IMPORTANT NOTICE

You must read the following before continuing.

The following applies to the prospectus following this notice and you are therefore advised to read this carefully before reading, accessing or making any other use of the prospectus. In accessing the prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE ATTACHED PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND IN RELIANCE ON, REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) AND THAT CAN MAKE REPRESENTATIONS SET FORTH IN THE NEXT PARAGRAPH IN ACCORDANCE WITH RULE 144A UNDER THE **SECURITIES** ACT ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS PROHIBITED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS REASONABLY BELIEVED TO BE QUALIFIED INSTITUTIONAL BUYERS (EACH A "**QIB**") WITHIN THE MEANING OF RULE 144A, WHICH CAN REPRESENT THAT (A) THEY ARE QIBS WITHIN THE MEANING OF RULE 144A, (B) THEY ARE ACTING FOR THEIR OWN ACCOUNT, OR THE ACCOUNT OF ONE OR MORE QIBS, PURCHASING AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US\$200,000 PRINCIPAL AMOUNT OF NOTES AND (C) THEY WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S.

Confirmation of your representation: In order to be eligible to view the attached prospectus or make an investment decision with respect to the securities, you must be (i) outside the United States (as defined in Regulation S) and a person other than a U.S. person (as defined in Regulation S) who is not acting for the account or benefit of a U.S. person or (ii) a QIB which can make the representations set forth above. By accepting the e-mail and accessing the attached prospectus, you shall be deemed to have represented to us that you are outside the United States and not a U.S. person and not acting for the account or benefit of a U.S. person or that you are a QIB and that you can make the representations set forth above and that you consent to delivery of such prospectus by electronic transmission.

This prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), (iii) persons who fall within article 49(2)(a) to (d) of the Order and (iv) any other persons to whom this prospectus may for the purposes of section 21 of the Financial Services and Markets Act 2000 be distributed (all such persons together being referred to as "**Relevant Persons**"). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this prospectus or any of its contents.

You are reminded that this prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited or J.P. Morgan Securities plc or any person who controls any one of them, nor any director, officer, employee or agent of either of them nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited or J.P. Morgan Securities plc.



LUKOIL INTERNATIONAL FINANCE B.V.

US\$1,000,000,000 4.750% Notes due 2026

guaranteed by

PJSC "LUKOIL"

The Company

• We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia. We divide our business into three principal segments: exploration and production; refining, marketing and distribution; and corporate and other.

The Issuer

• Our indirect wholly-owned subsidiary, LUKOIL International Finance B.V., a company organised under the laws of The Netherlands, will issue the US\$1,000,000,000 4.750% notes due 2026 (the notes).

The Guarantor

 If LUKOIL International Finance B.V. fails to make payments on the notes when they are due, PJSC "LUKOIL" (LUKOIL) will be required to make them under the guarantee. LUKOIL is the only guarantor of the notes.

Maturity

• Unless previously redeemed or purchased and cancelled in accordance with the "*Terms and Conditions of the Notes*", the notes will mature on 2 November 2026.

Interest

- LUKOIL International Finance B.V. will pay interest on the notes at an annual rate equal to 4.750%.
- LUKOIL International Finance B.V. will make interest payments on the notes semi-annually on 2 May and 2 November of each year, commencing on 2 May 2017.
- LUKOIL International Finance B.V. will make payments under the notes free and clear of, and without withholding or deduction for, any taxes imposed by The Netherlands or the Russian Federation, to the extent described under "Terms and Conditions of the Notes".

Ranking

- The notes will be general unsecured and unsubordinated obligations of LUKOIL International Finance B.V., ranking senior to all present and future subordinated obligations and equal in right of payment to all present and future unsecured and unsubordinated obligations.
- The guarantee will be our general unsecured and unsubordinated obligation, ranking senior to all our existing and future subordinated obligations, equal in right of payment to all our existing and future unsecured and unsubordinated obligations, effectively junior to all our existing and future secured obligations and structurally junior to all existing and future obligations of our subsidiaries.

Redemption

- LUKOIL International Finance B.V. may at any time prior to 2 November 2026 redeem the notes in whole or in part by paying a "make-whole" premium. See "*Terms and Conditions of the Notes*".
- LUKOIL International Finance B.V. may redeem all of the notes at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event of certain taxation changes. See "*Terms and Conditions of the Notes*".

