PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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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 2016, 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 2016, 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 1027700125628.

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***
Due to declines 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 of 31 December 2016. 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.	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. 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. The price assumptions underlying management's impairment testing models represent a critical judgement in the process. We compared the short-term price assumptions used by management 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 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.

Estimation of oil and gas reserves and resources	
Please refer to the Supplementary Information on Oil and Gas Exploration and Production Activities.	
The key audit matter	***How the matter was addressed in our audit***
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.	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.

	We validated that the reserves and resources estimates were included appropriately in the Group's consideration of impairment as described above and in accounting for DD&A.

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 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 skepticism 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. Oussov

JSC "KPMG"

Moscow, Russia

14 March 2017

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

	Note	31 December 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	6	261,367	257,263
Accounts receivable, net	7	360,897	440,489
Other current financial assets		16,934	23,768
Inventories	8	404,284	340,196
Income tax prepaid		19,646	7,413
Other taxes receivable	9	74,029	81,692
Other current assets	10	83,175	62,826
Assets held for sale	15	35,309	-
Total current assets		**1,255,641**	**1,213,647**
Property, plant and equipment	12	3,391,366	3,411,153
Investments in associates and joint ventures	11	162,405	181,744
Other non-current financial assets	13	101,812	102,067
Deferred income tax assets	27	29,079	28,735
Goodwill and other intangible assets	14	43,134	51,749
Other non-current assets		31,236	31,512
Total non-current assets		**3,759,032**	**3,806,960**
Total assets		**5,014,673**	**5,020,607**
Liabilities and equity			
Current liabilities			
Accounts payable	16	550,247	394,339
Short-term borrowings and current portion of long-term debt	17	58,429	60,506
Income tax payable		6,591	11,640
Other taxes payable	19	88,364	73,277
Provisions	21, 22	26,015	25,553
Other current liabilities	20	97,110	129,853
Liabilities related to assets held for sale	15	3,930	-
Total current liabilities		**830,686**	**695,168**
Long-term debt	18	640,161	799,207
Deferred income tax liabilities	27	239,811	234,107
Provisions	21, 22	69,944	51,115
Other non-current liabilities		6,407	9,636
Total non-current liabilities		**956,323**	**1,094,065**
Total liabilities		**1,787,009**	**1,789,233**
Equity	23		
Share capital		1,151	1,151
Treasury shares		(241,615)	(241,615)
Additional paid-in capital		129,514	129,403
Other reserves		28,975	104,150
Retained earnings		3,302,855	3,229,379
Total equity attributable to PJSC LUKOIL shareholders		**3,220,880**	**3,222,468**
Non-controlling interests		6,784	8,906
Total equity		**3,227,664**	**3,231,374**
Total liabilities and equity		**5,014,673**	**5,020,607**

President of PJSC LUKOIL
Alekperov V.Y.

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

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	2016	2015
Revenues			
Sales (including excise and export tariffs)	32	5,227,045	5,749,050
Costs and other deductions			
Operating expenses		(456,433)	(446,719)
Cost of purchased crude oil, gas and products		(2,609,764)	(2,891,674)
Transportation expenses		(299,017)	(297,977)
Selling, general and administrative expenses		(196,156)	(168,669)
Depreciation, depletion and amortisation		(311,588)	(350,976)
Taxes other than income taxes		(443,338)	(522,620)
Excise and export tariffs		(483,313)	(575,509)
Exploration expenses		(8,293)	(29,177)
Profit from operating activities		**419,143**	**465,729**
Finance income	25	14,756	17,763
Finance costs	25	(47,030)	(48,224)
Equity share in income of affiliates	11	7,967	7,047
Foreign exchange (loss) gain		(111,976)	110,912
Other expenses	26	(10,345)	(164,123)
Profit before income taxes		**272,515**	**389,104**
Current income taxes		(58,170)	(100,335)
Deferred income taxes		(6,703)	3,976
Total income tax expense	27	**(64,873)**	**(96,359)**
Profit for the year		**207,642**	**292,745**
Profit for the year attributable to non-controlling interests		(848)	(1,610)
Profit for the year attributable to PJSC LUKOIL shareholders		**206,794**	**291,135**
Other comprehensive income (loss), net of income taxes			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		(74,175)	12,345
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability/asset of pension plan	22	(925)	(1,650)
Other comprehensive (loss) income		**(75,100)**	**10,695**
Total comprehensive income for the year		**132,542**	**303,440**
Total comprehensive income for the year attributable to non-controlling interests		(871)	(1,609)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		**131,671**	**301,831**
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):			
Basic	23	290.06	408.36
Diluted	23	290.06	405.15

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	Equity-linked notes	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
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:									
Foreign currency translation differences	-	-	-	-	(74,198)	-	**(74,198)**	23	**(74,175)**
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	(925)	-	**(925)**	-	**(925)**
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**
31 December 2014	1,151	(158,615)	(83,000)	128,846	93,454	3,055,542	**3,037,378**	12,164	**3,049,542**
Profit for the year	-	-	-	-	-	291,135	**291,135**	1,610	**292,745**
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	12,339	-	**12,339**	6	**12,345**
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	(1,643)	-	**(1,643)**	(7)	**(1,650)**
Total comprehensive income					**10,696**	**291,135**	**301,831**	**1,609**	**303,440**
Dividends on common shares	-	-	-	-	-	(117,298)	**(117,298)**	-	**(117,298)**
Equity-linked notes conversion	-	(83,000)	83,000	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	557	-	-	**557**	(4,867)	**(4,310)**
31 December 2015	**1,151**	**(241,615)**	**-**	**129,403**	**104,150**	**3,229,379**	**3,222,468**	**8,906**	**3,231,374**

