PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

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

The Shareholders and Board of Directors

PJSC LUKOIL

We have audited the accompanying consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015 and 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used

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.

and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for 2015 and 2014 in accordance with International Financial Reporting Standards.

Oussov A.I.

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

JSC "KPMG"

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG МОСКВА

April 4, 2016

Moscow, Russian Federation

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

	Note	31 December 2015	31 December 2014	1 January 2014
Assets				
Current assets				
Cash and cash equivalents	6	257,263	169,023	43,092
Accounts receivable, net	7	440,489	471,811	205,500
Other current financial assets		23,768	10,700	11,592
Inventories	8	340,196	340,693	281,284
Income tax prepaid		7,413	11,367	22,182
Other taxes receivable	9	81,692	115,930	124,102
Other current assets	10	62,826	50,470	41,901
Assets held for sale	15	-	66,233	-
Total current assets		**1,213,647**	**1,236,227**	**729,653**
Property, plant and equipment	12	3,411,153	3,153,579	2,683,758
Investments in associates and joint ventures	11	181,744	145,404	114,799
Other non-current financial assets	13	102,067	94,037	52,451
Deferred income tax assets	27	28,735	22,111	15,473
Goodwill and other intangible assets	14	51,749	56,386	47,846
Other non-current assets		31,512	31,209	39,035
Total non-current assets		**3,806,960**	**3,502,726**	**2,953,362**
Total assets		**5,020,607**	**4,738,953**	**3,683,015**
Liabilities and equity				
Current liabilities				
Accounts payable	16	394,339	398,996	238,224
Short-term borrowings and current portion of long-term debt	17	60,506	121,271	42,905
Income tax payable		11,640	7,486	1,334
Other taxes payable	19	73,277	75,588	77,832
Provisions	21, 22	25,553	21,007	21,560
Other current liabilities	20	129,853	154,555	30,278
Liabilities related to assets held for sale	15	-	543	-
Total current liabilities		**695,168**	**779,446**	**412,133**
Long-term debt	18	799,207	634,847	306,273
Deferred income tax liabilities	27	234,107	227,071	227,330
Provisions	21, 22	51,115	34,419	79,241
Other non-current liabilities		9,636	13,628	2,336
Total non-current liabilities		**1,094,065**	**909,965**	**615,180**
Total liabilities		**1,789,233**	**1,689,411**	**1,027,313**
Equity	23			
Share capital		1,151	1,151	1,151
Treasury shares		(241,615)	(158,615)	(158,615)
Equity-linked notes		-	(83,000)	(83,000)
Additional paid-in capital		129,403	128,846	130,599
Other reserves		104,150	93,454	460
Retained earnings		3,229,379	3,055,542	2,750,601
Total equity attributable to PJSC LUKOIL shareholders		**3,222,468**	**3,037,378**	**2,641,196**
Non-controlling interests		8,906	12,164	14,506
Total equity		**3,231,374**	**3,049,542**	**2,655,702**
Total liabilities and equity		**5,020,607**	**4,738,953**	**3,683,015**

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	2015	2014
Revenues			
Sales (including excise and export tariffs)	32	5,749,050	5,504,856
Costs and other deductions			
Operating expenses		(446,719)	(368,505)
Cost of purchased crude oil, gas and products		(2,891,674)	(2,781,856)
Transportation expenses		(297,977)	(215,198)
Selling, general and administrative expenses		(168,669)	(146,550)
Depreciation, depletion and amortisation		(350,976)	(293,052)
Taxes other than income taxes		(522,620)	(467,732)
Excise and export tariffs		(575,509)	(807,401)
Exploration expenses		(29,177)	(12,228)
Profit from operating activities		**465,729**	**412,334**
Finance income	25	17,763	10,999
Finance costs	25	(48,224)	(29,727)
Equity share in income of affiliates	11	7,047	19,888
Foreign exchange gain		110,912	167,235
Other expenses	26	(164,123)	(95,874)
Profit before income taxes		**389,104**	**484,855**
Current income taxes		(100,335)	(103,303)
Deferred income taxes		3,976	12,524
Total income tax expense	27	**(96,359)**	**(90,779)**
Profit for the year		**292,745**	**394,076**
(Profit) loss for the year attributable to non-controlling interests		(1,610)	1,449
Profit for the year attributable to PJSC LUKOIL shareholders		**291,135**	**395,525**
Other comprehensive income (loss), net of income taxes			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		12,345	92,770
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability/asset of pension plan	22	(1,650)	239
Other comprehensive income		**10,695**	**93,009**
Total comprehensive income for the year		**303,440**	**487,085**
Total comprehensive (income) loss for the year attributable to non-controlling interests		(1,609)	1,434
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		**301,831**	**488,519**
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):			
Basic	23	408.36	554.79
Diluted	23	405.15	541.90

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

(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
1 January 2014	1,151	(158,615)	(83,000)	130,599	460	2,750,601	**2,641,196**	14,506	**2,655,702**
Profit for the year	-	-	-	-	-	395,525	**395,525**	(1,449)	**394,076**
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	92,755	-	**92,755**	15	**92,770**
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	239	-	**239**	-	**239**
Total comprehensive income					**92,994**	**395,525**	**488,519**	**(1,434)**	**487,085**
Dividends on common shares	-	-	-	-	-	(90,584)	**(90,584)**	-	**(90,584)**
Changes in non-controlling interests	-	-	-	(1,753)	-	-	**(1,753)**	(908)	**(2,661)**
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**

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

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

	Note	2015	2014
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		**291,135**	**395,525**
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		350,976	293,052
Equity share in income of affiliates, net of dividends received		2,680	(6,940)
Dry hole write-offs		25,447	10,055
Loss on disposals and impairments of assets		167,295	91,341
Income tax expense		96,359	90,779
Non-cash foreign exchange gain		(122,955)	(157,684)
Non-cash investing activities		(334)	(1,534)
Finance income		(17,763)	(10,999)
Finance costs		48,224	29,727
Bad debt allowance		4,045	3,977
All other items – net		3,808	5,157
Changes in operating assets and liabilities:			
Trade accounts receivable		112,351	(112,526)
Inventories		78,622	59,832
Accounts payable		(87,621)	(35,822)
Other taxes		30,461	4,310
Other current assets and liabilities		(65,004)	57,665
Income tax paid		(92,377)	(85,851)
Dividends received		9,443	12,848
Interests received		14,180	8,504
Net cash provided by operating activities		**848,972**	**651,416**
Cash flows from investing activities			
Acquisition of licenses		(686)	(3,535)
Capital expenditures		(600,639)	(575,981)
Proceeds from sale of property, plant and equipment		1,898	2,505
Purchases of financial assets		(21,203)	(14,203)
Proceeds from sale of financial assets		19,837	6,256
Sale of subsidiaries, net of cash disposed		3,804	6,043
Sale of equity method affiliates		79,328	8
Acquisitions of subsidiaries, net of cash acquired		(1,501)	11,246
Acquisitions of equity method affiliates		(6,560)	(10,713)
Net cash used in investing activities		**(525,722)**	**(578,374)**
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		76,078	173,641
Principal repayments of short-term borrowings		(76,673)	(163,790)
Proceeds from issuance of long-term debt		104,433	160,325
Principal repayments of long-term debt		(198,157)	(63,396)
Interests paid		(41,359)	(22,880)
Dividends paid on Company common shares		(111,858)	(49,651)
Dividends paid to non-controlling interest shareholders		(3,248)	(3,076)
Financing received from non-controlling interest shareholders		105	94
Sale of non-controlling interests		2,568	-
Purchases of non-controlling interest		(4,952)	(1,124)
Net cash (used in) provided by financing activities		**(253,063)**	**30,143**
Effect of exchange rate changes on cash and cash equivalents		18,053	22,826
Change in cash related to assets held for sale	15	-	(80)
Net increase in cash and cash equivalents		**88,240**	**125,931**
Cash and cash equivalents at beginning of year		169,023	43,092
Cash and cash equivalents at end of year	6	**257,263**	**169,023**

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 are the Group's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied.

The date of transition to IFRS is 1 January 2014. All the data relevant to the transition from accounting principles generally accepted in the United States of America ("US GAAP") to IFRS is described in Note 34 "First-time adoption of 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 4 April 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").

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.

Note 2. Basis of preparation (continued)

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 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;

(Millions of Russian rubles, unless otherwise noted)

Note 4. Use of estimates and judgments (continued)

- 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.

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 2015, 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 operations. The Group plans to adopt these pronouncements when they become effective.

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.

IFRS 15 *Revenue from Contracts with Customers* 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.

IFRS 16 *Leases* 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.