Notice to Investors

- INVESTING IN THE NOTES INVOLVES RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 18 BEFORE INVESTING IN THE NOTES.
- The notes will be offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the Securities Act), and in the United States to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act), which can make certain representations as described in "*Transfer Restrictions*" and "*Subscription and Sale*", in reliance on the exemption from registration provided by Rule 144A. For a description of these and further restrictions, see "*Transfer Restrictions*" and "*Subscription and Sale*".

Settlement

 The notes are expected to be delivered on or about 2 November 2016.

Listing

• We have applied to the Financial Conduct Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000 (the UK Listing Authority) for the notes to be admitted to the official list of the UK Listing Authority (the Official List) and to the London Stock Exchange plc (the London Stock Exchange) for the notes to be admitted to trading on the London Stock Exchange's Regulated Market (the Market). References in this prospectus to the notes being "listed" (and all related references) shall mean that the notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/ EC (Markets in Financial Instruments Directive) of the European Parliament and of the Council. There can be no assurance that a trading market for the notes will develop.

ISSUE PRICE:

100%

Joint Lead Managers and BookrunnersCITIGROUPJ.P. MORGAN

Dated 31 October 2016

This prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended (the Prospectus Directive) and for the purpose of giving information with regard to LUKOIL International Finance B.V. (the Issuer), LUKOIL and its subsidiaries (the Group) and the notes, which, according to the particular nature of the Issuer, LUKOIL and the notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and LUKOIL and the rights attaching to the notes and the guarantee. The Issuer and LUKOIL accept responsibility for the information contained in this prospectus. To the best of the knowledge of the Issuer and LUKOIL (each of which has taken all reasonable care to ensure that such is the case), the information contained in this prospectus with the facts and does not omit anything likely to affect the import of such information.

Certain information in this prospectus contained under the headings "Presentation of Reserves and Resources", "Overview", "Summary Consolidated Financial and Other Information", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" has been based on information obtained from third party sources that we believe to be reliable. These sources, as identified herein, are Platts and InfoTEK in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors", Miller and Lents, Ltd. in "Presentation of Reserves and Resources", "Overview", "Summary Consolidated Financial and Other Information", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", Central Bank of Russia (CBR) in "Presentation of Financial and Other Information", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Federal State Unitary Enterprise "Central Dispatching Department of Fuel Energy Complex" (CDU TEK) in "Overview", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and the Federal State Statistics Service of Russia (Rosstat) in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". This information has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by such third party sources, no facts have been omitted which would render this reproduced information inaccurate or misleading. See "Risk Factors—Other Risks—We have not independently verified information we have sourced from third parties".

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT. SEE "*RISK FACTORS*".

No person is authorised to give any information or to make any representation in connection with the offer or sale of the notes other than as contained in this prospectus and any information or representation not so contained must not be relied upon as having been authorised by the Issuer, LUKOIL or any Manager (as defined in "Subscription and Sale"). Neither the delivery of this prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or LUKOIL since the date hereof or the date upon which this prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or LUKOIL since the date hereof or the date upon which this prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, express or implied, is made by any Manager as to the accuracy or completeness of such information.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer, LUKOIL or the issue and offering of the notes.

This prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, LUKOIL, the Managers or any other person, any of the notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this prospectus and the offer and sale of the notes in certain jurisdictions is restricted by law. Persons into whose possession this prospectus may come are required by the Issuer, LUKOIL and the Managers to inform themselves about and to observe such restrictions. This prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such

offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the notes and the distribution of this prospectus is set out under "Subscription and Sale".

Except as otherwise stated in "Subscription and Sale", no action is being taken to permit a public offering of the notes or the distribution of this prospectus (in any form) in any jurisdiction where action would be required for such purposes.