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

	Note	2016	2015
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		**206,794**	**291,135**
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		311,588	350,976
Equity share in income of affiliates, net of dividends received		(4,040)	2,680
Dry hole write-offs		1,986	25,447
Loss on disposals and impairments of assets		7,031	167,295
Income tax expense		64,873	96,359
Non-cash foreign exchange loss (gain)		106,605	(122,955)
Non-cash investing activities		(127)	(334)
Finance income		(14,756)	(17,763)
Finance costs		47,030	48,224
Bad debt allowance		6,401	4,045
All other items – net		25,175	3,808
Changes in operating assets and liabilities:			
Trade accounts receivable		9,220	112,351
Inventories		(133,754)	78,622
Accounts payable		219,603	(87,621)
Other taxes		24,984	30,461
Other current assets and liabilities		(69,822)	(65,004)
Income tax paid		(71,578)	(92,377)
Dividends received		4,385	9,443
Interests received		10,649	14,180
Net cash provided by operating activities		**752,247**	**848,972**
Cash flows from investing activities			
Acquisition of licenses		(2,549)	(686)
Capital expenditures		(497,130)	(600,639)
Proceeds from sale of property, plant and equipment		2,089	1,898
Purchases of financial assets		(17,471)	(21,203)
Proceeds from sale of financial assets		13,283	19,837
Sale of subsidiaries, net of cash disposed		907	3,804
Sale of equity method affiliates		4,940	79,328
Acquisitions of subsidiaries, net of cash acquired		-	(1,501)
Acquisitions of equity method affiliates		(4,412)	(6,560)
Net cash used in investing activities		**(500,343)**	**(525,722)**
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		12,449	76,078
Principal repayments of short-term borrowings		(23,309)	(76,673)
Proceeds from issuance of long-term debt		188,684	104,433
Principal repayments of long-term debt		(189,592)	(198,157)
Interests paid		(49,695)	(41,359)
Dividends paid on Company common shares		(127,345)	(111,858)
Dividends paid to non-controlling interest shareholders		(3,383)	(3,248)
Financing received from non-controlling interest shareholders		342	105
Sale of non-controlling interests		-	2,568
Purchases of non-controlling interest		(1,285)	(4,952)
Net cash used in financing activities		**(193,134)**	**(253,063)**
Effect of exchange rate changes on cash and cash equivalents		(54,663)	18,053
Change in cash related to assets held for sale	15	(3)	-
Net increase in cash and cash equivalents		**4,104**	**88,240**
Cash and cash equivalents at beginning of year		257,263	169,023
Cash and cash equivalents at end of year	6	**261,367**	**257,263**

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.

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

Business and economic environment

The accompanying 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 14 March 2017.

Functional and presentation currency

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

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 the 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 controled 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 controll 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 acquire; 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 oil 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 fair value of liabilities related to 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. 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. Subsequently, the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired.

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 unrecornized) 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 any unrecognised past service costs 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 using the projected unit credit method. 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.

Note 3. Summary of significant accounting policies (continued)

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.

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.

Note 4. Use of estimates and judgments (continued)

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 2016, 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, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

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, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

IAS 7 *Statement of Cash Flows* was amended in January 2016 by the *Disclosure Initiative*. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 7.

IFRS 16 *Leases*, issued in January 2016, replaces the existing lease accounting guidance in 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*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

(Millions of Russian rubles, unless otherwise noted)

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

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. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

Note 6. Cash and cash equivalents

	31 December 2016	**31 December 2015**
Cash held in RUB	33,151	98,253
Cash held in US dollars	162,673	141,863
Cash held in EUR	59,135	9,650
Cash held in other currencies	6,408	7,497
Total cash and cash equivalents	**261,367**	**257,263**

Note 7. Accounts receivable, net

	31 December 2016	**31 December 2015**
Trade accounts receivable (net of allowances of 18,270 million RUB and 17,322 million RUB at 31 December 2016 and 2015, respectively)	332,975	375,531
Other current accounts receivable (net of allowances of 1,919 million RUB and 1,599 million RUB at 31 December 2016 and 2015, respectively)	27,922	64,958
Total accounts receivable, net	**360,897**	**440,489**

Note 8. Inventories

	31 December 2016	**31 December 2015**
Crude oil and petroleum products	349,153	275,941
Materials for extraction and drilling	20,182	21,345
Materials and supplies for refining	2,741	3,732
Other goods, materials and supplies	32,208	39,178
Total inventories	**404,284**	**340,196**

Note 9. Other taxes receivable

	31 December 2016	**31 December 2015**
VAT and excise tax recoverable	34,436	39,171
Export duties prepaid	17,113	21,824
Other taxes prepaid	22,480	20,697
Total other taxes receivable	**74,029**	**81,692**

(Millions of Russian rubles, unless otherwise noted)

Note 10. Other current assets

	31 December 2016	31 December 2015
Advance payments	48,157	16,341
Prepaid expenses	23,172	31,960
Other assets	11,846	14,525
Total other current assets	**83,175**	**62,826**

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

		Ownership			
Name of the company	**Country**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Joint Ventures:					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	86,851	99,843
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	25,032	27,574
Turgai Petroleum	Kazakhstan	50.0%	50.0%	1,650	1,675
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	23,738	22,284
Associates:					
Associates				25,134	30,368
Total				**162,405**	**181,744**

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 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**

31 December 2015	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	150,549	35,348	4,712	25,274	40,868	**256,751**
Non-current assets	1,172,207	671,010	5,992	239,561	151,180	**2,239,950**
Current liabilities	73,178	25,946	4,173	28,086	31,396	**162,779**
Non-current liabilities	193,485	459,817	3,181	13,912	97,395	**767,790**
Net assets (100%)	1,056,093	220,595	3,350	222,837	63,257	**1,566,132**
Share in net assets	99,843	27,574	1,675	22,284	30,368	**181,744**

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 (loss)	4,111	2,313	216	1,418	(91)	**7,967**

(Millions of Russian rubles, unless otherwise noted)

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

2015	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Revenues	773,217	92,100	10,859	18,245	90,524	**984,945**
Net income (loss) (100%)	188,660	26,418	(9,542)	8,573	(13,093)	**201,016**
Share in net income (loss)	7,230	3,382	(4,771)	857	349	**7,047**

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
1 January 2016	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				
1 January 2016	(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				
1 January 2016	94,619	1,280	138	**96,037**
31 December 2016	**64,764**	**486**	**43**	**65,293**
Carrying amounts				
1 January 2016	2,374,038	948,017	89,098	**3,411,153**
31 December 2016	**2,484,698**	**848,233**	**58,435**	**3,391,366**
Cost				
1 January 2015	2,556,173	1,030,097	95,392	**3,681,662**
Additions	464,687	113,231	6,121	**584,039**
Acquisitions through business combinations	974	9,077	-	**10,051**
Capitalised borrowing costs	642	900	-	**1,542**
Disposals	(41,318)	(9,529)	(853)	**(51,700)**
Changes in estimates of ARO	6,129	-	-	**6,129**
Foreign currency translation differences	242,289	63,331	3,215	**308,835**
Other	3,097	(855)	(288)	**1,954**
31 December 2015	**3,232,673**	**1,206,252**	**103,587**	**4,542,512**
Depreciation and impairment				
1 January 2015	(444,128)	(142,713)	(8,525)	**(595,366)**
Depreciation for the period	(273,452)	(66,874)	(5,826)	**(346,152)**
Impairment loss	(119,341)	(35,282)	(5)	**(154,628)**
Disposals	2,110	4,659	260	**7,029**
Foreign currency translation differences	(116,563)	(18,349)	(559)	**(135,471)**
Other	(1,880)	(956)	28	**(2,808)**
31 December 2015	**(953,254)**	**(259,515)**	**(14,627)**	**(1,227,396)**