Note 6. Cash and cash equivalents

	31 December 2015	31 December 2014	1 January 2014
Cash held in RUB	98,253	55,453	8,494
Cash held in US dollars	141,863	75,572	23,709
Cash held in other currencies	17,147	18,774	7,889
Cash held in related party banks in RUB	-	17,871	2,562
Cash held in related party banks in other currencies	-	1,353	438
Total cash and cash equivalents	**257,263**	**169,023**	**43,092**

(Millions of Russian rubles, unless otherwise noted)

Note 7. Accounts receivable, net

	31 December 2015	31 December 2014	1 January 2014
Trade accounts receivable (net of allowances of 17,322 million RUB, 12,507 million RUB and 7,146 million RUB at 31 December 2015, 31 December and 1 January 2014, respectively)	375,531	390,732	194,535
Other current accounts receivable (net of allowances of 1,599 million RUB, 1,998 million RUB and 1,704 million RUB at 31 December 2015, 31 December and 1 January 2014, respectively)	64,958	81,079	10,965
Total accounts receivable, net	**440,489**	**471,811**	**205,500**

Note 8. Inventories

	31 December 2015	31 December 2014	1 January 2014
Crude oil and petroleum products	275,941	290,196	240,615
Materials for extraction and drilling	21,345	17,359	10,175
Materials and supplies for refining	3,732	2,116	3,615
Other goods, materials and supplies	39,178	31,022	26,879
Total inventories	**340,196**	**340,693**	**281,284**

Note 9. Other taxes receivable

	31 December 2015	31 December 2014	1 January 2014
VAT and excise tax recoverable	39,171	44,005	49,950
Export duties prepaid	21,824	46,736	50,592
Other taxes prepaid	20,697	25,189	23,560
Total other taxes receivable	**81,692**	**115,930**	**124,102**

Note 10. Other current assets

	31 December 2015	31 December 2014	1 January 2014
Advance payments	16,341	15,902	13,940
Prepaid expenses	31,960	25,357	19,368
Other assets	14,525	9,211	8,593
Total other current assets	**62,826**	**50,470**	**41,901**

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 2015**	**31 December 2014**	**1 January 2014**	**31 December 2015**	**31 December 2014**	**1 January 2014**
Joint Ventures:							
Tengizchevroil (TCO)	Kazakhstan	5%	5%	5%	99,843	75,904	40,250
Caspian Investments Resourses (CIRL)	Kazakhstan	-	-	50%	-	-	36,914
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	12.5%	27,574	18,229	9,695
Turgai Petroleum	Kazakhstan	50%	50%	50%	1,675	9,432	5,191
Shah Deniz Midstream	Azerbaijan	10%	10%	10%	22,284	10,660	3,468
Associates:							
Other associates					30,368	31,179	19,281
Total					**181,744**	**145,404**	**114,799**

(Millions of Russian rubles, unless otherwise noted)

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

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 2015	TCO	CPC	Turgai Petroleum	Shah Deniz Midstream	Other 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**

31 December 2014	TCO	CPC	Turgai Petroleum	Shah Deniz Midstream	Other associates	Total
Current assets	194,065	77,730	13,983	8,791	43,510	**338,079**
Non-current assets	727,814	402,306	23,167	128,976	150,539	**1,432,802**
Current liabilities	86,065	33,321	12,522	22,100	29,615	**183,623**
Non-current liabilities	84,515	388,522	5,763	9,062	89,549	**577,411**
Net assets (100%)	751,299	58,193	18,865	106,605	74,885	**1,009,847**
Share in net assets	75,904	18,229	9,432	10,660	31,179	**145,404**

1 January 2014	TCO	CIRL	CPC	Turgai Petroleum	Shah Deniz Midstream	Other associates	Total
Current assets	118,699	38,956	37,061	9,830	3,125	41,108	**248,779**
Non-current assets	345,693	60,523	215,428	16,428	46,281	107,412	**791,765**
Current liabilities	98,714	10,857	19,112	8,505	14,366	27,963	**179,517**
Non-current liabilities	32,073	14,795	210,962	7,371	9,790	58,348	**333,339**
Net assets (100%)	333,605	73,827	22,415	10,382	25,250	62,209	**527,688**
Share in net assets	40,250	36,914	9,695	5,191	3,468	19,281	**114,799**

2015	TCO	CPC	Turgai Petroleum	Shah Deniz Midstream	Other 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**

2014	TCO	CIRL	CPC	Turgai Petroleum	Shah Deniz Midstream	Other associates	Total
Revenues	876,516	49,858	48,814	23,049	11,376	62,897	**1,072,510**
Net income (loss), (100%)	292,235	(228)	13,429	4,730	5,428	5,276	**320,870**
Share in net income (loss)	13,126	(114)	1,068	2,365	543	2,900	**19,888**

(Millions of Russian rubles, unless otherwise noted)

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
1 January 2014	1,914,364	731,770	83,014	**2,729,148**
Additions	464,514	154,736	6,531	**625,781**
Acquisitions through business combinations	196	1,353	-	**1,549**
Capitalised borrowing costs	406	639	-	**1,045**
Transfer to assets held for sale	-	(3,869)	-	**(3,869)**
Disposals	(31,270)	(16,001)	(1,245)	**(48,516)**
Changes in estimates of asset retirement obligations	(46,736)	-	-	**(46,736)**
Effect of movements in exchange rates	285,069	131,923	4,845	**421,837**
Other	(30,370)	29,546	2,247	**1,423**
31 December 2014	**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 asset retirement obligations	6,129	-	-	**6,129**
Effect of movements in exchange rates	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 2014	(50,969)	(52,593)	(5,321)	**(108,883)**
Depreciation for the year	(239,611)	(50,040)	(4,918)	**(294,569)**
Impairment loss	(57,765)	(17,023)	-	**(74,788)**
Disposals	749	5,178	227	**6,154**
Effect of movements in exchange rates	(98,344)	(32,071)	(1,252)	**(131,667)**
Other	1,812	3,836	2,739	**8,387**
31 December 2014	**(444,128)**	**(142,713)**	**(8,525)**	**(595,366)**
Depreciation for the year	(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**
Effect of movements in exchange rates	(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)**
Advance payments for property, plant and equipment				
1 January 2014	48,545	14,021	927	**63,493**
31 December 2014	58,558	8,258	467	**67,283**
31 December 2015	**94,619**	**1,280**	**138**	**96,037**
Carrying amounts				
1 January 2014	1,911,940	693,198	78,620	**2,683,758**
31 December 2014	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 676,908 million RUB, 825,782 million RUB and 538,086 million RUB at 31 December 2015, 31 December and 1 January 2014, respectively.

As a first-time adopter of IFRS, the Company used a voluntary exemption provided by IFRS 1 and used fair value as the deemed cost of property, plant and equipment. The Company commissioned ZAO Deloitte&Touche CIS to independently appraise the fair value of property, plant and equipment of the most significant subsidiaries at 1 January 2014 (see Note 34 “First-time adoption of IFRS”). All other items of property, plant and equipment have been recorded at historic cost.

(Millions of Russian rubles, unless otherwise noted)

Note 12. Property, plant and equipment (continued)

Exploration and evaluation assets

	2015	2014
1 January	46,906	37,884
Capitalised expenditures	82,779	25,585
Acquisitions through business combinations	4	-
Reclassified to development assets	13,052	(10,870)
Charged to expenses	(96,991)	(3,906)
Effect of movements in exchange rates	6,258	-
Other movements	294	(1,787)
31 December	**52,302**	**46,906**

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 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, for its refining, marketing and distribution assets in Russia in the amount of 18,142 million RUB and for its international refining, marketing and distribution assets in the amount of 17,145 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%.

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.

As a result of the test, during 2014, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 37,858 million RUB, for its international exploration and production assets in the amount of 19,907 million RUB and for its refining, marketing and distribution assets in the amount of 17,023 million RUB.

The recoverable amount of CGUs subject to impairment in 2014 in the amount of 26,406 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 – 10% discount rate, for refining, marketing and distribution assets – from 15% to 28%.

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

Note 13. Other non-current financial assets

	31 December 2015	31 December 2014	1 January 2014
Long-term loans	89,770	84,712	46,324
including loans to associates	89,407	84,024	44,809
Non-current accounts and notes receivable	8,148	7,185	5,946
Other non-current financial assets	4,149	2,140	181
Total other non-current financial assets	**102,067**	**94,037**	**52,451**

(Millions of Russian rubles, unless otherwise noted)

Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
1 January 2014	14,328	1,306	34,302	24,902	**74,838**
Additions as a result of internal developments	703	392	-	-	**1,095**
Additions – separately acquired	-	-	3,748	566	**4,314**
Disposals	(822)	(53)	(1,142)	-	**(2,017)**
Foreign currency translation differences	2	-	11,032	7,439	**18,473**
Other	12	(510)	(2,489)	(847)	**(3,834)**
31 December 2014	**14,223**	**1,135**	**45,451**	**32,060**	**92,869**
Additions as a result of internal developments	622	457	-	-	**1,079**
Acquisitions through business combinations	-	-	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 2014	(7,607)	-	(19,390)	-	**(26,997)**
Amortisation for the year	(1,314)	(76)	(4,056)	-	**(5,446)**
Impairment loss	-	-	-	(550)	**(550)**
Disposals	92	-	686	-	**778**
Foreign currency translation differences	(2)	-	(5,510)	-	**(5,512)**
Other	(12)	(8)	1,264	-	**1,244**
31 December 2014	**(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 2014	-	-	5	-	**5**
31 December 2014	-	-	-	-	**-**
31 December 2015	**-**	**-**	**38**	**-**	**38**
Carrying amount					
1 January 2014	6,721	1,306	14,917	24,902	**47,846**
31 December 2014	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 and 2014 in the amount of 10,281 million RUB and 550 million RUB, respectively, relate to goodwill in the international refining, marketing and distribution segment.