Applications have been made to the UK Listing Authority for the notes to be admitted to the Official List and to the London Stock Exchange for such notes to be admitted to trading on the Market. Admission to the Official List together with admission to trading on the Market constitutes official listing on a stock exchange.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (REGULATION S)). THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND BY THE MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" (QIBS) (AS DEFINED IN RULE 144A(A)(1) UNDER THE SECURITIES ACT) WHICH CAN MAKE CERTAIN **REPRESENTATIONS** AS *"TRANSFER* DESCRIBED IN **RESTRICTIONS**" AND SALE" **"SUBSCRIPTION AND** IN RELIANCE ON THE EXEMPTION FROM **REGISTRATION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT (RULE 144A)** (FOR A DESCRIPTION OF THESE AND FURTHER RESTRICTIONS SEE "TRANSFER RESTRICTIONS" AND "SUBSCRIPTION AND SALE"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT **PROVIDED BY RULE 144A.**

THE NOTES WILL BE SUBJECT TO CERTAIN RESTRICTIONS ON OFFERS, SALES AND TRANSFERS (SEE *"TERMS AND CONDITIONS OF THE NOTES", "NOTICE TO INVESTORS", "TRANSFER RESTRICTIONS"* AND *"SUBSCRIPTION AND SALE"*).

The notes offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (the Regulation S Notes) and the notes offered and resold within the United States only to QIBs in reliance on Rule 144A (the Rule 144A Notes) will be represented initially by two global certificates in registered form (respectively, the Regulation S Global Note and the Rule 144A Global Note and, together, the Global Notes).

The Regulation S Global Note will be registered in the name of Citivic Nominees Ltd. as nominee for Euroclear Bank SA/NV (Euroclear) and Clearstream Banking, *société anonyme* (Clearstream, Luxembourg), and the Rule 144A Global Note will be registered in the name of Cede & Co. as nominee for The Depository Trust Company (DTC). The Regulation S Global Note will be held by Citibank, N.A., London Branch as common depository for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Note will be held by Citibank, N.A., London Branch as common depository for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Note will be held by Citibank, N.A., London Branch as custodian for DTC. Interests of participants in Euroclear, Clearstream, Luxembourg and DTC in the notes will be represented by book entries on the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be. It is expected that delivery of the Global Notes will be made on or about 2 November 2016 (the Closing Date).

STABILISATION

In connection with the issue of the notes, Citigroup Global Markets Limited (the Stabilising Manager) or any person acting on behalf of the Stabilising Manager may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of the allotment of the notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules. Any stabilisation action, if commenced, shall be effected outside the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, our annual financial information has been extracted without material adjustment from our audited consolidated financial statements as of 31 December 2015 and 2014 and 1 January 2014 and for the years ended 31 December 2015 and 2014, which are included elsewhere in this prospectus. Our annual financial statements include a consolidated statement of financial position as of 31 December 2015 and 2014 and 1 January 2014, a consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2015 and 2014, a consolidated statement of changes in equity for the years ended 31 December 2015 and 2014, a consolidated statement of cash flows for the years ended 31 December 2015 and 2014 and notes to our consolidated financial statements.

Unless otherwise indicated, our interim financial information has been extracted without material adjustment from our unaudited condensed interim consolidated financial statements as of and for the three and six-month periods ended 30 June 2016, which are included elsewhere in this prospectus. Our interim financial statements include a consolidated statement of financial position as of 30 June 2016, a consolidated statement of profit or loss and other comprehensive income for the three and six months ended 30 June 2016 and 2015, a consolidated statement of changes in equity for the six months ended 30 June 2016 and 2015, a consolidated statement of cash flows for the six months ended 30 June 2016 and 2015 and notes to our unaudited condensed interim consolidated financial statements. Results for interim periods are not necessarily indicative of results for the full year.

Our consolidated financial statements included elsewhere in this prospectus have been presented in rubles and prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). For years up to and including the year ended 31 December 2014, our consolidated financial statements were presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). We transitioned from US GAAP and adopted IFRS starting from the fiscal year ended 31 December 2015, as required by Russian law. IFRS 1 "First-time adoption of International Financial Reporting Standards" was applied to our audited annual consolidated financial statements included elsewhere in this prospectus, and the date of transition to IFRS is 1 January 2014. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Transition to IFRS" for more information about our transition to IFRS.

Non-IFRS Financial Measures (Unaudited)

EBITDA (operating) is not defined under IFRS or US GAAP. We define EBITDA (operating) as profit from operating activities before depreciation, depletion and amortisation. We believe that EBITDA (operating) provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. We incur depreciation, depletion and amortisation and believe that EBITDA (operating) allows investors to evaluate and compare our periodic operating performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of profit from operating activities to EBITDA (operating)". EBITDA (operating) is a non-IFRS measure and should not be considered in isolation as an alternative to profit from operating activities, profit or any other measure of performance under IFRS or US GAAP.

