



PJSC LUKOIL

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with IFRS)

**For the three-month period ended 31 March 2016
(unaudited)**

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



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

To the Shareholders and Board of Directors

PJSC LUKOIL

Introduction

We have reviewed the accompanying consolidated statement of financial position of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group") as at 31 March 2016, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three - month period then ended, and notes to the condensed interim consolidated financial statements (the "condensed interim consolidated financial statements"). Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

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

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

Registered by Moscow Registration Chamber on 22 of April 1993, Registration No. 024020.

Entered in the Unified State Register of Legal Entities on 17 July 2002 by Department of the Ministry of Taxes and Duties, Registration No. 1027700035769, Certificate series 77 No 007892347

11, Sretensky Boulevard, Moscow, Russia, 101000

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.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.



PJSC LUKOIL

Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements as at 31 March 2016 and for the three - month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Oussov A.I.

Director, power of attorney dated 16 March 2015 No. 18/15

JSC "KPMG"

6 June 2016

Moscow, Russian Federation

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

	Note	31 March 2016 (unaudited)	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	6	314,494	257,263
Accounts receivable, net	7	398,408	440,489
Other current financial assets		16,181	23,768
Inventories	8	339,837	340,196
Income tax prepaid		15,777	7,413
Other taxes receivable	9	67,390	81,692
Other current assets	10	55,975	62,826
Total current assets		1,208,062	1,213,647
Property, plant and equipment	12	3,382,080	3,411,153
Investments in associates and joint ventures	11	171,674	181,744
Other non-current financial assets	13	112,282	102,067
Deferred income tax assets		27,630	28,735
Goodwill and other intangible assets		49,588	51,749
Other non-current assets		30,938	31,512
Total non-current assets		3,774,192	3,806,960
Total assets		4,982,254	5,020,607
Liabilities and equity			
Current liabilities			
Accounts payable	14	352,557	394,339
Short-term borrowings and current portion of long-term debt	15	96,420	60,506
Income tax payable		9,595	11,640
Other taxes payable	17	80,261	73,277
Provisions	19	30,202	25,553
Other current liabilities	18	51,230	129,853
Total current liabilities		620,265	695,168
Long-term debt	16	807,057	799,207
Deferred income tax liabilities		234,218	234,107
Provisions	19	52,884	51,115
Other non-current liabilities		8,857	9,636
Total non-current liabilities		1,103,016	1,094,065
Total liabilities		1,723,281	1,789,233
Equity			
Share capital	20	1,151	1,151
Treasury shares		(241,615)	(241,615)
Additional paid-in capital		129,403	129,403
Other reserves		88,745	104,150
Retained earnings		3,272,204	3,229,379
Total equity attributable to PJSC LUKOIL shareholders		3,249,888	3,222,468
Non-controlling interests		9,085	8,906
Total equity		3,258,973	3,231,374
Total liabilities and equity		4,982,254	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 condensed interim consolidated financial statements.

PJSC LUKOIL

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

	Note	For the three months ended 31 March 2016 (unaudited)	For the three months ended 31 March 2015 (unaudited)
Revenues			
Sales (including excise and export tariffs)	28	1,177,674	1,440,305
Costs and other deductions			
Operating expenses		(113,244)	(105,681)
Cost of purchased crude oil, gas and products		(537,733)	(700,065)
Transportation expenses		(86,699)	(78,785)
Selling, general and administrative expenses		(47,823)	(41,185)
Depreciation, depletion and amortisation		(84,348)	(78,463)
Taxes other than income taxes		(83,553)	(129,835)
Excise and export tariffs		(114,949)	(172,849)
Exploration expenses		(1,681)	(1,197)
Profit from operating activities		107,644	132,245
Finance income	22	3,831	4,531
Finance costs	22	(10,371)	(11,460)
Equity share in income of affiliates	11	2,353	4,093
Foreign exchange (loss) gain		(45,378)	5,675
Other expenses	23	(3,343)	(5,772)
Profit before income taxes		54,736	129,312
Current income taxes		(10,476)	(22,940)
Deferred income taxes		(1,290)	(1,933)
Total income tax expense		(11,766)	(24,873)
Profit for the period		42,970	104,439
Profit for the period attributable to non-controlling interests		(145)	(408)
Profit for the period attributable to PJSC LUKOIL shareholders		42,825	104,031
Other comprehensive income (loss), net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		(15,391)	(27,596)
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan		20	316
Other comprehensive loss		(15,371)	(27,280)
Total comprehensive income for the period		27,599	77,159
Total comprehensive income for the period attributable to non-controlling interests		(179)	(456)
Total comprehensive income for the period attributable to PJSC LUKOIL shareholders		27,420	76,703
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):			
Basic	20	60.07	145.92
Diluted	20	60.07	143.02