(Millions of Russian rubles, unless otherwise noted)

Note 15. Assets held for sale

On 15 April 2014, a Group company entered into a contract with a Sinopec group company, to sell the Group's 50% interest in Caspian Investment Resources Ltd., an exploration and production company operating in Kazakhstan. On 3 June 2015, a Group company made a substitute transaction with a Sinopec group company for the sale at a price of $1,067 million (77.8 billion RUB). The transaction's closing was subject to requisite governmental consents and approvals and was completed on 20 August 2015. During 2015, the Group recognised an impairment loss related to these assets in the amount of 4,975 million RUB that is included in "Other expenses" in the Consolidated statement of profit or loss or other comprehensive income.

Note 16. Accounts payable

	31 December 2015	31 December 2014	1 January 2014
Trade accounts payable	339,091	361,164	208,294
Other accounts payable	55,248	37,832	29,930
Total accounts payable	**394,339**	**398,996**	**238,224**

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

	31 December 2015	31 December 2014	1 January 2014
Short-term borrowings from third parties	33,611	18,226	4,049
Short-term borrowings from related parties	5,609	4,730	1,054
Current portion of long-term debt	21,286	98,315	37,802
Total short-term borrowings and current portion of long-term debt	**60,506**	**121,271**	**42,905**

Short-term borrowings from third parties include amounts repayable in US dollars of 22,951 million RUB, 12,998 million RUB and 2,156 million RUB and amounts repayable in other currencies of 10,660 million RUB, 5,228 million RUB and 1,893 million RUB at 31 December 2015, 31 December and 1 January 2014, respectively. The weighted-average interest rate on short-term borrowings from third parties was 5.43%, 4.44% and 4.71% per annum at 31 December 2015, 31 December and 1 January 2014, respectively. Approximately 68% of total short-term borrowings from third parties at 31 December 2015 are secured by inventories.

Note 18. Long-term debt

	31 December 2015	31 December 2014	1 January 2014
Long-term loans and borrowings from third parties	408,781	330,198	82,731
Long-term borrowings from related parties	138	21	-
6.375% non-convertible US dollar bonds, maturing 2014	-	-	29,430
2.625% convertible US dollar bonds, maturing 2015	-	83,720	47,839
6.356% non-convertible US dollar bonds, maturing 2017	36,441	28,129	16,365
3.416% non-convertible US dollar bonds, maturing 2018	108,983	84,030	48,797
7.250% non-convertible US dollar bonds, maturing 2019	43,583	33,612	19,537
6.125% non-convertible US dollar bonds, maturing 2020	72,778	56,165	32,667
6.656% non-convertible US dollar bonds, maturing 2022	36,441	28,129	16,365
4.563% non-convertible US dollar bonds, maturing 2023	108,983	84,030	48,797
Finance lease obligations	4,365	5,128	1,547
Total long-term debt	820,493	733,162	344,075
Current portion of long-term debt	(21,286)	(98,315)	(37,802)
Total non-current portion of long-term debt	**799,207**	**634,847**	**306,273**

Note 18. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 336,842 million RUB, 231,804 million RUB and 66,140 million RUB, amounts repayable in euros of 70,447 million RUB, 34,503 million RUB and 15,937 million RUB, and amounts repayable in other currencies of 1,492 million RUB, 63,891 million RUB and 654 million RUB at 31 December 2015, 31 December and 1 January 2014, respectively. This debt has maturity dates from 2016 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 3.77%, 4.66% and 2.94% per annum at 31 December 2015, 31 December and 1 January 2014, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 16% of total long-term loans and borrowings from third parties at 31 December 2015 are secured by export sales and property, plant and equipment.

US dollar convertible bonds

In December 2010, a Group company issued unsecured convertible bonds totaling $1.5 billion (109.3 billion RUB) with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds were convertible into LUKOIL ADRs (each representing one ordinary share of the Company). In June 2015, a Group company redeemed all issued bonds in accordance with the conditions of the bond issue.

US dollar non-convertible bonds

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion (218.6 billion RUB). The first tranche totaling $1.5 billion (109.3 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 (109.3 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 (72.8 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling $800 million (58.3 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 (14.5 billion RUB) was placed at a price of 102.44% of the bond’s face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion (109.3 billion RUB). The first tranche totaling $900 million (65.6 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 (43.7 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 (72.8 billion RUB). $500 million (36.4 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million (36.4 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.

(Millions of Russian rubles, unless otherwise noted)

Note 19. Other taxes payable

	31 December 2015	31 December 2014	1 January 2014
Mineral extraction tax	24,566	29,221	33,651
VAT	21,532	17,682	22,123
Excise taxes	15,553	14,395	12,275
Property tax	4,583	3,958	3,987
Export duties	8	4,109	1,276
Other taxes	7,035	6,223	4,520
Total other taxes payable	**73,277**	**75,588**	**77,832**

Note 20. Other current liabilities

	31 December 2015	31 December 2014	1 January 2014
Advances received	79,424	110,677	28,603
Dividends payable	47,615	41,770	1,000
Other	2,814	2,108	675
Total other current liabilities	**129,853**	**154,555**	**30,278**

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
1 January 2014	67,351	12,529	3,949	7,064	2,952	6,956	**100,801**
Incl.: Non-current	67,152	1,506	2,531	6,361	38	1,653	**79,241**
Current	199	11,023	1,418	703	2,914	5,303	**21,560**
31 December 2014	19,604	12,876	5,457	6,451	3,434	7,604	**55,426**
Incl.: Non-current	19,274	5,103	3,408	4,765	44	1,825	**34,419**
Current	330	7,773	2,049	1,686	3,390	5,779	**21,007**
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**

Asset retirement obligations changed as follows during 2015 and 2014.

	2015	2014
1 January	19,604	67,351
Provisions made during the year	2,472	5,022
Reversal of provisions	(261)	(3,142)
Provisions used during the year	(87)	(262)
Accretion expense	1,543	4,845
Change in discount rate	4,153	(25,489)
Changes in estimates	1,431	(33,573)
Foreign currency translation differences	3,885	4,934
Other movements	179	(82)
31 December	**32,919**	**19,604**

(Millions of Russian rubles, unless otherwise noted)

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, OJSC "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 2015 and 2014.

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 2015 and 2014.

	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 (gains) losses – 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**

	Funded plans	Post-employment benefits	Other long-term benefits	Total
1 January 2014	5,300	5,977	131	11,408
Current service cost	292	356	10	658
Interest cost	464	460	10	934
Remeasurement (gains) losses:				
Remeasurement losses – experience	462	117	23	602
Remeasurement gains – changes in assumptions	(481)	(965)	(19)	(1,465)
Remeasurement losses – changes in foreign exchange rates	-	351	-	351
Past service cost	117	(76)	27	68
Benefits paid	(885)	(584)	(37)	(1,506)
Gains on curtailments	(16)	(60)	(8)	(84)
Other	573	(26)	4	551
31 December 2014	**5,826**	**5,550**	**141**	**11,517**

(Millions of Russian rubles, unless otherwise noted)

Note 22. Pension obligation (continued)

The following table sets out movement in the fair value of plan assets during 2015 and 2014.

	2015	2014
1 January	5,066	4,344
Interest income	589	316
Remeasurement losses	(325)	(37)
Contribution from employer	1,020	1,035
Benefits paid	(851)	(820)
Other	144	228
31 December	**5,643**	**5,066**

The following table sets out amounts recognised in profit or loss during 2015 and 2014.

	2015	2014
Service cost:		
Current service cost	673	658
Past service cost	229	68
Curtailment	(304)	(84)
Net interest expense	666	618
Other	(151)	16
Components of defined benefit costs recorded in profit and loss	**1,113**	**1,276**

The following table sets out amounts recognised in other comprehensive (income) loss during 2015 and 2014.

	2015	2014
The return on plan assets	325	72
Experience actuarial losses	386	579
Remeasurement losses (gains) – changes in assumpitons	1,040	(1,446)
Remeasurement losses – changes in foreign exchange rates	279	351
Components of defined benefit costs recorded in other comprehensive loss (income)	**2,030**	**(444)**

The following table sets out movement in the net liabilities during 2015 and 2014.

	2015	2014
1 January	6,451	7,064
Components of defined benefit costs recorded in profit or loss	1,113	1,276
Components of defined benefit costs recorded in other comrehensive loss (income)	2,030	(444)
Contributions from employer	(1,020)	(1,035)
Benefits paid	(656)	(686)
Other	(5)	276
31 December	**7,913**	**6,451**

The following table sets out movement in the other comprehensive (income) loss during 2015 and 2014.

	2015	2014
1 January	(903)	(459)
Change during the year	2,030	(444)
31 December	**1,127**	**(903)**

(Millions of Russian rubles, unless otherwise noted)

Note 22. Pension obligation (continued)

The following table sets out key actuarial assumptions used for valuation for 2015 and 2014.