(Millions of Russian rubles, unless otherwise noted)

Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Advance payments for property, plant and equipment				
1 January 2015	58,558	8,258	467	**67,283**
31 December 2015	**94,619**	**1,280**	**138**	**96,037**
Carrying amounts				
1 January 2015	2,170,603	895,642	87,334	**3,153,579**
31 December 2015	**2,374,038**	**948,017**	**89,098**	**3,411,153**

The cost of assets under construction included in Property, plant and equipment was 593,970 million RUB and 676,908 million RUB at 31 December 2016 and 2015, respectively.

Exploration and evaluation assets

	2016	2015
1 January	52,302	46,906
Capitalised expenditures	28,653	82,779
Reclassified to development assets	(6,525)	13,052
Charged to expenses	(2,775)	(96,991)
Effect of movements in exchange rates	(1,700)	6,258
Other movements	(126)	298
31 December	**69,829**	**52,302**

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, during 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 Russia 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% discount rate, for refining, marketing and distribution assets – 11.9%.

As a result of the test, during 2015, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 47,972 million RUB, for its international exploration and production assets in the amount of 71,369 million RUB and for its refining, marketing and distribution assets in the amount of 35,287 million RUB.

The recoverable amount of CGUs subject to impairment in 2015 in the amount of 199,619 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 15% discount rate, for refining, marketing and distribution assets – from 10% to 23%.

Impairment loss is included in “Other expenses” in the consolidated statements of profit or loss and other comprehensive income.

For impairment test purposes at 31 December 2016 the following Brent Blend price assumptions have been used: $50 per barrel in 2017, $60 per barrel in 2018, $71 per barrel in 2019 and $82 per barrel from 2020.

(Millions of Russian rubles, unless otherwise noted)

Note 12. Property, plant and equipment (continued)

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 2016	31 December 2015
Long-term loans	86,387	89,770
including loans to associates	86,181	89,407
Non-current accounts and notes receivable	7,916	8,148
Other non-current financial assets	7,509	4,149
Total other non-current financial assets	**101,812**	**102,067**

Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
1 January 2016	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					
1 January 2016	(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					
1 January 2016	-	-	38	-	**38**
31 December 2016	**-**	**-**	**-**	**-**	**-**
Carrying amounts					
1 January 2016	4,612	1,329	21,955	23,853	**51,749**
31 December 2016	**3,719**	**1,899**	**15,946**	**21,570**	**43,134**

(Millions of Russian rubles, unless otherwise noted)

Note 14. Goodwill and other intangible assets (continued)

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
1 January 2015	14,223	1,135	45,451	32,060	**92,869**
Additions as a result of internal developments	622	457	-	-	**1,079**
Acquisitions	-	-	2	453	**455**
Additions – separately acquired	-	-	5,778	-	**5,778**
Disposals	(146)	(5)	(1,398)	-	**(1,549)**
Foreign currency translation differences	1	-	4,043	3,252	**7,296**
Other	22	5	400	-	**427**
31 December 2015	**14,722**	**1,592**	**54,276**	**35,765**	**106,355**
Amortisation and impairment					
1 January 2015	(8,843)	(84)	(27,006)	(550)	**(36,483)**
Amortisation for the year	(1,326)	(175)	(4,786)	-	**(6,287)**
Impairment loss	-	-	(162)	(10,281)	**(10,443)**
Disposals	61	2	1,264	-	**1,327**
Foreign currency translation differences	(1)	-	(1,238)	(1,081)	**(2,320)**
Other	(1)	(6)	(431)	-	**(438)**
31 December 2015	**(10,110)**	**(263)**	**(32,359)**	**(11,912)**	**(54,644)**
Advance payments for intangible assets					
1 January 2015	-	-	-	-	-
31 December 2015	**-**	**-**	**38**	**-**	**38**
Carrying amounts					
1 January 2015	5,380	1,051	18,445	31,510	**56,386**
31 December 2015	**4,612**	**1,329**	**21,955**	**23,853**	**51,749**

The impairment losses during 2015 in the amount of 10,281 million RUB relate to goodwill in the international refining, marketing and distribution segment.

Note 15. Assets held for sale

In December of 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 exploring the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The value of the transaction is the ruble equivalent of $1.45 billion, including debt repayment by AGD to the Company. This value may be adjusted for changes in working capital at the transaction closing date. The closing of the transaction is expected after government authorities approvals.

Note 16. Accounts payable

	31 December 2016	31 December 2015
Trade accounts payable	478,673	339,091
Other accounts payable	71,574	55,248
Total accounts payable	**550,247**	**394,339**

(Millions of Russian rubles, unless otherwise noted)

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

	31 December 2016	31 December 2015
Short-term borrowings from third parties	14,305	33,611
Short-term borrowings from related parties	3,743	5,609
Current portion of long-term debt	40,381	21,286
Total short-term borrowings and current portion of long-term debt	**58,429**	**60,506**

Short-term borrowings from third parties include amounts repayable in US dollars of 667 million RUB and 22,951 million RUB and amounts repayable in other currencies of 13,638 million RUB and 10,660 million RUB at 31 December 2016 and 2015, respectively. The weighted-average interest rate on short-term borrowings from third parties was 9.42% and 5.43% per annum at 31 December 2016 and 2015, respectively. Approximately 32% of total short-term borrowings from third parties at 31 December 2016 are secured by inventories.