References to "LUKOIL"

In this prospectus, unless otherwise stated or otherwise required by the context, the following terms apply with respect to these entities:

- "LUKOIL" and the "Guarantor" refer only to PJSC "LUKOIL", a public joint stock company organised under the laws of the Russian Federation;
- "LUKOIL International Finance B.V." and the "Issuer" refer only to LUKOIL International Finance B.V., a private company with limited liability incorporated under the laws of The Netherlands and an indirect wholly-owned subsidiary of LUKOIL;
- The terms "we", "us" and "our", along with the terms the "Group" and "our Group", refer, collectively, to LUKOIL and its subsidiaries, including LUKOIL International Finance B.V.; and
- References to "our charter" relate only to LUKOIL's charter.

References to the Notes and Guarantee

Unless otherwise stated, references to the "notes" are to the US\$1,000,000,000 4.750% notes due 2026 issued by LUKOIL International Finance B.V. References to the "guarantee" are to LUKOIL's guarantee of the notes.

Currency

In this prospectus, the following currency terms are used:

- "RUB" or "ruble" means the lawful currency of the Russian Federation;
- "U.S. dollar", "US\$" or "\$" means the lawful currency of the United States of America (the United States or U.S.); and
- "€", "EUR" or "euro" means the single currency of the participating Member States in the third stage of the European and Economic Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time.

Rounding

Certain amounts and percentages that appear in this prospectus have been subject to rounding adjustments. Accordingly, total amounts presented in certain tables may not equal the sum of amounts being added due to rounding.

Additional Definitions

A glossary of certain other defined terms that are used in this prospectus can be found on page 214.

Currency Presentation and Exchange Rate Information

The following table sets forth, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR. The rates below may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus. Our inclusion of the exchange rates is not meant to suggest that the ruble amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all.

	High	Low	Average ⁽¹⁾	Period End ⁽²⁾	
Year ended 31 December		(R	(RUB per U.S. dollar)		
2011	32.68	27.26	29.39	32.20	
2012	34.04	28.95	31.09	30.37	
2013	33.47	29.93	31.85	32.73	
2014	67.79	32.66	38.42	56.26	
2015	72.88	49.18	60.96	72.88	
	High	Low	Average ⁽¹⁾	Period End ⁽²⁾	
Month ended		(R	UB per U.S. do	llar)	
April 2016	68.89	64.33	66.69	64.33	
May 2016	67.05	64.51	65.67	66.08	
June 2016	66.85	63.72	65.31	64.26	
July 2016	67.05	62.99	64.34	67.05	
August 2016	66.88	63.55	64.93	64.90	
September 2016	65.87	63.16	64.60	63.16	
October 2016 ⁽³⁾	63.40	62.19	62.70	62.45	

(1) The average rates are calculated as the average of the daily exchange rates on each business day and on each non-business day (which rate, in each case, is announced by the CBR on the previous business day).

(2) The period end rates are quoted for the last business day of the relevant period.

(3) Data up to and including 24 October 2016.

No representation is made that the ruble or U.S. dollar amounts in this prospectus could have been converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may inflate their value relative to the ruble. See "*Risk Factors*—*Risks Relating to Our Business and the Oil and Gas Industry*—*We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations*" for a description of certain risks related to foreign exchange rates and inflation.

The exchange rate between the ruble and the U.S. dollar has fluctuated during the periods covered by the financial statements. The CBR rate on 24 October 2016 was RUB 62.45 = US\$1.00.

PRESENTATION OF RESERVES AND RESOURCES

This prospectus contains information concerning hydrocarbon reserves estimated by LUKOIL that has been derived or extracted from the reports of Miller and Lents, Ltd. (Miller and Lents), our independent reservoir engineers, dated as of 31 December 2015, 2014 and 2013. These reserves were estimated in accordance with the definitions contained in the U.S. Securities and Exchange Commission (SEC) Rule 4-10(a) of Regulation S-X at that time (SEC standards).