	2015	**2014**
Nominal discount rate	9.8%	13.0%
Nominal inflation	5.8%	7.5%
Nominal increase in salaries	6.9%	9.7%
Rate used for annuity contracts calculation	6.0%	6.0%

Assumptions regarding the future mortality are set based on national mortality tables "Russia 2013" and "Russia 2010" for unfunded plans. For funded plans LUKOIL-GARANT annuity rates are used. These assumptions translated into an average life expectancy in years are as follows:

	2015		**2014**	
	Mortality table "Russia 2013"	**Mortality table used by LUKOIL-GARANT**	**Mortality table "Russia 2010"**	**Mortality table used by LUKOIL-GARANT**
Females at age 55	26.0	25.5	24.6	24.2
Males at age 60	16.4	15.9	14.9	14.6

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.

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	**2015**	**2014**
Russian corporate bonds	41.4%	65.9%
Eurobonds	-	6.6%
Shares of non-related entities to PJSC LUKOIL (Russian issuers)	26.9%	-
Bank deposits	7.4%	8.7%
Cash	12.4%	9.2%
Units in mutual funds	5.9%	7.6%
Other assets	6.0%	2.0%
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.

	2015		**2014**	
Change in obligation from base case	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate (change by 1% p.a compared to the base case)	(4.9%)	4.6%	(3.8%)	4.3%
Inflation rate (change by 1% p.a. compared to the base case)	3.5%	(3.9%)	2.2%	(2.0%)
Salary growth (change by 1% p.a. compared to the base case)	1.8%	(1.6%)	1.6%	(1.5%)
Population mortality (change by 10% compared to base case)	(0.8%)	0.8%	(0.8%)	0.8%
Staff turnover rates (change by 5% to retirement ages below 50)	(14.0%)	23.0%	(12.0%)	20.0%

Note 23. Equity

Common shares

	31 December 2015 (thousands of shares)	31 December 2014 (thousands of shares)	1 January 2014 (thousands of shares)
Authorised common shares, par value of 0.025 RUB each	850,563	850,563	850,563
Issued common shares, par value of 0.025 RUB each	850,563	850,563	850,563
Treasury shares	(137,630)	(95,697)	(95,697)
Outstanding common shares	**712,933**	**754,866**	**754,866**

Share capital and Additional paid-in capital have been adjusted for hyperinflation to state them in terms of the measuring unit at 31 December 2002. Adjustments for hyperinflation were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency. The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments have been made since that date.

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 16 December 2015, interim dividends for 2015 were declared in the amount of 65.00 RUB per common share.

Total dividends for 2014 were declared in the amount of 154.00 RUB per common share. Total dividends for 2013 were declared in the amount of 110.00 RUB per common share.

Dividends payable on the Company common shares in the amount of 46,609 million RUB, 41,212 million RUB and 331 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2015, 31 December and 1 January 2014, respectively.

Earnings per share

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

	2015	2014
Profit for the year attributable to PJSC LUKOIL	291,135	395,525
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	1,718	2,530
Total diluted profit for the year attributable to PJSC LUKOIL	292,853	398,055
Weighted average number of outstanding common shares (thousands of shares)	741,769	754,866
Equity-linked notes	(28,836)	(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)	9,890	21,617
Weighted average number of common shares, assuming dilution (thousands of shares)	722,823	734,550
Earnings per share of common stock attributable to PJSC LUKOIL (RUB):		
Basic	408.36	554.79
Diluted	405.15	541.90

(Millions of Russian rubles, unless otherwise noted)

Note 24. Personnel expenses

Personnel expenses were as follows:

	2015	2014
Salary	126,506	105,606
Statutory insurance contributions	26,994	21,968
Share-based payments	4,837	6,327
Total personnel expenses	**158,337**	**133,901**

Note 25. Finance income and costs

Finance income was as follows:

	2015	2014
Interest income from deposits	10,202	5,154
Interest income from loans	6,179	4,222
Gain on financial assets disposals	77	205
Other finance income	1,305	1,418
Total finance income	**17,763**	**10,999**

Finance costs were as follows:

	2015	2014
Interest expense	44,082	24,440
Accretion expense	1,583	4,845
Loss on financial assets disposals	982	442
Other finance costs	1,577	-
Total finance costs	**48,224**	**29,727**

Note 26. Other income and expenses

Other income was as follows:

	2015	2014
Changes in estimates of asset retirement obligations	546	10,088
Reversal on impairment of assets	1,292	291
Gain on disposal of assets	43,945	6,089
Other income	15,564	6,096
Total other income	**61,347**	**22,564**

Other expenses were as follows:

	2015	2014
Impairment loss	187,050	75,441
Loss on disposal of assets	24,051	22,278
Charity expenses	7,929	6,997
Other expenses	6,440	13,722
Total other expenses	**225,470**	**118,438**

Note 27. Income tax

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.

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.

(Millions of Russian rubles, unless otherwise noted)

Note 27. Income tax (continued)

Income tax was as follows:

	2015	2014
Current income tax expense for the year	101,106	105,478
Adjustment for prior periods	(771)	(2,175)
Current income taxes	**100,335**	**103,303**
Origination and reversal of temporary differences	(3,976)	2,395
Recognition of previously unrecognised tax gains	-	(14,919)
Deferred income tax	**(3,976)**	**(12,524)**
Total income tax expense	**96,359**	**90,779**

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.

	2015	2014
Profit before income taxes	389,104	484,855
Notional income tax at the Russian statutory rate	77,821	96,971
Increase (reduction) in income tax due to:		
Non-deductible items, net	19,155	7,641
Domestic and foreign rate differences	(4,929)	(10,600)
Change in recognised deductible temporary differences	4,312	(3,233)
Total income tax expense	**96,359**	**90,779**

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 2015	31 December 2014	1 January 2014
Property, plant and equipment	9,698	4,938	6,375
Inventories	4,232	3,367	4,539
Accounts receivable	922	823	622
Accounts payable and provisions	7,920	5,701	5,928
Operating loss carry forward	36,156	32,155	12,765
Other	1,870	1,497	619
Total deferred income tax assets	60,798	48,481	30,848
Set off of tax	(32,063)	(26,370)	(15,375)
Deferred income tax assets	**28,735**	**22,111**	**15,473**
Property, plant and equipment	(244,294)	(237,477)	(224,614)
Investments	(4,280)	(4,047)	(2,801)
Inventories	(6,200)	(3,506)	(3,804)
Accounts receivable	(6,422)	(4,961)	(7,865)
Accounts payable and provisions	(1,275)	(229)	(1,062)
Other	(3,699)	(3,221)	(2,559)
Total deferred income tax liabilities	(266,170)	(253,441)	(242,705)
Set off of tax	32,063	26,370	15,375
Deferred income tax liabilities	**(234,107)**	**(227,071)**	**(227,330)**
Net deferred income tax liabilities	**(205,372)**	**(204,960)**	**(211,857)**

(Millions of Russian rubles, unless otherwise noted)

Note 27. Income tax (continued)

	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)**

	1 January 2014	Recognition in profit or loss	Acquisitions and Disposal	Foreign currency translation differences and other	31 December 2014
Property, plant and equipment	(218,239)	(7,447)	(205)	(6,648)	(232,539)
Investments	(2,801)	(715)	-	(531)	(4,047)
Inventories	735	(1,022)	(9)	157	(139)
Accounts receivable	(7,243)	3,847	-	(742)	(4,138)
Accounts payable	4,866	401	13	192	5,472
Operating loss carry forward	12,765	16,919	(569)	3,040	32,155
Other	(1,940)	541	69	(394)	(1,724)
Net deferred income tax liabilities	**(211,857)**	**12,524**	**(701)**	**(4,926)**	**(204,960)**

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

	31 December 2015	31 December 2014	1 January 2014
Property, plant and equipment	4,480	4,760	4,859
Operating loss carry forward	19,895	15,290	18,452
Other	43	56	28
Total deferred tax assets	**24,418**	**20,106**	**23,339**

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 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**

(Millions of Russian rubles, unless otherwise noted)

Note 27. Income tax (continued)

Amounts recognised in other comprehensive income during 2014:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	92,770	-	92,770
Remeasurements of defined benefit liability (asset) of pension plan	444	(205)	239
Total	**93,214**	**(205)**	**93,009**

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 836,935 million RUB at 31 December 2015 and 1,647,738 million RUB at 31 December 2014. 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.

Note 28. Operating lease

At 31 December 2015, 31 December and 1 January 2014, 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 2015	31 December 2014	1 January 2014
Less than a year	35,858	16,126	17,025
1-5 years	46,589	28,181	16,144
More than 5 years	80,924	65,244	41,526
Total	**163,371**	**109,551**	**74,695**

Note 29. Commitments and contingencies

Capital commitments

At 31 December 2015, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 648,096 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.

Note 29. Commitments and contingencies (continued)

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. 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 OAO 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 (87.5 billion RUB) and punitive damages of $3.6 billion (262.4 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.