Note 18. Long-term debt

	31 December 2016	31 December 2015
Long-term loans and borrowings from third parties	277,404	408,781
Long-term borrowings from related parties	-	138
6.356% non-convertible US dollar bonds, maturing 2017	30,328	36,441
3.416% non-convertible US dollar bonds, maturing 2018	90,689	108,983
7.250% non-convertible US dollar bonds, maturing 2019	36,304	43,583
6.125% non-convertible US dollar bonds, maturing 2020	60,585	72,778
6.656% non-convertible US dollar bonds, maturing 2022	30,328	36,441
4.563% non-convertible US dollar bonds, maturing 2023	90,689	108,983
4.750% non-convertible US dollar bonds, maturing 2026	60,657	-
Finance lease obligations	3,558	4,365
Total long-term debt	680,542	820,493
Current portion of long-term debt	(40,381)	(21,286)
Total non-current portion of long-term debt	**640,161**	**799,207**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 155,720 million RUB and 336,842 million RUB, amounts repayable in euros of 50,496 million RUB and 70,447 million RUB, amounts repayable in Russian rubles of 70,000 million RUB and nill and amounts repayable in other currencies of 1,188 million RUB and 1,492 million RUB at 31 December 2016 and 2015, respectively. This debt has maturity dates from 2017 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 6.06% and 3.77% per annum at 31 December 2016 and 2015, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 23% of total long-term loans and borrowings from third parties at 31 December 2016 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 (61 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.

(Millions of Russian rubles, unless otherwise noted)

Note 18. Long-term debt (continued)

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion (182 billion RUB). The first tranche totaling $1.5 billion (91 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 (91 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 (61 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling $800 million (49 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 (12 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 (91 billion RUB). The first tranche totaling $900 million (55 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 (36 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 (61 billion RUB). $500 million (30.5 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million (30.5 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.

Note 19. Other taxes payable

	31 December 2016	31 December 2015
Mineral extraction tax	37,583	24,566
VAT	23,960	21,532
Excise taxes	16,606	15,553
Property tax	3,899	4,583
Other taxes	6,316	7,043
Total other taxes payable	**88,364**	**73,277**

Note 20. Other current liabilities

	31 December 2016	31 December 2015
Advances received	35,261	79,424
Dividends payable	55,285	47,615
Other	6,564	2,814
Total other current liabilities	**97,110**	**129,853**

Note 21. Provisions

	Asset retirement obligations	Provision for employee compensa-tions	Provision for environmen-tal liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2015	32,919	19,837	5,455	7,913	3,591	6,953	**76,668**
Incl.: Non-current	32,632	6,733	3,575	6,392	134	1,649	**51,115**
Current	287	13,104	1,880	1,521	3,457	5,304	**25,553**
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**

(Millions of Russian rubles, unless otherwise noted)

Note 21. Provisions (continued)

Asset retirement obligations changed as follows during 2016 and 2015.

	2016	**2015**
1 January	32,919	19,604
Provisions made during the year	5,873	2,472
Reversal of provisions	(586)	(261)
Provisions used during the year	(103)	(87)
Accretion expense	2,305	1,543
Change in discount rate	4,301	4,153
Changes in estimates	(2,394)	1,431
Foreign currency translation differences	(3,221)	3,885
Other movements	(1,634)	179
31 December	**37,460**	**32,919**

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 2016 and 2015.

All the data in the following tables is presented gross (before taxation).

The following tables set out movement in the present value of the defined benefit obligation during 2016 and 2015.

	Funded plans	**Post-employment benefits**	**Other long-term benefits**	**Total**
1 January 2016	7,013	6,379	164	**13,556**
Current service cost	246	420	91	**757**
Interest cost	548	625	16	**1,189**
Remeasurement (gains) losses:				
Remeasurement losses (gains) – experience	277	(231)	(52)	**(6)**
Remeasurement losses – changes in assumptions	805	291	8	**1,104**
Remeasurement gains – changes in foreign exchange rates	(41)	(132)	-	**(173)**
Past service cost	(165)	107	(4)	**(62)**
Acquisitions	-	6	-	**6**
Benefits paid	(914)	(617)	(40)	**(1,571)**
Gains on curtailments	-	(401)	(3)	**(404)**
Other	(14)	(422)	-	**(436)**
31 December 2016	**7,755**	**6,025**	**180**	**13,960**

(Millions of Russian rubles, unless otherwise noted)

Note 22. Pension obligation (continued)

	Funded plans	Post-employment benefits	Other long-term benefits	Total
1 January 2015	5,830	5,550	137	**11,517**
Current service cost	296	332	45	**673**
Interest cost	515	722	18	**1,255**
Remeasurement (gains) losses:				
Remeasurement losses (gains) – experience	486	(100)	(14)	**372**
Remeasurement losses – changes in assumptions	859	182	14	**1,055**
Remeasurement losses – changes in foreign exchange rates	79	200	-	**279**
Past service cost	52	171	6	**229**
Benefits paid	(881)	(584)	(42)	**(1,507)**
Gains on curtailments	(209)	(94)	(1)	**(304)**
Other	(14)	-	1	**(13)**
31 December 2015	**7,013**	**6,379**	**164**	**13,556**

The following table sets out movement in the fair value of plan assets during 2016 and 2015.

	2016	2015
1 January	5,643	5,066
Interest income	490	589
Remeasurement losses	(176)	(325)
Contribution from employer	951	1,020
Benefits paid	(837)	(851)
Other	(160)	144
31 December	**5,911**	**5,643**

The following table sets out amounts recognised in profit or loss during 2016 and 2015.

	2016	2015
Service cost:		
Current service cost	757	673
Past service cost	(62)	229
Curtailment	(404)	(304)
Net interest expense	699	666
Other	107	(151)
Components of defined benefit costs recorded in profit and loss	**1,097**	**1,113**

The following table sets out amounts recognised in other comprehensive (income) loss during 2016 and 2015.

	2016	2015
The return on plan assets	176	325
Experience actuarial (gain) losses	46	386
Remeasurement losses – changes in assumpitons	1,096	1,040
Remeasurement (gain) losses – changes in foreign exchange rates	(173)	279
Other	(13)	-
Components of defined benefit costs recorded in other comprehensive loss	**1,132**	**2,030**

(Millions of Russian rubles, unless otherwise noted)

Note 22. Pension obligation (continued)

The following table sets out movement in the net liabilities during 2016 and 2015.

	2016	2015
1 January	7,913	6,451
Components of defined benefit costs recorded in profit or loss	1,097	1,113
Components of defined benefit costs recorded in other comrehensive loss	1,132	2,030
Contributions from employer	(951)	(1,020)
Benefits paid	(734)	(656)
Liability assumed in business combination	6	-
Other	(414)	(5)
31 December	**8,049**	**7,913**

The following table sets out movement in the other comprehensive (income) loss during 2016 and 2015.