For each of the three years ended 31 December 2015, 2014 and 2013. Miller and Lents audited LUKOIL's internal estimates of hydrocarbon reserves in accordance with SEC standards. We have calculated our proved reserves under SEC standards assuming for our Russian fields that production licences would be renewed and the fields would be produced until the economic limit of production is reached. In making this determination, Miller and Lents accepted our representations that our projects meet the "commitment to develop" and "market availability" criteria under SEC standards.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. These estimates necessarily depend upon a number of variable factors and assumptions, many of which are beyond our control. Due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature of reserves estimates the reserves amounts disclosed in this prospectus may change as additional information becomes available. You should not place undue reliance on the ability of the reserves estimated by LUKOIL to predict actual reserves or on comparisons of similar reports concerning companies established in other economic systems.

In estimating our reserves as of 31 December 2015, 2014 and 2013 under SEC standards, we have included significant quantities of crude oil and gas that we expect to produce after the expiry dates of certain of our current production licences in the Russian Federation. We believe that our Russian licences will be extended to permit production subsequent to their current expiry dates consistent with certain amendments to the Russian subsoil law enacted in 2004, which provided that new licences be granted for a time equal to the economic life of the relevant field. Even though most of our licences were issued prior to the enactment of this legislation, as long as we meet certain conditions, such as compliance with approved development programmes, we believe that each of our licences issued prior to this legislation will be extended, upon expiration, for the economic life of the relevant fields. We intend to extend the licence periods for any property that is profitable (i.e., producing above the economic limit of the property). To date, none of our licence renewal applications have been denied. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations" and "Business—Exploration and Production—Licences" for more information on our licences in Russia.*

Our estimated reserves totals included in this prospectus are presented in barrels (for crude oil) and cubic feet (for natural gas). However, like many other Russian and European oil companies, we use the metric tonne and the cubic metre as the standard unit of measurement for quantities of crude oil and natural gas, respectively, which we produce and sell. For convenience, amounts of crude oil have been translated from tonnes into barrels (or from barrels into tonnes in respect of reserve amounts) and amounts of natural gas have been translated from cubic metres into cubic feet (or from cubic feet into cubic metres in respect of reserve amounts). Translations of barrels to tonnes were made at the rate of 7.33 barrels per tonne (other than in respect of crude oil production amounts, where such translations were made using conversion rates characterising the density of oil from each of the relevant oil fields). Translations of cubic feet to cubic metres were made at the rate of 35.31 bcf per bcm. Translations of barrels of crude oil into boe were made at the rate of 1 barrel per boe and of cubic feet of natural gas into boe at the rate of 6 bcf per 1 mmboe.

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NOTICE TO INVESTORS

Due to the restrictions on transfer of the notes, purchasers of the notes are advised to consult legal counsel prior to making any purchases of the notes or reoffering, reselling, pledging or otherwise transferring any of the notes.

AVAILABLE INFORMATION

LUKOIL has established an exemption under Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act) and, pursuant to such Rule, furnishes to the SEC or publishes on its website in English specified non-United States disclosure documents.

Each of the Issuer and LUKOIL has agreed that, for so long as any notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or prospective purchaser designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or the Trustee (as defined in "*Terms and Conditions of the Notes*"), the information required to be provided by Rule 144A(d)(4) under the Securities Act. This covenant is intended to be for the benefit of the holders and the prospective purchasers designated by such holders, from time to time, of such restricted securities.

LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES

LUKOIL is a public joint stock company organised under the laws of the Russian Federation and most of its directors and executive officers reside in Russia. The Issuer is a company organised under the laws of The Netherlands and its directors reside in The Netherlands. Most of the assets of LUKOIL and of such persons are located outside of the United States and the United Kingdom. Each of the Issuer and LUKOIL has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on LUKOIL, the Issuer or their respective directors and executive officers or enforce judgments obtained in the United States or the United Kingdom against LUKOIL, the Issuer or their respective directors and executive officers.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia generally only if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered; and/or
- a federal law of the Russian Federation provided for the recognition and enforcement of foreign court judgments; and/or
- on the basis of reciprocity, if courts of the country where the foreign judgment was rendered have previously enforced judgments issued by Russian courts.