Note 29. Commitments and contingencies (continued)

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". The case is pending a decision. 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. The amount of the claim is not finalized. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L. 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 (160.3 billion RUB) to $1.5 billion (109.3 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor's Office. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal on 22 January 2016. The preliminary hearing on the new indictment act in the Prahova Tribunal was held on 25 March 2016. The Court decided to grant a new 5 days period of time for the Prosecutor to remediate the irregularities identified. 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. An estimated total of claims filed by the Republic of Kazakhstan is about $1.6 billion (116.6 billion RUB), a share of LUKOIL Overseas Karachaganak B.V. equals to $214 million (15.6 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

During 2014-2015, there was an increase of political and economic instability in Ukraine. 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. At 31 December 2014, the Group recognised an impairment loss related to assets held for sale amounting to 2.2 billion RUB and related to goodwill amounting to 550 million RUB. Management believes that there are no other potential material losses that can be identified and reasonably estimated with respect to the situation in Ukraine at present.

(Millions of Russian rubles, unless otherwise noted)

Note 29. Commitments and contingencies (continued)

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 or technology (except for financial services to the Company) 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 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. Related party processing services were provided by affiliated oil refinery.

Outstanding balances with related parties:

	31 December 2015	31 December 2014	1 January 2014
Accounts receivable	10,830	6,153	4,662
Other financial assets	91,250	88,620	55,536
Total assets	**102,080**	**94,773**	**60,198**
Accounts payable	8,458	9,012	4,714
Loans and borrowings	5,747	4,533	1,054
Total liabilities	**14,205**	**13,545**	**5,768**

Related party transactions were as follows:

	2015	2014
Sales of oil and oil products	30,880	14,502
Other sales	1,490	1,200
Purchases of oil and oil products	67,433	94,385
Other purchases	7,316	8,069
Loans given	7,139	11,639
Loans recieved	15,279	13,606

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 2,364 million RUB and 2,832 million RUB during 2015 and 2014, respectively. These amounts include expenses 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.

(Millions of Russian rubles, unless otherwise noted)

Note 31. Compensation plan (continued)

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 11,128 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 10.14% per annum, an expected dividend yield of 6.22% 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 4,837 million RUB and 6,327 million RUB of compensation expense during 2015 and 2014, respectively. At 31 December 2015, 31 December and 1 January 2014 amounts of 9,698 million RUB, 7,573 million RUB and 3,208 million RUB related to this plan are included in "Provisions" of the consolidated statement of financial position.

At 31 December 2015, there was 4,451 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 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.

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

Operating segments

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
EBITDA	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)

2014	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	212,078	5,272,084	20,694	-	5,504,856
Inter-segment	1,498,272	58,910	57,669	(1,614,851)	-
Total revenues	1,710,350	5,330,994	78,363	(1,614,851)	5,504,856
Operating expenses	217,448	178,748	27,749	(55,440)	368,505
Selling, general and administrative expenses	38,621	106,143	35,439	(33,653)	146,550
Profit for the year	173,888	90,174	74,877	56,586	395,525
EBITDA	466,473	178,240	98,630	54,741	798,084
Income tax expense					(90,779)
Finance income					10,999
Finance costs					(29,727)
Depreciation, depletion and amortisation					(293,052)
Profit for the year attributable to PJSC LUKOIL shareholders					395,525

Geographical segments

	2015	2014
Sales of crude oil within Russia	145,688	128,431
Export of crude oil and sales of crude oil by foreign subsidiaries	1,389,955	1,279,131
Sales of petroleum products within Russia	604,687	613,535
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,238,339	3,182,398
Sales of chemicals within Russia	28,248	10,346
Export of chemicals and sales of chemicals by foreign subsidiaries	34,490	32,231
Sales of gas and gas products within Russia	38,229	42,406
Export of gas products and sales of gas and gas products by foreign subsidiaries	100,097	83,025
Sales of energy and related services within Russia	58,237	54,922
Sales of energy and related services by foreign subsidiaries	12,516	7,583
Other sales within Russia	41,134	32,186
Other export sales and other sales of foreign subsidiaries	57,430	38,662
Total sales	**5,749,050**	**5,504,856**

2015	Russian Federation	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	299,514	131,659	15,546	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
EBITDA	650,450	132,346	(13,865)	768,931

(Millions of Russian rubles, unless otherwise noted)

Note 32. Segment information (continued)

2014	Russian Federation	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	913,144	4,591,712	-	5,504,856
Inter-segment	1,345,956	9,584	(1,355,540)	-
Total revenues	2,259,100	4,601,296	(1,355,540)	5,504,856
Operating expenses	259,786	100,709	8,010	368,505
Selling, general and administrative expenses	83,447	68,328	(5,225)	146,550
Profit (loss) for the year	388,318	(49,015)	56,222	395,525
EBITDA	617,773	120,694	59,617	798,084

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

	2015	2014
Sales revenues		
in Switzerland	2,604,891	2,633,373
in the USA	403,196	383,523

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

Note 33. Subsidiaries

Key subsidiaries

The most significant subsidiaries of the Group are presented below.

		31 December 2015		31 December 2014		1 January 2014	
Subsidiary	Country of incorporation	Total shares, %	Voting shares, %	Total shares, %	Voting shares, %	Total shares, %	Voting shares, %
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – West Siberia OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – Perm OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – Komi OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – Permnefteorgsintez OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – Nizhegorodnefteorgsintez OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – Nizhnevolzhskneft OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL – Volgogradneftepererabotka OOO	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
AO RITEK	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftochim Bourgas AD	Bulgaria	99.82%	99.82%	99.71%	99.71%	99.61%	99.61%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL Mid-East Limited	Cyprus	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Redomiciling to Cyprus	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Soyuzneftegaz Vostok Limited	Cyprus	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note 34. First-time adoption of IFRS

In preparing these consolidated financial statements the Group applied IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS effective at 1 January 2014.

The Group used the following exemptions:

1. Business combinations

The Group elected to apply IFRS 3 *Business Combinations* prospectively to business combinations occurring after its transition date. All business combinations, which occurred prior to the transition date, have not been restated. Classifications made in the consolidated financial statements under US GAAP have remained unchanged and the Group has recognised all the assets and liabilities at the date of transition that were acquired or accepted as a result of past business combinations.

2. Deemed cost

As deemed cost the Group used the fair value of property, plant and equipment and construction in progress. The Group commissioned an independent appraiser to evaluate the fair value of property, plant and equipment of major subsidiaries at 1 January 2014.

3. Asset retirement obligations

When accounting for asset retirement obligations, the Group applied an exemption by:

- Evaluating the obligation as at the transition date by independent appraiser in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* based on the new functional currency;
- Recognising the difference between the amount of the liability at the transition date and the amount determined under US GAAP in retained earnings.

The nature of all material adjustments made to the US GAAP consolidated balance sheet in connection with transition to IFRS is described below.

The US GAAP RUB amounts were derived from the US GAAP consolidated balance sheet at 31 December 2013 by translating the USD amounts at the exchange rate at that date.

Reconciliation of the consolidated statement of financial position at 1 January 2014 (date of transition to IFRS):

	US GAAP (mln RUB)	Fair value	Capitalised costs and new functional currency	Hyper-infla-tion	Deferred tax recalcula-tion	Changes in method of accounting of joint arrangements and impairment	Reclassi-fication	Other adjust-ments	IFRS (mln RUB)
Assets									
Current assets									
Cash and cash equivalents	56,024	-	-	-	-	(12,999)	(356)	423	43,092
Accounts receivable, net	259,960	-	-	-	-	(3,537)	(49,687)	(1,236)	205,500
Other current financial assets	11,889	-	-	-	-	-	-	(297)	11,592
Inventories	288,038	-	(3,514)	-	-	(633)	(2,575)	(32)	281,284
Income tax prepaid	-	-	-	-	-	-	23,528	(1,346)	22,182
Other taxes and duties receivable	-	-	-	-	-	-	124,102	-	124,102
Other current assets	149,770	-	-	-	-	(1,075)	(103,571)	(3,223)	41,901
Total current assets	**765,681**	**-**	**(3,514)**	**-**	**-**	**(18,244)**	**(8,559)**	**(5,711)**	**729,653**

Note 34. First-time adoption of IFRS (continued)