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

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

	Share capital	Treasury shares	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 period	-	-	-	-	-	42,825	42,825	145	42,970
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	(15,425)	-	(15,425)	34	(15,391)
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	20	-	20	-	20
Total comprehensive income					(15,405)	42,825	27,420	179	27,599
31 March 2016	1,151	(241,615)	-	129,403	88,745	3,272,204	3,249,888	9,085	3,258,973
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 period	-	-	-	-	-	104,031	104,031	408	104,439
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	(27,644)	-	(27,644)	48	(27,596)
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	316	-	316	-	316
Total comprehensive income					(27,328)	104,031	76,703	456	77,159
Changes in non-controlling interests	-	-	-	(36)	-	-	(36)	33	(3)
31 March 2015	1,151	(158,615)	(83,000)	128,810	66,126	3,159,573	3,114,045	12,653	3,126,698

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

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

Note	For the three months ended 31 March 2016 (unaudited)	For the three months ended 31 March 2015 (unaudited)
Cash flows from operating activities		
Profit for the period attributable to PJSC LUKOIL shareholders	42,825	104,031
Adjustments for non-cash items:		
Depreciation, depletion and amortisation	84,348	78,463
Equity share in income of affiliates, net of dividends received	(1,062)	(3,575)
Dry hole write-offs	166	515
Loss on disposals and impairments of assets	1,713	168
Income tax expense	11,766	24,873
Non-cash foreign exchange loss (gain)	44,809	(5,649)
Non-cash investing activities	(12)	(2)
Finance income	(3,831)	(4,531)
Finance costs	10,371	11,460
Bad debt allowance	1,716	217
All other items – net	8,774	9,996
Changes in operating assets and liabilities:		
Trade accounts receivable	15,220	60,166
Inventories	(21,905)	(13,442)
Accounts payable	(14,702)	(4,367)
Other taxes	23,075	37,924
Other current assets and liabilities	(20,528)	(49,088)
Income tax paid	(21,244)	(24,930)
Dividends received	1,204	-
Interests received	1,693	2,872
Net cash provided by operating activities	164,396	225,101
Cash flows from investing activities		
Acquisition of licenses	(2,174)	(83)
Capital expenditures	(125,807)	(162,107)
Proceeds from sale of property, plant and equipment	425	574
Purchases of financial assets	(8,485)	(744)
Proceeds from sale of financial assets	245	129
Sale of subsidiaries, net of cash disposed	(912)	117
Acquisitions of subsidiaries, net of cash acquired	(1,178)	(205)
Acquisitions of equity method affiliates	(507)	(1,752)
Net cash used in investing activities	(138,393)	(164,071)
Cash flows from financing activities		
Proceeds from issuance of short-term borrowings	38,235	14,402
Principal repayments of short-term borrowings	(9,228)	(15,744)
Proceeds from issuance of long-term debt	79,776	215
Principal repayments of long-term debt	(2,408)	(2,702)
Interest paid	(5,669)	(4,468)
Dividends paid on Company common shares	(46,308)	(40,919)
Dividends paid to non-controlling interest shareholders	(1,005)	(559)
Financing received from non-controlling interest shareholders	27	31
Net cash provided by (used in) financing activities	53,420	(49,744)
Effect of exchange rate changes on cash and cash equivalents	(22,192)	(6,513)
Net increase in cash and cash equivalents	57,231	4,773
Cash and cash equivalents at beginning of period	257,263	169,023
Cash and cash equivalents at end of period	6	314,494
	173,796	

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

Note 1. Organisation and environment

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

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with the Group’s consolidated financial statements for 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last consolidated financial statements for 2015.