No such federal law has been passed and no such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the United States or the United Kingdom and the Russian Federation. However, we are aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. Consequently, it may be impossible to enforce judgments of U.S. courts or English courts against LUKOIL or the Issuer and their officers or directors in the courts of the Russian Federation, including judgments predicated upon the civil liability provisions of U.S. federal securities laws or any state or territory within the United States or English law, when they are brought in original actions or in actions to enforce judgments of U.S. courts or English courts, without re-examination of the issues in the Russian Federation. Moreover, a court of the Russian Federation may refuse or limit enforcement of a foreign judgment, inter alia, on public policy grounds (see "Risk Factors-Risks Relating to the Russian Federation").

The notes and the guarantee will be governed by English law and will provide for disputes, controversies and causes of action brought by parties thereto against us to be settled by arbitration in accordance with the LCIA Rules. The Russian Federation is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). Consequently, an arbitral award from an arbitral tribunal in the United Kingdom and United States would generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the limited experience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the difficulties of existing mechanisms for enforcement of such awards in the Russian Federation.

In addition, any arbitral award may be limited, in particular, by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitration Procedure Code of the Russian Federation also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are substantially similar to those provided by the New York Convention. The Arbitration Procedure Code and other Russian procedural laws could change and other grounds for Russian courts to refuse recognition and enforcement of foreign arbitral awards for Russian courts to refuse recognition and enforcement of foreign arbitral awards for Russian courts to refuse recognition and enforcement of foreign arbitral awards for Russian courts to refuse recognition and enforcement of foreign arbitral awards for Russian courts to refuse recognition and enforcement of foreign arbitral awards could change and other grounds for Russian courts to refuse recognition and enforcement of foreign arbitral awards could arise.

Under current Russian law, state duty may be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the notes or the guarantee in any court of the Russian Federation.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are forward-looking statements. Words such as "aims", "anticipates", "believes", "continues", "estimates", "expects", "intends", "likely", "may", "plans", "seeks", "should", "will" and similar expressions, including the negative of these terms, are intended to identify forward-looking statements, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "Overview", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business" and "Additional Information Regarding the Company". We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that we may make from time to time (but that are not included in this prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- global and domestic political and economic conditions, including those relating to the current political and economic crisis in Ukraine and Crimea's accession to the Russian Federation;
- inflation, interest rate and exchange rate fluctuations;
- the prices of crude oil, gas and refined products;
- the effects of, and changes in, government policies in Russia and the other jurisdictions in which we operate;
- the effects of sanctions and export controls;
- the effects of competition in the geographic and business areas in which we operate;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events; and
- our success at managing the risks of the aforementioned factors.

This list of important factors and the other factors described in this prospectus (including in "*Risk Factors*") are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our future results. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they were made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

OVERVIEW

This summary contains basic information about us, our industry and the offering. It should be read in conjunction with, and is qualified in its entirety by reference to, the entire prospectus, our consolidated financial statements and notes thereto and the unaudited supplementary information on oil and gas exploration and production activities included elsewhere in this prospectus. Investing in the notes involves risk. The information set out under "Risk Factors" should be carefully considered. Certain statements in this prospectus include forward-looking statements, which also involve risks and uncertainties, as described under "Forward-Looking Statements".

Business

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). We carry out geological exploration work in nine countries and have proved hydrocarbon reserves and production in six countries. Most of our hydrocarbon reserves are conventional, which results in low cost base of hydrocarbon reserve development and production. Furthermore, we have well developed and diversified downstream assets located in Russia and abroad.

Our revenues and profit attributable to LUKOIL shareholders for the six months ended 30 June 2016 were RUB 2,517 billion and RUB 105 billion, respectively, compared to RUB 2,917 billion and RUB 168 billion for the six months ended 30 June 2015, respectively. Our revenues and profit attributable to LUKOIL shareholders in 2015 were RUB 5,749 billion and RUB 291 billion, respectively, compared to RUB 5,505 billion and 396 billion in 2014, respectively.

As of 31 December 2015, as audited by Miller and Lents, our proved hydrocarbon reserves were 16,558 mmboe, including 12,585 mmbls (1,717 million tonnes) of crude oil and 23,838 bcf (3,973 mmboe) of gas. As of the same date, our probable hydrocarbon reserves were 6,760 mmbls, including 5,252 mmboe (717 million tonnes) of crude oil and 9,050 bcf (1,508 mmboe) of gas. For more information about these estimates, see "*Presentation of Reserves and Resources*".