	US GAAP (mln RUB)	Fair value	Capitalised costs and new functional currency	Hyper-infla-tion	Deferred tax recalcula-tion	Changes in method of accounting of joint arrangements and impairment	Reclassi-fication	Other adjust-ments	IFRS (mln RUB)
Property, plant and equipment	2,568,126	131,998	9,375	-	-	(30,519)	2,575	2,203	2,683,758
Investments in associates and joint ventures	-	-	-	-	-	22,235	93,987	(1,423)	114,799
Other non-current financial assets	139,245	-	(5)	-	-	1,251	(87,957)	(83)	52,451
Deferred income tax assets	22,400	-	-	-	(12,385)	(17)	5,475	-	15,473
Goodwill and other intangible assets	42,553	-	602	-	-	4,994	-	(303)	47,846
Other non-current assets	43,821	-	2,855	-	-	(387)	(7,221)	(33)	39,035
Total non-current assets	**2,816,145**	**131,998**	**12,827**	**-**	**(12,385)**	**(2,443)**	**6,859**	**361**	**2,953,362**
Total assets	**3,581,826**	**131,998**	**9,313**	**-**	**(12,385)**	**(20,687)**	**(1,700)**	**(5,350)**	**3,683,015**
Liabilities and equity									
Current liabilities									
Accounts payable	240,061	-	-	-	-	(919)	-	(918)	238,224
Short-term borrowings and current portion of long-term debt	43,785	-	-	-	-	(449)	(153)	(278)	42,905
Income tax payable	-	-	-	-	-	-	1,334	-	1,334
Other taxes payable	81,850	-	-	-	-	(2,685)	(1,334)	1	77,832
Provisions	-	-	-	-	-	(592)	21,984	168	21,560
Other current liabilities	62,928	-	-	-	-	-	(32,612)	(38)	30,278
Total current liabilities	**428,624**	**-**	**-**	**-**	**-**	**(4,645)**	**(10,781)**	**(1,065)**	**412,133**
Long-term debt	310,361	-	-	-	-	(2,561)	(1,547)	20	306,273
Deferred income tax liabilities	154,604	-	-	-	64,203	(833)	10,628	(1,272)	227,330
Provisions	90,452	-	-		-	(1,289)	12,133	(22,055)	79,241
Other non-current liabilities	16,902	-	-	-	-	(218)	(12,133)	(2,215)	2,336
Total non-current liabilities	**572,319**	**-**	**-**	**-**	**64,203**	**(4,901)**	**9,081**	**(25,522)**	**615,180**
Total liabilities	**1,000,943**	**-**	**-**	**-**	**64,203**	**(9,546)**	**(1,700)**	**(26,587)**	**1,027,313**
Equity									
Share capital	492	-	-	659	-	-	-	-	1,151
Treasury shares	(169,832)	-	11,217	-	-	-	-	-	(158,615)
Equity-linked notes	(81,823)	-	(1,177)	-	-	-	-	-	(83,000)
Additional paid-in capital	149,714	-	-	(19,115)	-	-	-	-	130,599
Other reserves	(1,800)	-	-	-	-	-	-	2,260	460
Retained earnings	2,675,071	126,553	(727)	18,456	(76,588)	(11,141)	-	18,977	2,750,601
Equity attributable to PJSC LUKOIL shareholders	**2,571,822**	**126,553**	**9,313**	**-**	**(76,588)**	**(11,141)**	**-**	**21,237**	**2,641,196**
Non-controlling interests	9,061	5,445	-	-	-	-	-	-	14,506
Total equity	**2,580,883**	**131,998**	**9,313**	**-**	**(76,588)**	**(11,141)**	**-**	**21,237**	**2,655,702**
Total liabilities and equity	**3,581,826**	**131,998**	**9,313**	**-**	**(12,385)**	**(20,687)**	**(1,700)**	**(5,350)**	**3,683,015**

Note 34. First-time adoption of IFRS (continued)

Fair value

The Group made fair value adjustment of property, plant and equipment of major subsidiaries calculated by the independent appraiser at 1 January 2014. The fair value was estimated at 1,969 billion RUB and referred to Level 3 fair value measurements.

Most property, plant and equipment owned by the Group is specialised and typically can not be sold on an open market other than as part of an operating business. Except for the land and commercial property which were appraised based on recent market transactions, the market for similar assets is idle in Russia and simply lacks sufficient number of deals to form a reliable basis for the Market Approach. Consequently, the fair value of property, plant and equipment was primarily determined employing the depreciated replacement cost (“DRC”) technique. This method considers the cost to reproduce or replace the asset adjusted for physical and functional deterioration.

The DRC was estimated based on both internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published documents, catalogues, statistical data and industry experts, also Russian and foreign suppliers of similar assets were contacted.

Along with determination of the DRC the value of property, plant and equipment was tested for recoverability with cash flow projections. The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on historical data, actual operating results and the Group’s long-term business plan and the following macroeconomic assumptions: short-term oil price projections were based on 2014 futures’ prices; export duties for crude oil and refined products were based on effective tax legislation. The current tax regime stipulates a gradual reduction of export duty by 4% until 2017 with a consistent increase in mineral extraction tax by $66 per barrel. Price and tax projections assumed the current tax burden for the oil industry to be stable in the long run.
- Production output was projected based on existing business plans for the downstream segment and registered investment project plans for the upstream segment.
- Sales margins for the downstream segment were projected to fluctuate slightly based on certain business segment, its geographic location, global refining margin and domestic market premiums.
- Unit production costs and other costs were projected to follow investment project plans and inflation.
- A discount rate was applied subject to certain business segment and its geographic location as follows: upstream segment – 11.7%, refinery segment – 12.1-13.4%, petrochemical segment – 12.3%, distribution segment – 7.0-17.4%, Russian power generation segment – 10%. The discount rates were estimated based on an industry weighted average cost of capital, which, in its turn, relied upon possible respective range of debt burden and market interest rates.
- A terminal value for the downstream and power generation segments was derived at the end of a 10-year interim period.

Deferred tax recalculation

The Group recalculated deferred taxes as a result of adjustments made to the net book value of assets (mainly property, plant and equipment) and liabilities. In addition, under IFRS current deferred tax assets have been reclassified into non-current assets and current deferred tax liabilities into non-current liabilities.

Changes in accounting of joint arrangements and impairment

The Group analysed its participation in joint arrangements and determined the list of jointly controlled operations and joint ventures to be accounted for in accordance with IFRS. The share in the jointly controlled operations is recognised using the proportionate consolidation method based on the proportionate share of assets, liabilities, expenses and income from the joint operations. Interests in joint ventures are accounted for under the equity method.

An impairment loss on investments of 11,141 million RUB was recognised as a result of an impairment test applied on the date of transition to IFRS.

Note 34. First-time adoption of IFRS (continued)

Reclassifications

Certain reclassifications have been made due to differences in presentation of the consolidated statement of financial position in accordance with IFRS in comparison with US GAAP.

Reconciliation of the consolidated statement of financial position at 31 December 2014:

	US GAAP (mln RUB)	Fair value	Capitalised costs and new functional currency	Hyper-infla-tion	Deferred tax recalcula-tion	Changes in method of accounting of joint arrangements and impairment	Reclassi-fication	ARO adjust-ments	Other adjust-ments	IFRS (mln RUB)
Assets										
Current assets										
Cash and cash equivalents	169,000	-	-	-	-	-	-	-	23	169,023
Accounts receivable, net	518,309	-	1,899	-	-	(807)	(43,754)	-	(3,836)	471,811
Other current financial assets	13,164	-	-	-	-	(2,639)	-	-	175	10,700
Inventories	346,214	-	(1,270)	-	-	159	(2,529)	-	(1,881)	340,693
Income tax prepaid	-	-	-	-	-	-	11,491	-	(124)	11,367
Other taxes and duties receivable	-	-	-	-	-	163	125,114	-	(9,347)	115,930
Other current assets	150,435	-	-	-	-	402	(98,797)	-	(1,570)	50,470
Assets held for sale	83,262	-	(2,037)	-	-	(14,992)	-	-	-	66,233
Total current assets	**1,280,384**	**-**	**(1,408)**	**-**	**-**	**(17,714)**	**(8,475)**	**-**	**(16,560)**	**1,236,227**
Property, plant and equipment	4,583,203	117,935	(1,495,013)	-	-	10,519	2,529	(61,612)	(3,982)	3,153,579
Investments in associates and joint ventures	-	-	(21,949)	-	-	(17,291)	185,507	-	(863)	145,404
Other non-current financial assets	270,490	-	-	-	-	1,937	(178,935)	-	545	94,037
Deferred income tax assets	40,787	-	142	-	(24,759)	-	5,946	-	(5)	22,111
Goodwill and other intangible assets	67,116	(191)	(18,196)	-	-	7,657	-	-	-	56,386
Other non-current assets	47,707	-	(7,320)	-	-	-	(8,765)	-	(413)	31,209
Total non-current assets	**5,009,303**	**117,744**	**(1,542,336)**	**-**	**(24,759)**	**2,822**	**6,282**	**(61,612)**	**(4,718)**	**3,502,726**
Total assets	**6,289,687**	**117,744**	**(1,543,744)**	**-**	**(24,759)**	**(14,892)**	**(2,193)**	**(61,612)**	**(21,278)**	**4,738,953**

Note 34. First-time adoption of IFRS (continued)