These condensed interim consolidated financial statements are based on the same accounting policies and methods of accounting used in the consolidated financial statements for 2015.

The accompanying condensed interim consolidated financial statements and notes thereto have not been audited by independent auditors, except for the consolidated statement of financial position at 31 December 2015.

The condensed interim consolidated financial statements were authorised by the President of the Company on 6 June 2016.

Functional and presentation currency

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

Note 2. Basis of preparation (continued)

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

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

Note 3. Summary of significant accounting policies

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the consolidated financial statements for 2015.

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 of asset retirement obligations;
- Assessment and recognition of provisions and contingent liabilities;
- Assessment of deferred income tax assets and liabilities;
- Determination of whether a joint arrangement is a joint venture or a joint operation.

Note 5. Income taxes

Operations in the Russian Federation are 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.

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

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

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

Note 6. Cash and cash equivalents

	31 March 2016	31 December 2015
Cash held in RUB	37,979	98,253
Cash held in US dollars	256,739	141,863
Cash held in other currencies	19,776	17,147
Total cash and cash equivalents	314,494	257,263

Note 7. Accounts receivable, net

	31 March 2016	31 December 2015
Trade accounts receivable (net of allowances of 18,063 million RUB and 17,322 million RUB at 31 March 2016 and 31 December 2015, respectively)	343,225	375,531
Other current accounts receivable (net of allowances of 1,679 million RUB and 1,599 million RUB at 31 March 2016 and 31 December 2015, respectively)	55,183	64,958
Total accounts receivable, net	398,408	440,489

Note 8. Inventories

	31 March 2016	31 December 2015
Crude oil and petroleum products	278,525	275,941
Materials for extraction and drilling	21,574	21,345
Materials and supplies for refining	3,243	3,732
Other goods, materials and supplies	36,495	39,178
Total inventories	339,837	340,196

Note 9. Other taxes receivable

	31 March 2016	31 December 2015
VAT and excise tax recoverable	37,108	39,171
Export duties prepaid	11,004	21,824
Other taxes prepaid	19,278	20,697
Total other taxes receivable	67,390	81,692

Note 10. Other current assets

	31 March 2016	31 December 2015
Advance payments	13,747	16,341
Prepaid expenses	30,488	31,960
Other assets	11,740	14,525
Total other current assets	55,975	62,826

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership, %		31 March 2016	31 December 2015
		31 March 2016	31 December 2015		
<i>Joint Ventures:</i>					
Tengizchevroil	Kazakhstan	5%	5%	93,488	99,843
Caspian Pipeline Consortium	Kazakhstan	12.5%	12.5%	26,199	27,574
Turgai Petroleum	Kazakhstan	50%	50%	1,687	1,675
Shakh-Deniz Midstream	Azerbaijan	10%	10%	21,781	22,284
<i>Associates:</i>					
Other associates				28,519	30,368
Total				171,674	181,744

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

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

Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
1 January 2015	2,556,173	1,030,097	95,392	3,681,662
Additions	118,522	33,396	529	152,447
Acquisitions through business combinations	305	-	-	305
Capitalised borrowing costs	97	275	-	372
Disposals	(1,898)	(1,410)	(212)	(3,520)
Changes in estimates of asset retirement obligation	(283)	-	-	(283)
Foreign currency translation differences	25,551	(25,161)	309	699
Other	(1,241)	1,298	(259)	(202)
31 March 2015	2,697,226	1,038,495	95,759	3,831,480
Depreciation and impairment				
1 January 2015	(444,128)	(142,713)	(8,525)	(595,366)
Depreciation for the period	(58,560)	(15,665)	(1,470)	(75,695)
Disposals	246	793	22	1,061
Foreign currency translation differences	(9,570)	5,102	103	(4,365)
Other	76	102	(27)	151
31 March 2015	(511,936)	(152,381)	(9,897)	(674,214)
Advance payments for property, plant and equipment				
1 January 2015	58,558	8,258	467	67,283
31 March 2015	62,962	3,749	531	67,242
Carrying amounts				
1 January 2015	2,170,603	895,642	87,334	3,153,579
31 March 2015	2,248,252	889,863	86,393	3,224,508

The cost of assets under construction included in Property, plant and equipment was 663,944 million RUB and 676,908 million RUB at 31 March 2016 and 31 December 2015, respectively.