We are involved in geological exploration activities in Russia, Iraq, Mexico, Norway, Romania, Uzbekistan and the continental shelf of West Africa (Cameroon, Ghana and Nigeria).

We currently produce crude oil in Russia, Azerbaijan, Egypt, Iraq, Kazakhstan and Uzbekistan. During the six months ended 30 June 2016, we produced (including our share in equity affiliates) 349.6 mmbls (47.4 million tonnes) of crude oil and natural gas liquids, including 310.7 mmbls (42.0 million tonnes) in Russia and 38.9 mmbls (5.4 million tonnes) from our international projects. In 2015, we produced (including our share in equity affiliates) 749.2 mmbls (101.8 million tonnes) of crude oil and natural gas liquids, including 641.9 mmbls (86.7 million tonnes) in Russia and 107.3 mmbls (15.1 million tonnes) internationally. Our domestic crude oil production accounted for 16% of all Russian crude oil production for 2015, according to CDU TEK.

We currently produce gas in Russia, Azerbaijan, Kazakhstan and Uzbekistan. We produced (including our share in equity affiliates) 368.9 bcf (61.5 mmboe) of gas available for sale during the six months ended 30 June 2016, including 233.4 bcf (38.9 mmboe) in Russia and 135.5 bcf (22.6 mmboe) from our international projects. In 2015, we produced (including our share in equity affiliates) 715.1 bcf (119.2 mmboe) of gas available for sale, including 467.4 bcf (77.9 mmboe) in Russia and 247.8 bcf (41.3 mmboe) internationally.

We own oil refineries in Russia, Bulgaria, Italy and Romania, as well as a 45% interest in the Zeeland refinery in The Netherlands. During the six months ended 30 June 2016, we refined 236.2 mmbls (32.2 million tonnes) of hydrocarbon feedstock, including 146.1 mmbls (19.9 million tonnes) at our Russian refineries and 90.1 mmbls (12.3 million tonnes) at our international refineries (including our interest in the Zeeland refinery). We also refined 1.2 mmbls (0.2 million tonnes) of crude oil under contracts with international third party refineries. In 2015, we refined 472.7 mmbls (64.5 million tonnes) of hydrocarbon feedstock, including 306.8 mmbls (41.9 million tonnes) at our Russian refineries and 165.9 mmbls (22.6 million tonnes) at our international refineries (including our share in the Zeeland refinery). We also refined 6.6 mmbls (0.9 million tonnes) of crude oil under arrangements with international third party refineries.

We are also involved in gas processing, petrochemical and power generation businesses in Russia and internationally.

In 2015, we sold 579 mmbls (79 million tonnes) of crude oil and 126 million tonnes of refined and petrochemical products. Our revenues from international sales of crude oil and refined products accounted for 91% and 84% of our total revenues from sales of crude oil and refined products, respectively. A substantial part of our international sales relate to our global trading operations. In 2015, we acquired 321 mmbls (44 million tonnes) of crude oil and 70 million tonnes of refined products for refining, trading and marketing purposes.

As of 30 June 2016, we owned, leased and franchised 5,286 retail filling stations, including 2,546 in Russia. In 2015, we sold 9.6 million tonnes of refined products through our retail network in Russia and 4.5 million tonnes through our retail network outside Russia. We are also actively involved in end-customer sales of jet and bunker fuel in Russia and internationally.

Russian Upstream Operations

As of 31 December 2015, 94% of our proved crude oil reserves and 69% of our proved gas reserves were located in Russia, with West Siberia representing 52% and 55% of our total proved crude oil and gas reserves, respectively. West Siberia is the primary focus of our exploration and production activities in Russia. Among other important regions are Timan-Pechora and North Caspian.

In 2015, our operations in Russia accounted for 85% and 65% of our aggregate crude oil and gas production, respectively. Our subsidiaries and affiliates carried out hydrocarbon production at 458 fields in Russia during 2015.

