarter of 2016 also included 29 billion RUB related to 2,555 thousand tonnes of compensation crude oil received from Iraq's state-owned South Oil Company within the West Qurna-2 project (42 billion RUB related to 2,272 thousand tonnes of crude oil in the first quarter of 2015).

In the first quarter of 2016, we recognized a 1 billion RUB net gain from hedging, compared to a 9 billion RUB net loss in the first quarter of 2015.

Transportation expenses

In the first quarter of 2016, our transportation expenses increased by 8 billion RUB, or by 10.0%, compared to the first quarter of 2015.

Our transportation expenses in Russia didn't change significantly as the decrease in export volumes was offset by the increase in tariffs. Our actual transportation tariffs related to crude oil and refined products deliveries to various exports destinations, weighted by volumes transported, changed to the first quarter of 2015 as follows: crude oil pipeline tariffs increased by 8.8%, railway tariffs for refined products transportation increased by 4.7%. Internationally, our transportation expenses increased as a result of the ruble devaluation.

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities', refineries' and power generation entities' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

In the first quarter of 2016, our selling, general and administrative expenses increased by 7 billion RUB, or by 16.1%. The increase was triggered by inflation in Russia and the effect of the ruble devaluation on the expenses of our foreign subsidiaries.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by 6 billion RUB, or by 7.5%, compared to the first quarter of 2015, largely as a result of the increase in the depreciation rate of upstream assets following the decrease in hydrocarbon proved reserves. Our depreciation, depletion and amortization expenses for the first quarter of 2016 and 2015 included 19 billion RUB and 23 billion RUB, respectively, related to the West Qurna-2 field. The international subsidiaries' depreciation, depletion and amortization increased as a result of the effect of the ruble devaluation.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan. Currently, our largest affiliates are Tengizchevroil, exploration and production company operating in Kazakhstan, Bashneft-Polus, an exploration and production company that develops the Trebs and Titov oilfields in Timan-Pechora, Russia, Shakh-Deniz Midstream and Caspian Pipeline Consortium, midstream companies in Azerbaijan and Kazakhstan. One of our major affiliates was Caspian Investments Resources Ltd, which was sold in August 2015.

Our share in income of affiliates decreased by 2 billion RUB, or by 42.5%, compared to the first quarter of 2015, largely as a result of the decrease in income of our upstream affiliates in Kazakhstan.

Taxes other than income taxes

	3 months of	
	2016	2015
(millions of rubles)		
In Russia		
Mineral extraction taxes	69,738	116,649
Social security taxes and contributions	6,027	5,344
Property tax	4,538	4,334
Other taxes	455	704
Total in Russia	80,758	127,031
International		
Social security taxes and contributions	1,573	1,475
Property tax	526	491
Other taxes	696	838
Total internationally	2,795	2,804
Total	83,553	129,835

In the first quarter of 2016, our taxes other than income taxes decreased by 46 billion RUB, or by 35.6%, compared to the first quarter of 2015, largely driven by the decrease in the mineral extraction tax rate.

In the first quarter of 2016, application of the reduced rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to a 11 billion RUB mineral extraction tax reduction (18 billion RUB in the first quarter of 2015).

Excise and export tariffs

	3 months of	
	2016	2015
(millions of rubles)		
In Russia		
Excise tax on refined products	16,591	12,300
Crude oil export tariffs	31,492	69,257
Refined products export tariffs	15,526	45,062
Total in Russia	63,609	126,619
International		
Excise tax on refined products	51,217	45,538
Crude oil export tariffs	9	13
Refined products export tariffs	114	679
Total internationally	51,340	46,230
Total	114,949	172,849

In the first quarter of 2016, export tariffs decreased by 68 billion RUB, or by 59.0%, due to the sharp decrease in export duty rates for crude oil and refined products in Russia amplified by the decrease in export volumes. Compared to the first quarter of 2015, the volumes of crude oil export beyond the Customs Union decreased by 4.8% and the volumes of the refined products exports decreased by 6.2%. The increase in international excise expenses was due to the ruble devaluation.