	US GAAP (mln RUB)	Fair value	Capitalised costs and new functional currency	Hyper-infla-tion	Deferred tax recalcula-tion	Changes in method of accounting of joint arrangements and impairment	Reclassi-fication	ARO adjust-ments	Other adjust-ments	IFRS (mln RUB)
Liabilities and equity										
Current liabilities										
Accounts payable	399,491	-	(2)	-	-	(1,497)	-	-	1,004	398,996
Short-term borrowings and current portion of long-term debt	121,968	-	(715)	-	-	-	-	-	18	121,271
Income tax payable	-	-	-	-	-	(188)	8,291	-	(617)	7,486
Other taxes payable	80,843	-	-	-	-	59	(8,291)	-	2,977	75,588
Provisions	-	-	1	-	-	-	18,618	(132)	2,520	21,007
Other current liabilities	181,771	-	-	-	-	-	(27,163)	-	(53)	154,555
Liabilities related to assets held for sale	15,471	-	15	-	-	(14,992)	-	-	49	543
Total current liabilities	**799,544**	**-**	**(701)**	**-**	**-**	**(16,618)**	**(8,545)**	**(132)**	**5,898**	**779,446**
Long-term debt	639,152	-	(2,038)	-	-	-	(2,193)	-	(74)	634,847
Deferred income tax liabilities	156,286	-	-	-	63,219	3,138	8,545	-	(4,117)	227,071
Provisions	88,494	-	-	-	-	264	15,941	(69,224)	(1,056)	34,419
Other non-current liabilities	29,479	-	-	-	-	-	(15,941)	-	90	13,628
Total non-current liabilities	**913,411**	**-**	**(2,038)**	**-**	**63,219**	**3,402**	**6,352**	**(69,224)**	**(5,157)**	**909,965**
Total liabilities	**1,712,955**	**-**	**(2,739)**	**-**	**63,219**	**(13,216)**	**(2,193)**	**(69,356)**	**741**	**1,689,411**
Equity										
Share capital	844	-	(352)	659	-	-	-	-	-	1,151
Treasury shares	(291,925)	-	133,310	-	-	-	-	-	-	(158,615)
Equity-linked notes	(140,646)	-	57,646	-	-	-	-	-		(83,000)
Additional paid-in capital	254,513	-	(106,552)	(19,115)	-	-	-	-	-	128,846
Other reserves	(2,082)	-	99,006	-	(5,336)	(3,134)	-	5,010	(10)	93,454
Retained earnings	4,743,539	118,069	(1,724,063)	18,456	(82,642)	1,458	-	2,734	(22,009)	3,055,542
Equity attributable to PJSC LUKOIL shareholders	**4,564,243**	**118,069**	**(1,541,005)**	**-**	**(87,978)**	**(1,676)**	**-**	**7,744**	**(22,019)**	**3,037,378**
Non-controlling interests	12,489	(325)	-	-	-	-	-	-	-	12,164
Total equity	**4,576,732**	**117,744**	**(1,541,005)**	**-**	**(87,978)**	**(1,676)**	**-**	**7,744**	**(22,019)**	**3,049,542**
Total liabilities and equity	**6,289,687**	**117,744**	**(1,543,744)**	**-**	**(24,759)**	**(14,892)**	**(2,193)**	**(61,612)**	**(21,278)**	**4,738,953**

Functional currency

PJSC LUKOIL and its Russian subsidiaries used the USD as the functional currency for the purpose of consolidated financial statements prepared in accordance with US GAAP. The RUB was determined as the functional currency of PJSC LUKOIL and its Russian subsidiaries for the purpose of consolidated financial statements prepared in accordance with IFRS. Capitalised costs and new functional currency adjustment included in Retained earnings at 31 December 2014 includes the effect of changes in functional currency due to volatility of exchange rate of RUB to USD in the total amount of 1,539,898 million RUB.

Note 34. First-time adoption of IFRS (continued)

Reconciliation of the consolidated statement of profit or loss and other comprehensive income for 2014:

	US GAAP (mln RUB)	Fair value	Capitalised costs and new functional currency	Deferred tax recalcula-tion	Changes in method of accounting of joint arrangements and impairment	Reclassi-fication	ARO adjust-ments	Other adjust-ment	IFRS (mln RUB)
Revenues									
Sales	5,539,170	-	(12,290)	-	(14,510)	-	-	(7,514)	5,504,856
Costs and other deductions									
Operating expenses	(388,638)	-	2,142	-	5,241	-	8,638	4,112	(368,505)
Cost of purchased crude oil, gas and products	(2,737,368)	-	(32,346)	-	(10,443)	-	-	(1,699)	(2,781,856)
Transportation expenses	(226,459)	-	4,700	-	1,255	-	-	5,306	(215,198)
Selling, general and administrative expenses	(148,232)	-	1,348	-	1,079	-	-	(745)	(146,550)
Depreciation, depletion and amortisation	(338,727)	7,543	30,454	-	5,861	-	1,490	327	(293,052)
Taxes other than income taxes	(495,335)	-	24,253	-	2,452	(549)	-	1,447	(467,732)
Excise and export tariffs	(820,845)	-	17,944	-	6,579	549	-	(11,628)	(807,401)
Exploration expenses	(42,418)	-	9,289	-	-	20,901	-	-	(12,228)
Loss on impairments of assets	(67,354)	-	-	-	-	67,354	-	-	-
Profit from operating activities	**273,794**	**7,543**	**45,494**	**-**	**(2,486)**	**88,255**	**10,128**	**(10,394)**	**412,334**
Finance income	10,566	-	-	-	(345)	223	-	555	10,999
Finance costs	(24,475)	-	576	-	118	(223)	(4,838)	(885)	(29,727)
Equity share in income of affiliates	21,209	-	(5,915)	-	2,451	-	-	2,143	19,888
Foreign exchange (loss) gain	(13,641)	105	216,437	10,104	115	-	(38,620)	(7,265)	167,235
Other expenses	(7,262)	(16,351)	(4,768)	-	10,585	(88,255)	9,011	1,166	(95,874)
Profit before income taxes	**260,191**	**(8,703)**	**251,824**	**10,104**	**10,438**	**-**	**(24,319)**	**(14,680)**	**484,855**
Current income taxes	(110,501)	-	3,744	-	2,509	-	-	945	(103,303)
Deferred income taxes	31,429	-	(2,201)	(16,158)	(348)	-	-	(198)	12,524
Total income tax expense	**(79,072)**	**-**	**1,543**	**(16,158)**	**2,161**	**-**	**-**	**747**	**(90,779)**
Profit for the year	**181,119**	**(8,703)**	**253,367**	**(6,054)**	**12,599**	**-**	**(24,319)**	**(13,933)**	**394,076**
Loss for the year attributable to non-controlling interests	1,230	219	-	-	-	-	-	-	1,449
Profit for the year attributable to PJSC LUKOIL shareholders	**182,349**	**(8,484)**	**253,367**	**(6,054)**	**12,599**	**-**	**(24,319)**	**(13,933)**	**395,525**

Note 34. First-time adoption of IFRS (continued)

	US GAAP (mln RUB)	Fair value	Capitalised costs and new functional currency	Deferred tax recalcula-tion	Changes in method of accounting of joint arrangements and impairment	Reclassi-fication	ARO adjust-ments	Other adjust-ment	IFRS (mln RUB)
Other comprehensive income (loss), net of income taxes									
Items that may be reclassified to profit or loss:									
Foreign currency translation differences for foreign operations	-	-	92,770	-	-	-	-	-	92,770
Items that will never be reclassified to profit or loss:									
Remeasurements of defined benefit liability/asset of pension plan	692	-	-	-	-	-	-	(453)	239
Other comprehensive income	**692**	**-**	**92,770**	**-**	**-**	**-**	**-**	**(453)**	**93,009**
Total comprehensive income for the year	**181,811**	**(8,703)**	**346,137**	**(6,054)**	**12,599**	**-**	**(24,319)**	**(14,386)**	**487,085**
Total comprehensive loss for the year attributable to non-controlling interests	1,230	219	(15)	-	-	-	-	-	1,434
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders	**183,041**	**(8,484)**	**346,122**	**(6,054)**	**12,599**	**-**	**(24,319)**	**(14,386)**	**488,519**

Note 35. 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 2015, 31 December and 1 January 2014:

		Fair value			
31 December 2015	**Carrying amount**	**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**

(Millions of Russian rubles, unless otherwise noted)

Note 35. Fair value (continued)

			Fair value		
31 December 2014	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	58,852	-	58,852	-	**58,852**
Available for sale securities	2,142	-	-	2,142	**2,142**
Financial liabilities:					
Commodity derivative contracts	2,602	-	2,602	-	**2,602**
Loans and borrowings	733,162	353,877	-	280,537	**634,414**

			Fair value		
1 January 2014	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	190	-	190	-	**190**
Available for sale securities	144	-	-	144	**144**
Financial liabilities:					
Commodity derivative contracts	4,002	-	4,002	-	**4,002**
Loans and borrowings	344,075	272,349	-	85,331	**357,680**

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 2015, 31 December and 1 January 2014.

Note 36. 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.

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

Credit risk

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

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

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

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2015	31 December 2014	1 January 2014
Not past due	421,456	443,421	183,022
Past due less than 90 days	10,761	21,531	8,291
Past due from 90 to 180 days	3,030	1,692	2,042
Past due from 180 to 270 days	575	667	2,490
Past due from 270 to 365 days	1,040	119	5,759
Past due more than 365 days	3,627	4,381	3,896
Total trade and other receivables	**440,489**	**471,811**	**205,500**

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

Allowance for doubtful accounts receivable changed as follows:

	2015	2014
1 January	14,505	8,850
Increase in allowance for doubtful debts charged to profit and loss	4,093	3,871
Write-off	(1,113)	(812)
Foreign currency translation differences	1,418	2,649
Other	18	(53)
31 December	**18,921**	**14,505**

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).