	2016	2015
1 January	1,127	(903)
Change during the year	1,132	2,030
31 December	**2,259**	**1,127**

The following table sets out key actuarial assumptions used for valuation for 2016 and 2015.

	2016	2015
Nominal discount rate	8.5%	9.8%
Nominal inflation	4.5%	5.8%
Nominal expected return on assets	8.5%	9.8%
Nominal increase in salaries	5.6%	6.9%
Rate used for annuity contracts calculation	6.0%	6.0%

Assumptions regarding the future mortality used at 31 December 2016 are set based on Transition Table 1 for pensioners (at 31 December 2015 population-wide mortality table “Russia 2013” is used) for the unfunded programs and LUKOIL-GARANT mortality table for funded. These assumptions translated into an average life expectancy in years are as follows:

	2016		2015	
	Transition Table 1	Mortality table used by LUKOIL-GARANT	Mortality table “Russia 2013”	Mortality table used by LUKOIL-GARANT
Females at age 55	27.39	33.06	26.0	25.5
Males at age 60	17.69	23.14	16.4	15.9

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

Note 22. Pension obligation (continued)

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its other clients was as follows:

	Share	
Type of assets	**2016**	**2015**
Russian corporate bonds	56.1%	41.4%
Eurobonds	36.9%	26.9%
Bank deposits	0.0%	7.4%
Cash	1.2%	12.4%
Units in mutual funds	5.5%	5.9%
Other assets	0.3%	6.0%
Total	**100.0%**	**100.0%**

Sensitivity analysis

Reasonably possible changes to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2016		2015	
Change in obligation from base case	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate (change by 1% p.a compared to the base case)	(4.8%)	5.4%	(4.9%)	4.6%
Inflation rate (change by 1% p.a. compared to the base case)	4.0%	(3.5%)	3.5%	(3.9%)
Salary growth (change by 1% p.a. compared to the base case)	1.7%	(1.6%)	1.8%	(1.6%)
Population mortality (change by 10% compared to base case)	(0.7%)	0.8%	(0.8%)	0.8%
Staff turnover rates (change by 5% to retirement ages below 50)	(15.0%)	25.0%	(14.0%)	23.0%

Note 23. Equity

Common shares

	31 December 2016 (thousands of shares)	**31 December 2015 (thousands of shares)**
Authorised common shares, par value of 0.025 RUB each	850,563	850,563
Issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(137,630)	(137,630)
Outstanding common shares	**712,933**	**712,933**

Dividends and dividend limitations

Profits available for distribution to common shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the profit for the reporting period as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

At the extraordinary shareholders' meeting on 5 December 2016, interim dividends for 2016 were approved in the amount of 75.00 Russian rubles per common share.

At the annual stockholders' meeting on 23 June 2016, dividends for 2015 were approved in the amount of 112.00 Russian rubles per common share. At the extraordinary stockholders' meeting on 16 December 2015, interim dividends for 2015 were approved in the amount of 65.00 Russian rubles per common share. Total dividends for 2015 were approved in the amount of 177.00 Russian rubles per common share.

Note 23. Equity (continued)

Dividends payable on the Company common shares in the amount of 54,301 million RUB and 46,609 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2016 and 2015, respectively.

Earnings per share

The calculation of basic and diluted earnings per share was as follows:

	2016	**2015**
Profit for the year attributable to PJSC LUKOIL	206,794	291,135
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	-	1,718
Total diluted profit for the year attributable to PJSC LUKOIL	206,794	292,853
Weighted average number of outstanding common shares (thousands of shares)	712,933	741,769
Equity-linked notes	-	(28,836)
Weighted average number of common shares (thousands of shares)	712,933	712,933
Add back treasury shares held in respect of convertible debt (thousands of shares)	-	9,890
Weighted average number of common shares, assuming dilution (thousands of shares)	712,933	722,823
Earnings per share of common stock attributable to PJSC LUKOIL (RUB):		
Basic	290.06	408.36
Diluted	290.06	405.15

Note 24. Personnel expenses

Personnel expenses were as follows:

	2016	**2015**
Salary	136,035	126,506
Statutory insurance contributions	28,879	26,994
Share-based payments	20,370	4,837
Total personnel expenses	**185,284**	**158,337**

Note 25. Finance income and costs

Finance income was as follows:

	2016	**2015**
Interest income from deposits	5,878	10,202
Interest income from loans	7,306	6,179
Other finance income	1,572	1,382
Total finance income	**14,756**	**17,763**

Finance costs were as follows:

	2016	**2015**
Interest expense	40,283	44,082
Accretion expense	2,323	1,583
Other finance costs	4,424	2,559
Total finance costs	**47,030**	**48,224**

(Millions of Russian rubles, unless otherwise noted)

Note 26. Other income and expenses

Other income was as follows:

	2016	2015
Gain on disposal of assets	14,449	43,945
Reversal of impairment of assets	891	1,292
Other income	17,083	16,110
Total other income	**32,423**	**61,347**

Other expenses were as follows:

	2016	2015
Impairment loss	9,471	187,050
Loss on disposal of assets	12,900	24,051
Charity expenses	12,060	7,929
Other expenses	8,337	6,440
Total other expenses	**42,768**	**225,470**

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:

	2016	2015
Current income tax expense for the year	59,209	101,106
Adjustment for prior periods	(1,039)	(771)
Current income taxes	**58,170**	**100,335**
Deferred income tax	6,703	(3,976)
Deferred income tax	**6,703**	**(3,976)**
Total income tax expense	**64,873**	**96,359**

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.