Exploration and evaluation assets:

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
1 January	52,302	46,906
Capitalised expenditures	10,767	6,602
Reclassified to development assets	(2,155)	(6,318)
Charged to expenses	(109)	-
Foreign currency translation differences	(739)	-
Other	-	20
31 March	60,066	47,210

Note 13. Other non-current financial assets

	31 March 2016	31 December 2015
Long-term loans	99,991	89,770
Non-current accounts and notes receivable	8,428	8,148
Other non-current financial assets	3,863	4,149
Total other non-current financial assets	112,282	102,067

Note 14. Accounts payable

	31 March 2016	31 December 2015
Trade accounts payable	292,686	339,091
Other accounts payable	59,871	55,248
Total accounts payable	352,557	394,339

Note 15. Short-term borrowings and current portion of long-term debt

	31 March 2016	31 December 2015
Short-term borrowings from third parties	57,241	33,611
Short-term borrowings from related parties	5,439	5,609
Current portion of long-term debt	33,740	21,286
Total short-term borrowings and current portion of long-term debt	96,420	60,506

Short-term borrowings from third parties include amounts repayable in US dollars of 39,070 million RUB and 22,951 million RUB and amounts repayable in other currencies of 18,171 million RUB and 10,660 million RUB at 31 March 2016 and 31 December 2015, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.60% and 5.43% per annum at 31 March 2016 and 31 December 2015, respectively. Approximately 77% of total short-term borrowings from third parties at 31 March 2016 are secured by inventories.

Note 16. Long-term debt

	31 March 2016	31 December 2015
Long-term loans and borrowings from third parties	458,779	408,781
Long-term borrowings from related parties	94	138
6.356% non-convertible US dollar bonds, maturing 2017	33,804	36,441
3.416% non-convertible US dollar bonds, maturing 2018	101,115	108,983
7.250% non-convertible US dollar bonds, maturing 2019	40,437	43,583
6.125% non-convertible US dollar bonds, maturing 2020	67,515	72,778
6.656% non-convertible US dollar bonds, maturing 2022	33,804	36,441
4.563% non-convertible US dollar bonds, maturing 2023	101,115	108,983
Capital lease obligations	4,134	4,365
Total long-term debt	840,797	820,493
Current portion of long-term debt	(33,740)	(21,286)
Total non-current portion of long-term debt	807,057	799,207

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 319,812 million RUB and 336,842 million RUB, amounts repayable in euros of 67,557 million RUB and 70,447 million RUB, amounts repayable in other currencies of 1,410 million RUB and 1,492 million RUB at 31 March 2016 and 31 December 2015, respectively, and amounts repayable in RUB of 70,000 million RUB at 31 March 2016. This debt has maturity dates from 2016 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.22% and 3.77% per annum at 31 March 2016 and 31 December 2015, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 14% of total long-term loans and borrowings from third parties at 31 March 2016 are secured by export sales and property, plant and equipment.

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

Note 17. Other taxes payable

	31 March 2016	31 December 2015
Mineral extraction tax	28,212	24,566
VAT	22,676	21,532
Excise tax	16,823	15,553
Property tax	5,910	4,583
Other taxes	6,640	7,043
Total other taxes payable	80,261	73,277

Note 18. Other current liabilities

	31 March 2016	31 December 2015
Advances received	48,407	79,424
Dividends payable	320	47,615
Other	2,503	2,814
Total other current liabilities	51,230	129,853

Note 19. Provisions

	Asset retirement obligation	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 March 2016	32,251	27,555	5,110	7,745	5,093	5,332	83,086
Incl.: Non-current	31,710	10,289	3,088	6,234	89	1,474	52,884
Current	541	17,266	2,022	1,511	5,004	3,858	30,202
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

Assets retirement obligation:

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
1 January	32,919	19,604
Provisions made during the period	462	161
Reversal of provisions	(31)	(125)
Provisions used during the period	(12)	(23)
Accretion expense	369	312
Changes in estimates	(24)	(379)
Foreign currency translation differences	(1,253)	394
Other	(179)	64
31 March	32,251	20,008

Note 20. Equity

Common shares

	31 March 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

Note 20. Equity (continued)

Earnings per share

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

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Profit for the period attributable to PJSC LUKOIL shareholders	42,825	104,031
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	-	1,021
Total diluted profit for the period attributable to PJSC LUKOIL shareholders	42,825	105,052
Weighted average number of outstanding common shares (thousands of shares)	712,933	754,866
Equity-linked notes	-	(41,933)
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)	-	21,617
Weighted average number of common shares, assuming dilution (thousands of shares)	712,933	734,550
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (RUB):		
Basic	60.07	145.92
Diluted	60.07	143.02

Note 21. Personnel expenses

Personnel expenses were as follows.

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Salary	34,715	28,864
Statutory insurance contributions	7,600	6,819
Share-based payments	3,944	4,142
Total personnel expenses	46,259	39,825

Note 22. Finance income and costs

Finance income was as follows.

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Interest income from deposits	1,495	2,420
Interest income from loans	1,878	1,552
Other finance income	458	559
Total finance income	3,831	4,531

Finance costs were as follows.

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Interest expenses	9,925	10,991
Accretion expenses	373	319
Other finance costs	73	150
Total finance costs	10,371	11,460

Note 23. Other income and expenses

Other income was as follows.

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Gain on disposal of assets	740	989
Changes in estimates of asset retirement obligation	20	102
Reversal of impairment of assets	-	293
Other income	3,840	2,783
Total other income	4,600	4,167

Other expenses were as follows.

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Loss on disposal of assets	2,345	1,439
Impairment loss	108	4,981
Charity expenses	2,417	1,406
Other expenses	3,073	2,113
Total other expenses	7,943	9,939

Note 24. Operating lease

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

	31 March 2016	31 December 2015
Less than a year	28,338	35,858
1-5 years	51,162	46,589
More than 5 years	79,760	80,924
Total	159,260	163,371

Note 25. Commitments and contingencies

Capital commitments

At 31 March 2016, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 529,396 million RUR.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterised 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.

Note 25. Commitments and contingencies (continued)

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

Litigation and claims

On 27 November 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against AO Arkhangelskgeoldobycha (“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 (81.1 billion RUB) and punitive damages of \$3.6 billion (243.4 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’s Petition for rehearing and for “rehearing en banc”. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group’s financial position.

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 (148.7 billion RUB) to \$1.5 billion (101.4 billion RUB).

Note 25. Commitments and contingencies (continued)

This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor's Office. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, 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. First hearing on the merits will take place on 30 May 2016. Moreover, on 10 May 2016 the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. In the meantime, 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 and calculation of the "fairness index" in accordance with the Final Production Sharing Agreement in respect of the Karachaganak field in Kazakhstan. An estimated total of claims filed by the Republic of Kazakhstan is about \$1.8 billion (120.8 billion RUB), a share of LUKOIL Overseas Karachaganak B.V. is about \$243 million (16.4 billion RUB). At the moment the parties are negotiating a settlement of this dispute. Management does not believe that the ultimate resolution 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

Political and economic situation in Ukraine remained unstable during 2015-2016. Though the Group's assets and operations in Ukraine are not material, the Group monitors the situation and assesses the risks associated with its operations in Ukraine.

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a number of sectorial sanctions on Russian entities, including the Company. These sanctions prohibit the US and the EU companies and individuals from the provision of goods, services (except for financial services to the Company) or technology that can be used on the territory of the Russian Federation in exploration and production of crude oil in deepwater, Arctic offshore and shale projects. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

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

Note 26. 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. Related party processing services were provided by affiliated refinery.