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

Liquidity risk

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

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

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings, including interest expense	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**

	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	354,385	408,505	51,943	42,493	268,794	45,275
Bonds, including interest expense	400,273	499,493	102,220	16,303	188,233	192,737
Finance lease obligations	5,128	7,690	1,351	1,254	3,120	1,965
Trade and other payables	394,900	394,900	393,198	1,339	331	32
Derivative financial liabilities	2,602	2,602	2,602	-	-	-
31 December 2014	**1,157,288**	**1,313,190**	**551,314**	**61,389**	**460,478**	**240,009**

	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	88,102	96,825	13,700	10,538	65,213	7,374
Bonds, including interest expense	261,566	331,699	42,098	68,093	89,902	131,606
Finance lease obligations	1,547	1,547	1,067	480	-	-
Trade and other payables	234,521	234,521	233,297	569	89	566
Derivative financial liabilities	4,002	4,002	4,002	-	-	-
1 January 2014	**589,738**	**668,594**	**294,164**	**79,680**	**155,204**	**139,546**

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.

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

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 2015, 31 December and 1 January 2014 were as follows:

31 December 2015	**USD**	**EUR**	**Other currencies**
Financial assets:			
Trade and other receivables	348,472	31,032	21,893
Loans	85,066	7	39
Other financial assets	378	3,972	2,037
Financial liabilities:			
Loans and borrowings	360,470	75,075	11,882
Bonds	407,209	-	-
Trade and other payables	240,100	35,203	21,554
Net exposure	**(573,863)**	**(75,267)**	**(9,467)**

31 December 2014	**USD**	**EUR**	**Other currencies**
Financial assets:			
Trade and other receivables	377,331	21,161	20,863
Loans	68,575	4,490	-
Other financial assets	241	277	1,508
Financial liabilities:			
Loans and borrowings	245,604	38,316	6,244
Bonds	397,815	-	-
Trade and other payables	260,117	30,979	17,297
Net exposure	**(457,389)**	**(43,367)**	**(1,170)**

1 January 2014	**USD**	**EUR**	**Other currencies**
Financial assets:			
Trade and other receivables	126,773	17,795	15,715
Loans	35,129	6,579	-
Other financial assets	667	143	58
Financial liabilities:			
Loans and borrowings	65,804	16,220	1,708
Bonds	261,344	-	-
Trade and other payables	130,113	21,589	10,831
Net exposure	**(294,692)**	**(13,292)**	**3,234**

The following exchange rates applied:
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	31 December 2015	**31 December 2014**	**1 January 2014**
USD	72.88	56.26	32.73
EUR	79.70	68.34	44.97

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

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 2015 and 2014 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2015	**2014**
US Dollar (increase by 10%)	50,513	9,958
Euro (increase by 10%)	(2,204)	875
Russian ruble (increase by 10%)	(43,682)	(9,659)

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 2015	**31 December 2014**	**1 January 2014**
Fixed rate instruments:			
Financial assets	87,650	81,269	47,124
Financial liabilities	443,930	421,786	264,424
Net exposure	**(356,280)**	**(340,517)**	**(217,300)**
Variable rate instruments:			
Financial assets	30,037	16,283	10,973
Financial liabilities	415,783	334,332	84,754
Net exposure	**(385,746)**	**(318,049)**	**(73,781)**

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2015 and 2014 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**
2015		
Net financial liabilities	(3,857)	3,857
2014		
Net financial liabilities	(3,180)	3,180

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

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 2015	**31 December 2014**	**1 January 2014**
Total debt	859,713	756,118	349,178
Less cash and cash equivalents	(257,263)	(169,023)	(43,092)
Net debt	602,450	587,095	306,086
Equity	3,231,374	3,049,542	2,655,702
Net debt to equity ratio, %	**18.64%**	**19.25%**	**11.53%**

(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 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**

31 December 2014	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Unproved oil and gas properties	89,620	100,186	189,806	20,885
Proved oil and gas properties	634,075	1,732,292	2,366,367	144,822
Accumulated depreciation, depletion, and amortisation	(286,015)	(158,113)	(444,128)	(50,669)
Net capitalised costs	**437,680**	**1,674,365**	**2,112,045**	**115,038**

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

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	273,064	410,438	12,945
Total costs incurred	**195,877**	**295,245**	**491,122**	**14,573**

2014	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Acquisition of properties – proved	-	38	38	-
Acquisition of properties – unproved	-	3,497	3,497	-
Exploration costs	25,068	18,874	43,942	679
Development costs	110,143	309,082	419,225	17,177
Total costs incurred	**135,211**	**331,491**	**466,702**	**17,856**

(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.

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, and valuation provision	(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**

2014	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	197,793	729,667	927,460	72,862
Transfers	-	558,108	558,108	1,119
Total revenues	197,793	1,287,775	1,485,568	73,981
Production costs (excluding production taxes)	(31,227)	(142,582)	(173,809)	(8,910)
Exploration expense	(11,149)	(1,079)	(12,228)	(53)
Depreciation, depletion, and amortisation, and valuation provision	(125,042)	(115,636)	(240,678)	(13,122)
Taxes other than income taxes	(1,074)	(793,492)	(794,566)	(24,788)
Related income taxes	(11,184)	(39,022)	(50,206)	(10,261)
Total results of operations for producing activities	**18,117**	**195,964**	**214,081**	**16,847**

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 57% 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 2015 and 2014 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 2014	334	12,831	13,165	296
Revisions of previous estimates	38	(2)	36	32
Purchase of hydrocarbons in place	-	18	18	-
Extensions and discoveries	50	729	779	1
Production	(55)	(644)	(699)	(28)
Sales of reserves	-	-	-	(6)
31 December 2014	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**
Proved developed reserves				
31 December 2014	167	8,280	8,447	182
31 December 2015	**240**	**7,986**	**8,226**	**142**

The non-controlling interest share included in the above total proved reserves was 75 million barrels and 77 million barrels at 31 December 2015 and 2014, respectively. The non-controlling interest share included in the above proved developed reserves was 42 million barrels and 41 million barrels at 31 December 2015 and 2014, 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 2014	5,792	17,565	23,357	285
Revisions of previous estimates	1,024	(127)	897	14
Purchase of hydrocarbons in place	-	7	7	-
Extensions and discoveries	29	182	211	-
Production	(207)	(584)	(791)	(34)
31 December 2014	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**
Proved developed reserves:				
31 December 2014	1,761	5,783	7,544	180
31 December 2015	**2,305**	**5,596**	**7,901**	**153**

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet and 28 billion cubic feet at 31 December 2015 and 2014, respectively. The non-controlling interest share included in the above proved developed reserves was 15 billion cubic feet at 31 December 2015 and 2014. 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 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 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	-

31 December 2014	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Future cash inflows	3,501,705	46,537,136	50,038,841	1,352,951
Future production and development costs	(2,249,144)	(32,324,492)	(34,573,636)	(793,128)
Future income tax expenses	(143,934)	(2,606,596)	(2,750,530)	(111,113)
Future net cash flows	1,108,627	11,606,048	12,714,675	448,710
Discount for estimated timing of cash flows (10% p.a.)	(677,776)	(6,475,557)	(7,153,333)	(221,272)
Discounted future net cash flows	**430,851**	**5,130,491**	**5,561,342**	**227,438**
Non-controlling share in discounted future net cash flows	-	28,458	28,458	-

(Millions of Russian rubles, unless otherwise noted)

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

Consolidated companies	**2015**	**2014**
Discounted present value at January 1	5,561,342	2,677,805
Net changes due to purchases and sales of minerals in place	1,779	7,608
Sales and transfers of oil and gas produced, net of production costs	(645,686)	(504,965)
Net changes in prices and production costs estimates	(6,539,985)	10,274,029
Net changes in mineral extraction taxes	4,769,427	(6,954,662)
Extensions and discoveries, less related costs	142,856	317,673
Previously estimated development cost incurred during the year	374,236	336,963
Revisions of previous quantity estimates	(390,502)	76,374
Net change in income taxes	430,241	(632,932)
Accretion of discount	625,761	304,496
Other changes	(424,912)	(341,047)
Discounted present value at 31 December	**3,904,557**	**5,561,342**

Group's share in equity companies	**2015**	**2014**
Discounted present value at 1 January	227,438	154,020
Net changes due to purchases and sales of minerals in place	(23,455)	(5,136)
Sales and transfers of oil and gas produced, net of production costs	(24,802)	(40,230)
Net changes in prices and production costs estimates	(187,167)	188,856
Net changes in mineral extraction taxes	86,150	(86,048)
Extensions and discoveries, less related costs	10,502	450
Previously estimated development cost incurred during the year	15,585	12,998
Revisions of previous quantity estimates	(173)	16,934
Net change in income taxes	24,987	(9,175)
Accretion of discount	25,447	10,386
Other changes	(53,288)	(15,617)
Discounted present value at 31 December	**101,224**	**227,438**