	2016	2015
Profit before income taxes	272,515	389,104
Notional income tax at the Russian statutory rate	54,503	77,821
Increase (reduction) in income tax due to:		
Non-deductible items, net	16,998	19,155
Domestic and foreign rate differences	(2,577)	(4,929)
Change in recognised deductible temporary differences	(4,051)	4,312
Total income tax expense	**64,873**	**96,359**

(Millions of Russian rubles, unless otherwise noted)

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 2016	31 December 2015
Property, plant and equipment	8,422	9,698
Inventories	4,556	4,232
Accounts receivable	678	922
Accounts payable and provisions	10,242	7,920
Operating loss carry forward	35,086	36,156
Other	1,718	1,870
Total deferred income tax assets	60,702	60,798
Set off of tax	(31,623)	(32,063)
Deferred income tax assets	**29,079**	**28,735**
Property, plant and equipment	(253,591)	(244,294)
Investments	(3,452)	(4,280)
Inventories	(6,979)	(6,200)
Accounts receivable	(4,681)	(6,422)
Accounts payable and provisions	(76)	(1,275)
Other	(2,655)	(3,699)
Total deferred income tax liabilities	(271,434)	(266,170)
Set off of tax	31,623	32,063
Deferred income tax liabilities	**(239,811)**	**(234,107)**
Net deferred income tax liabilities	**(210,732)**	**(205,372)**

	1 January 2016	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)**

	1 January 2015	Recognition in profit or loss	Acquisitions and Disposal	Foreign currency translation differences and other	31 December 2015
Property, plant and equipment	(232,539)	3,639	(73)	(5,623)	(234,596)
Investments	(4,047)	(348)	-	115	(4,280)
Inventories	(139)	(2,280)	(10)	461	(1,968)
Accounts receivable	(4,138)	(1,399)	-	37	(5,500)
Accounts payable	5,472	2,137	611	(1,575)	6,645
Operating loss carry forward	32,155	2,342	(313)	1,972	36,156
Other	(1,724)	(115)	(615)	625	(1,829)
Net deferred income tax liabilities	**(204,960)**	**3,976**	**(400)**	**(3,988)**	**(205,372)**

(Millions of Russian rubles, unless otherwise noted)

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 2016	31 December 2015
Property, plant and equipment	3,602	4,480
Operating loss carry forward	16,260	19,895
Other	505	43
Total deferred tax assets	**20,367**	**24,418**

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 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)**

Amounts recognised in other comprehensive income during 2015:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	12,345	-	12,345
Remeasurements of defined benefit liability/asset of pension plan	(2,030)	380	(1,650)
Total	**10,315**	**380**	**10,695**

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 644,200 million RUB at 31 December 2016 and 836,935 million RUB at 31 December 2015. 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 liabilibilities.

Note 28. Operating lease

At 31 December 2016 and 2015, Group companies had commitments primarily for the lease of vessels and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows:

	31 December 2016	31 December 2015
Less than a year	31,184	35,858
1-5 years	57,429	46,589
More than 5 years	103,199	80,924
Total	**191,812**	**163,371**

Note 29. Commitments and contingencies

Capital commitments

At 31 December 2016, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 463,723 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 severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

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

Note 29. Commitments and contingencies (continued)

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

Litigation and claims

On 27 November 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against AGD, a Group company, and the Company (together the "Defendants"). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of $1.2 billion (72.8 billion RUB) and punitive damages of $3.6 billion (218.4 billion RUB). On 15 October 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on 25 March 2004. However, on 21 November 2005, due to a procedural error, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals and the Colorado Court of Appeals remanded the case to the District Court. On 20 October 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. On 23 August 2012, the Colorado Court of Appeals affirmed this decision. On 1 July 2013, the Colorado Supreme Court denied ADC's Petition for Writ of Certiorari. The case in the state court is therefore over.

On 6 January 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court). In the federal Court case, the Company has filed a Motion to Dismiss. On 18 December 2014, the federal court granted the motion based on lack of personal jurisdiction over the Company and the doctrine of "forum non conveniens". ADC filed a notice of appeal in the US Court of Appeals for the Tenth Circuit. On 9 February 2016, the US Court of Appeals for the Tenth Circuit affirmed the dismissal of the case on "forum non conveniens" grounds. On 23 February 2016, ADC filed a Petition for rehearing and for "rehearing en banc". On 1 April 2016, the US Court of Appeals for the Tenth Circuit denied both ADC'c Petition for rehearing and for "rehearing en banc". On 7 November 2016, the US Supreme court denied ADC's Petition for Writ of Certiorari. The case is therefore over.

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the "Prosecutor's Office") issued an order on initiation of criminal proceedings and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor's Office added bad faith use of the company's credit and money laundering charges for 2008-2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim is not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group are also considered to be suspects in this criminal case. At the moment a preliminary investigation of the criminal case is being conducted. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. In July 2015, a new charge in respect of bad faith use of the company's credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. A similar charge was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011-2014. On 3 August 2015, the Prosecutor's Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company's credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor's Office revised the amount of damage claimed from $2.2 billion (133.4 billion RUB) to $1.5 billion (91 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor's Office.

Note 29. Commitments and contingencies (continued)

The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal on 22 January 2016. 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. At the current stage of the hearings the defendants made oral statements. On 27 January 2017, a court hearing took place and the defendants requested that an expert examination be performed. On 6 March 2017, the Prahova Tribunal issued a ruling whereby it approved a list of issues to be considered within the examination procedure. It is expected that an expert will be appointed during the next hearing which is scheduled for 5 April 2017. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor's Office. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

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

The Commission for Protection of Competition in Bulgaria issued ruling alleging violations of applicable antimonopoly laws by Lukoil Bulgaria EOOD, a Group company, and a number of other legal entities not affiliated with the Group, in connection with concerted actions and anti-competitive agreements to fix petrol and diesel fuel retail market prices in Bulgaria. The maximum amount of fines for this violation is evaluated at $158 million (9,6 billion RUB). Lukoil Bulgaria EOOD filed written objections in required period. The announcement of the date of the open hearing is expected and after that the closed hearing will be held. This hearing will state whether there is any violations or not and the amount of fines if any. Management does not believe that the outcome of this matter will 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 other countries imposed a set of economic sanctions on Russia, including certain sectoral sanctions which affect Russian oil and gas companies. Such sectoral sanctions prohibit US and the EU companies and individuals from providing, exporting, or reexporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects on the territory of the Russian Federation. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and results of operations.

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

(Millions of Russian rubles, unless otherwise noted)

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 affiliated companies.

Outstanding balances with related parties:

	31 December 2016	31 December 2015
Accounts receivable	8,209	10,925
Other financial assets	93,453	98,538
Total assets	**101,662**	**109,463**
Accounts payable	8,436	8,458
Loans and borrowings	3,743	5,747
Total liabilities	**12,179**	**14,205**

Related party transactions were as follows:

	2016	2015
Sales of oil and oil products	19,972	30,880
Other sales	6,576	1,490
Purchases of oil and oil products	78,060	67,433
Other purchases	6,983	7,316
Loans given	16,279	10,288
Loans recieved	4,625	15,279

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 5,519 million RUB and 2,364 million RUB during 2016 and 2015, 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 is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company’s common shares appreciation from 2013 to 2017, with rights vesting after the date of the compensation plan’s termination. The number of assigned shares is approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The reporting date fair value of this part of the plan was estimated at 29,210 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 8.35% per annum, an expected dividend yield of 6.79% per annum, an expected time to maturity of one year and a volatility factor of 14.40%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company’s shares for the previous eleven years from 2006 till 2016.