Note 26. Related party transactions (continued)

Outstanding balances with related parties:

	31 March 2016	31 December 2015
Accounts receivable	9,859	10,925
Other financial assets	104,500	98,538
Total assets	114,359	109,463
Accounts payable	5,480	8,458
Loans and borrowings	5,533	5,747
Total liabilities	11,013	14,205

Related party transactions were as follows:

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Sales of oil and oil products	4,381	7,583
Other sales	394	359
Purchases of oil and oil products	13,145	17,178
Other purchases	2,224	2,043
Loans given	8,424	519
Loans received	690	2,796

Note 27. 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 14,520 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 9.48% per annum, an expected dividend yield of 7.16% per annum, an expected time to maturity of two years and a volatility factor of 14.99%. 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 ten years from 2006 till 2015.

Related to this share plan the Group recognised 3,944 million RUB and 4,142 million RUB of compensation expense during the three months ended 31 March 2016 and 2015, respectively. At 31 March 2016 and 31 December 2015, amounts of 13,642 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 March 2016, there was 5,082 million RUB of total unrecognised compensation cost related to unvested benefits. This cost is expected to be recognised periodically by the Group up to December 2017.

Note 28. 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.

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

Note 28. Segment information (continued)

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

EBITDA is a supplemental non-IFRS financial measure used by management to evaluate segments performance. EBITDA is defined as profit before interest, income taxes, depreciation and amortisation.

Operating segments

For the three months ended 31 March 2016

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

For the three months ended 31 March 2015

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	61,811	1,372,157	6,337	-	1,440,305
Inter-segment	423,527	14,560	11,842	(449,929)	-
Total revenues	485,338	1,386,717	18,179	(449,929)	1,440,305
Operating expenses	63,462	42,828	5,384	(5,993)	105,681
Selling, general and administrative expenses	10,247	30,489	9,988	(9,539)	41,185
Profit for the period	74,442	40,157	1,010	(11,578)	104,031
EBITDA	153,439	70,813	2,688	(12,644)	214,296
Income tax expense					(24,873)
Finance income					4,531
Finance costs					(11,460)
Depreciation, depletion and amortisation					(78,463)
Profit for the period attributable to PJSC LUKOIL shareholders					104,031

Note 28. Segment information (continued)

Geographical segments

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Sales of crude oil within Russia	21,340	37,373
Export of crude oil and sales of crude oil by foreign subsidiaries	292,548	380,237
Sales of petroleum products within Russia	130,176	130,979
Export of petroleum products and sales of petroleum products by foreign subsidiaries	624,887	802,786
Sales of chemicals within Russia	9,179	3,098
Export of chemicals and sales of chemicals by foreign subsidiaries	10,158	8,214
Sales of gas and gas products within Russia	9,238	9,298
Export of gas products and sales of gas and gas products by foreign subsidiaries	24,408	27,672
Sales of energy and related services within Russia	19,036	17,897
Sales of energy and related services by foreign subsidiaries	3,728	2,490
Other sales within Russia	10,219	8,831
Other export sales and other sales of foreign subsidiaries	22,757	11,430
Total sales	1,177,674	1,440,305

For the three months ended 31 March 2016

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

For the three months ended 31 March 2015

	Russian Federation	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	214,572	1,225,733	-	1,440,305
Inter-segment	328,313	1,283	(329,596)	-
Total revenues	542,885	1,227,016	(329,596)	1,440,305
Operating expenses	69,168	32,661	3,852	105,681
Selling, general and administrative expenses	21,988	20,325	(1,128)	41,185
Profit for the period	111,825	4,192	(11,986)	104,031
EBITDA	178,128	50,873	(14,705)	214,296

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

	For the three months ended 31 March 2016	For the three months ended 31 March 2015
Sales revenues		
in Switzerland	507,066	685,261
in the USA	82,528	82,104

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

Note 29. Fair value

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

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

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

Level 3: unobservable inputs.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 March 2016 and 31 December 2015:

31 March 2016	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts Available for sale	34,250	-	34,250	-	34,250
securities	3,764	-	-	3,764	3,764
Financial liabilities:					
Commodity derivative contracts	16,267	-	16,267	-	16,267
Loans and borrowings	840,797	385,699	-	460,453	846,152

31 December 2015	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts Available for sale	41,648	-	41,648	-	41,648
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 periods, repayment schedules and similar other main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 March 2016 and 31 December 2015.