Income taxes

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

In the first quarter of 2016, our total income tax expense decreased by 13 billion RUB, or by 52.7%, compared to the first quarter of 2015. At the same time, our profit before income tax decreased by 75 billion RUB, or by 57.7%.

In the first quarter of 2016, our effective income tax rate was 21.5%, compared to 19.2% in the first quarter of 2015.

Reconciliation of net income to EBITDA (earnings before interest, income taxes, depreciation and amortization)

	3 months of	
	2016	2015
	(millions of rubles)	
Profit for the period	42,825	104,031
Add back:		
Income tax expense	11,766	24,873
Depreciation and amortization	84,348	78,463
Finance cost	10,371	11,460
Finance income	(3,831)	(4,531)
EBITDA	145,479	214,296
Including impact of West Qurna-2 project	21,555	27,240

EBITDA is a non-IFRS financial measure. EBITDA is defined as net income before interest, income taxes and depreciation and amortization. The Company's management believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered as operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. The EBITDA calculation is commonly used as a basis for some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to profit for the period, profit from operating activities or any other measure of performance under IFRS. EBITDA does not include our need to replace our capital equipment over time.

Liquidity and capital resources

	3 months of	
	2016	2015
(millions of rubles)		
Net cash provided by operating activities.....	164,396	225,101
Net cash used in investing activities.....	(138,393)	(164,071)
Net cash provided by (used in) financing activities.....	53,420	(49,744)

Operating activities

Our primary source of cash flow is funds generated from our operations. In the first quarter of 2016, cash generated from operations decreased by 61 billion RUB, or by 27.0%, compared to the first quarter of 2015, largely, as a result of changes in working capital. In the first quarter of 2016, our cash flow from operating activities was affected by a 19 billion RUB increase in working capital, whereas in the first quarter of 2015, our working capital decreased by 31 billion RUB.

Investing activities

In the first quarter of 2016, the amount of cash used in investing activities decreased by 26 billion RUB, or by 15.7%, mostly due to a decrease in capital expenditures.

Our capital expenditures, including non-cash transactions, decreased by 32 billion RUB, or by 20.5%.

	3 months of	
	2016	2015
(millions of rubles)		
Capital expenditures, including non-cash transactions and prepayments		
Exploration and production		
Russia.....	72,909	74,053
International.....	31,977	48,499
Total exploration and production.....	104,886	122,552
Refining, marketing and distribution		
Russia.....	12,787	21,167
International.....	4,391	8,931
Total refining, marketing and distribution.....	17,178	30,098
Corporate and other		
Russia.....	250	651
International.....	247	770
Total corporate and other.....	497	1,421
Total capital expenditures.....	122,561	154,071

In the first quarter of 2016, our capital expenditures in the exploration and production segment decreased by 18 billion RUB, or by 14.4%. The decrease was largely in our international segment and related to completion of current stage of the West Qurha-2 project and completion of exploratory drilling in Cameroon and Romania.

The decrease in capital expenditures in the domestic refining, marketing and distribution segment in Russia was due to approaching completion of upgrades at our Russian refineries. The decrease in the international segment was a result of the completion of the construction of a heavy residue processing complex at our Bulgarian refinery.

The table below shows our exploration and production capital expenditures in new production regions.

	3 months of	
	2016	2015
	(millions of rubles)	
Western Siberia ⁽¹⁾	9,257	9,448
Caspian region ⁽²⁾	6,778	7,343
Timan-Pechora ⁽³⁾	5,624	2,334
Iraq	9,296	13,847
Uzbekistan	5,956	9,956
Nigeria	4,496	–
Romania	414	6,118
Cameroon	164	7,784
Total	41,985	56,830

⁽¹⁾ Pyakyakhinskoye field.

⁽²⁾ Projects in Russia.

⁽³⁾ Yaregkoye field.

Financing activities

In the first quarter of 2016, net movements of short-term and long-term debt generated an inflow of 106 billion RUB, compared to an outflow of 4 billion RUB in the first quarter of 2015.