Related to this share plan the Group recognised 20,370 million RUB and 4,837 million RUB of compensation expense during 2016 and 2015, respectively. At 31 December 2016 and 2015 amounts of 26,921 million RUB and 9,698 million RUB related to this plan are included in “Provisions” of the consolidated statement of financial position, respectively.

At 31 December 2016, there was 5,842 million RUB of total unrecognised compensation cost related to unvested benefits. This cost is expected to be recognised periodically by the Group up to December 2017.

(Millions of Russian rubles, unless otherwise noted)

Note 32. Segment information

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

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

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

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

Operating segments

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

2015	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	263,422	5,455,372	30,256	-	5,749,050
Inter-segment	1,613,982	56,185	52,682	(1,722,849)	-
Total revenues	1,877,404	5,511,557	82,938	(1,722,849)	5,749,050
Operating expenses	263,101	188,911	22,031	(27,324)	446,719
Selling, general and administrative expenses	39,861	126,345	36,576	(34,113)	168,669
Profit for the year	107,453	93,502	63,528	26,652	291,135
Operating earnings	489,076	203,358	89,062	(12,565)	768,931
Income tax expense					(96,359)
Finance income					17,763
Finance costs					(48,224)
Depreciation, depletion and amortisation					(350,976)
Profit for the year attributable to PJSC LUKOIL shareholders					291,135

(Millions of Russian rubles, unless otherwise noted)

Note 32. Segment information (continued)

Geographical segments

	2016	2015
Sales of crude oil within Russia	94,985	145,688
Export of crude oil and sales of crude oil by foreign subsidiaries	1,353,334	1,389,955
Sales of petroleum products within Russia	626,633	604,687
Export of petroleum products and sales of petroleum products by foreign subsidiaries	2,770,095	3,238,339
Sales of chemicals within Russia	38,092	28,248
Export of chemicals and sales of chemicals by foreign subsidiaries	34,711	34,490
Sales of gas and gas products within Russia	34,723	38,229
Export of gas products and sales of gas and gas products by foreign subsidiaries	81,626	100,097
Sales of energy and related services within Russia	61,920	58,237
Sales of energy and related services by foreign subsidiaries	14,178	12,516
Other sales within Russia	46,867	41,134
Other export sales and other sales of foreign subsidiaries	69,881	57,430
Total sales	**5,227,045**	**5,749,050**

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

2015	**Russia**	**International**	**Elimination**	**Consolidated**
Sales and other operating revenues				
Third parties	946,824	4,802,226	-	5,749,050
Inter-segment	1,161,026	5,423	(1,166,449)	-
Total revenues	2,107,850	4,807,649	(1,166,449)	5,749,050
Operating expenses	312,262	131,659	2,798	446,719
Selling, general and administrative expenses	86,251	86,472	(4,054)	168,669
Profit (loss) for the year	391,343	(125,604)	25,396	291,135
Operating earnings	650,450	132,346	(13,865)	768,931

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

	2016	2015
Sales revenues		
in Switzerland	2,380,957	2,604,891
in the USA	421,930	403,196
in Singapore	341,396	451,269

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

(Millions of Russian rubles, unless otherwise noted)

Note 33. Subsidiaries

Key subsidiaries

The most significant subsidiaries of the Group are presented below.

		31 December 2016		31 December 2015	
Subsidiary	**Country of incorporation**	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%
LUKOIL Uzbekistan Operating Company LLC	Uzbekistan	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	99.82%	99.82%	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 2016 and 2015:

		Fair value			
31 December 2016	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
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**

(Millions of Russian rubles, unless otherwise noted)

Note 34. Fair value (continued)

31 December 2015	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial assets:					
Commodity derivative contracts	41,648	-	41,648	-	**41,648**
Available for sale securities	4,045	-	-	4,045	**4,045**
Financial liabilities:					
Commodity derivative contracts	10,827	-	10,827	-	**10,827**
Loans and borrowings	820,493	400,140	-	392,952	**793,092**

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 2016 and 2015.

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.

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.

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2016	31 December 2015
Not past due	305,183	421,456
Past due less than 90 days	22,973	10,761
Past due from 90 to 180 days	17,994	3,030
Past due from 180 to 270 days	9,318	575
Past due from 270 to 365 days	1,665	1,040
Past due more than 365 days	3,764	3,627
Total trade and other receivables	**360,897**	**440,489**

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

Allowance for doubtful accounts receivable changed as follows:

	2016	2015
1 January	18,921	14,505
Increase in allowance for doubtful debts charged to profit and loss	6,192	4,093
Write-off	(2,187)	(1,113)
Foreign currency translation differences	(2,615)	1,418
Other	(122)	18
31 December	**20,189**	**18,921**

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).

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	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**

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

	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	449,150	512,839	74,907	60,124	294,403	83,405
Bonds, including interest expense	410,286	515,040	21,134	57,575	271,136	165,195
Finance lease obligations	4,365	6,665	1,519	1,094	3,070	982
Trade and other payables	380,650	380,650	380,036	350	103	161
Derivative financial liabilities	10,827	10,827	10,827	-	-	-
31 December 2015	**1,255,278**	**1,426,021**	**488,423**	**119,143**	**568,712**	**249,743**

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.

The carrying amounts of the Group’s assets and liabilities denominated in foreign currencies at 31 December 2016 and 2015 were as follows:

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)**

31 December 2015	**USD**	**EUR**	**Other currencies**
Financial assets:			
Cash and cash equivalents	33,965	7,499	714
Trade and other receivables	83,548	2,077	661
Loans	665,692	10,542	-
Other financial assets	761	3,985	124
Financial liabilities:			
Loans and borrowings	(246,832)	(78,193)	(1,512)
Trade and other payables	(30,259)	(8,646)	(715)
Net exposure	**506,875**	**(62,736)**	**(728)**

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

The following exchange rates applied:

	31 December 2016	31 December 2015
USD	60,66	72,88
EUR	63,81	79,70

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 2016 and 2015 would have affected the measurement of financial instruments denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2016	2015
US Dollar (increase by 10%)	55,080	50,513
Euro (increase by 10%)	3,138	(2,204)
Russian ruble (increase by 10%)	(52,445)	(43,682)

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.

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 2016	31 December 2015
Fixed rate instruments:		
Financial assets	79,951	87,650
Financial liabilities	(417,333)	(443,930)
Net exposure	**(337,382)**	**(356,280)**
Variable rate instruments:		
Financial assets	30,879	30,037
Financial liabilities	(281,257)	(415,783)
Net exposure	**(250,378)**	**(385,746)**

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2016 and 2015 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**
2016		
Net financial liabilities	(2,504)	2,504
2015		
Net financial liabilities	(3,857)	3,857

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 2016	**31 December 2015**
Total debt	698,590	859,713
Less cash and cash equivalents	(261,367)	(257,263)
Net debt	437,223	602,450
Equity	3,227,664	3,231,374
Net debt to equity ratio	**13.55%**	**18.64%**

(Millions of Russian rubles, unless otherwise noted)

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 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**

31 December 2015	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Unproved oil and gas properties	65,722	54,024	119,746	18,401
Proved oil and gas properties	1,048,932	2,063,995	3,112,927	175,507
Accumulated depreciation, depletion, and amortisation	(621,362)	(331,892)	(953,254)	(57,153)
Net capitalised costs	**493,292**	**1,786,127**	**2,279,419**	**136,755**

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

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**

2015	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Acquisition of properties – proved	-	191	191	-
Acquisition of properties – unproved	8,286	2,566	10,852	-
Exploration costs	50,217	19,424	69,641	1,628
Development costs	137,374	272,793	410,167	12,945
Total costs incurred	**195,877**	**294,974**	**490,851**	**14,573**

(Millions of Russian rubles, unless otherwise noted)

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.

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**

2015	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	291,473	708,403	999,876	43,173
Transfers	-	588,750	588,750	1,349
Total revenues	291,473	1,297,153	1,588,626	44,522
Production costs (excluding production taxes)	(61,801)	(155,373)	(217,174)	(8,690)
Exploration expense	(28,495)	(682)	(29,177)	(1)
Depreciation, depletion, and amortisation	(149,213)	(125,595)	(274,808)	(6,662)
Taxes other than income taxes	(895)	(695,694)	(696,589)	(11,029)
Related income taxes	(6,348)	(53,989)	(60,337)	(9,268)
Total results of operations for producing activities	**44,721**	**265,820**	**310,541**	**8,872**

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 59% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

(Millions of Russian rubles, unless otherwise noted)

Estimated net proved oil and gas reserves and changes thereto for 2016 and 2015 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
Crude oil	**International**	**Russia**	**Total**	
1 January 2015	367	12,932	13,299	295
Revisions of previous estimates	241	(969)	(728)	(1)
Purchase of hydrocarbons in place	-	12	12	-
Extensions and discoveries	22	446	468	39
Production	(88)	(636)	(724)	(25)
Sales of reserves	-	(5)	(5)	(45)
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**
Proved developed reserves				
31 December 2015	240	7,986	8,226	142
31 December 2016	**287**	**7,614**	**7,901**	**124**

The non-controlling interest share included in the above total proved reserves was 74 million barrels and 75 million barrels at 31 December 2016 and 2015, respectively. The non-controlling interest share included in the above proved developed reserves was 37 million barrels and 42 million barrels at 31 December 2016 and 2015, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
Natural gas	**International**	**Russia**	**Total**	
1 January 2015	6,638	17,043	23,681	265
Revisions of previous estimates	719	(216)	503	17
Purchase of hydrocarbons in place	-	4	4	-
Extensions and discoveries	7	227	234	4
Production	(246)	(568)	(814)	(33)
Sales of reserves	-	-	-	(23)
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**
Proved developed reserves:				
31 December 2015	2,305	5,596	7,901	153
31 December 2016	**2,960**	**5,309**	**8,269**	**105**

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2016 and 2015. The non-controlling interest share included in the above proved developed reserves was 15 billion cubic feet at 31 December 2016 and 2015. All non-controlling interests relate to reserves in the Russian Federation.

(Millions of Russian rubles, unless otherwise noted)

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.

31 December 2016	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
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	-

31 December 2015	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Future cash inflows	3,521,611	29,732,395	33,254,006	811,774
Future production and development costs	(2,465,625)	(20,047,452)	(22,513,077)	(534,151)
Future income tax expenses	(102,752)	(1,672,136)	(1,774,888)	(55,511)
Future net cash flows	953,234	8,012,807	8,966,041	222,112
Discount for estimated timing of cash flows (10% p.a.)	(611,200)	(4,450,284)	(5,061,484)	(120,888)
Discounted future net cash flows	**342,034**	**3,562,523**	**3,904,557**	**101,224**
Non-controlling share in discounted future net cash flows	-	23,273	23,273	-

(Millions of Russian rubles, unless otherwise noted)

VI. Principal sources of changes in the standardised measure of discounted future net cash flows

Consolidated companies	**2016**	**2015**
Discounted present value at January 1	3,904,557	5,561,342
Net changes due to purchases and sales of minerals in place	60	1,779
Sales and transfers of oil and gas produced, net of production costs	(554,861)	(645,686)
Net changes in prices and production costs estimates	(4,451,693)	(6,539,985)
Net changes in mineral extraction taxes	2,667,624	4,769,427
Extensions and discoveries, less related costs	98,911	142,856
Previously estimated development cost incurred during the year	469,271	374,236
Revisions of previous quantity estimates	(45,374)	(390,502)
Net change in income taxes	346,583	430,241
Accretion of discount	436,285	625,761
Other changes	(491,516)	(424,912)
Discounted present value at 31 December	**2,379,847**	**3,904,557**

Group's share in equity companies	**2016**	**2015**
Discounted present value at 1 January	101,224	227,438
Net changes due to purchases and sales of minerals in place	62	(23,455)
Sales and transfers of oil and gas produced, net of production costs	(22,622)	(24,802)
Net changes in prices and production costs estimates	(120,495)	(187,167)
Net changes in mineral extraction taxes	61,202	86,150
Extensions and discoveries, less related costs	590	10,502
Previously estimated development cost incurred during the year	14,312	15,585
Revisions of previous quantity estimates	6,950	(173)
Net change in income taxes	10,302	24,987
Accretion of discount	11,365	25,447
Other changes	(17,640)	(53,288)
Discounted present value at 31 December	**45,250**	**101,224**