By the end of 2016, we plan to start commercial production at the offshore V. Filanovsky oil field in North Caspian and the Pyakyakhinskoye oil and gas field in West Siberia. We expect the V. Filanovsky oil field to achieve its designed production level of approximately 120,000 barrels of oil per day in 2017, and the Pyakyakhinskoye oil and gas field to produce 11.0 mmbls (1.5 million tonnes) of crude oil and gas condensate, as well as approximately 18 mmboe (106 bcf) of gas, in 2017.

International Upstream Operations

As of 31 December 2015, our international upstream assets accounted for 6% and 31% of our proved crude oil and gas reserves respectively, with Iraq and Kazakhstan representing 91% of our international crude oil reserves and Uzbekistan representing 77% of our international gas reserves. Most of our international exploration efforts in 2015 were concentrated in Romania and West Africa. In 2015, our international upstream assets accounted for 15% and 35% of our crude oil and gas production, respectively.

Oil Refining

The total refining capacity of our refineries as of 30 June 2016 amounted to 601.8 mmboe (82.1 million tonnes) per year, including 368.7 mmboe (50.3 million tonnes) per year in Russia and 233.1 mmboe (31.8 million tonnes) per year outside Russia (including our 45% interest in the Zeeland refinery).

In Russia we own and operate four refineries, which are located in Perm, Volgograd, Ukhta and Nizhny Novgorod, as well as two mini-refineries in West Siberia. The throughput at our Russian refineries was 306.8 mmbls (41.9 million tonnes) in 2015. We have invested substantial capital to upgrade and expand our Russian refineries. In the first half of 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget. As a result, since 2014 we have been producing only high-octane gasoline, in the second quarter of 2016, we achieved 65% light product yield compared to 49% in 2010, and we have nearly halved our output of dark products to approximately 20% in the same time period.

Outside Russia, we own and operate refineries in Bulgaria, Romania and Italy and also own a 45% stake in the Zeeland refinery in The Netherlands. We sold our 99.58% interest in our refinery in Odessa, Ukraine in July 2013. The throughput at our international refineries was 165.9 mmbls (22.6 million tonnes) in 2015.

Petrochemicals

We own two petrochemical plants in southern Russia (Stavrolen and Saratovorgsintez) and one in Ukraine (Karpatneftechim). We also produce petrochemicals at our Burgas refinery in Bulgaria and ISAB refinery in Italy. In 2014, we suspended operations at our plant in Ukraine due to political instability and poor market conditions. See "Business—Refining, Marketing and Distribution—Petrochemicals" for more information.

Total combined output of marketable chemicals from our petrochemicals facilities was 1.1 million tonnes in 2015, and our products were sold in Russia and exported to more than 30 countries.

Gas Processing

We own and operate four gas processing plants in Russia: the Lokosovsky plant in West Siberia, the Korobkovsky plant in the Volgograd region, Permneftegazpererabotka (part of our Perm refinery since 2014) in the Perm region and the Usinsk plant in Timan-Pechora. These plants have a combined capacity of 164.2 bcf (27.4 mmboe) of gas feedstock and 13.6 mmboe (1.9 million tonnes) of natural gas liquids per year.

During the six months ended 30 June 2016, our gas processing plants processed 67.7 bcf of gas feedstock and produced 6.8 mmboe of marketable natural gas liquids. In 2015, our gas processing plants processed 129.2 bcf of gas feedstock and produced 12.7 mmboe of marketable natural gas liquids.

Crude Oil and Refined Product Sales

We sell, both in Russia and internationally, crude oil that is not processed at our refineries. Our international sales include exports from Russia and sales outside of Russia of crude oil produced by our international projects, as well as sales of procured crude oil as part of our trading activity. Our international sales are primarily to customers in Europe.

During the six months ended 30 June 2016, we sold 25.4 mmbls (3.5 million tonnes) of crude oil in Russia, or 9% of our total crude oil sales, and 262.2 mmbls (35.7 million tonnes) of crude oil internationally, or 91% of our total crude oil sales. In 2015, we sold 79.5 mmbls (10.8 million tonnes) of crude oil in Russia, or 14% of our total crude oil sales, and 499.2 mmbls (68.1 million tonnes) of crude oil internationally, or 86% of our total crude oil sales. A substantial part of our international sales is represented by our trading activities. During the six months ended 30 June 2016 and in 2015, we acquired 88.8 mmbls (12.1 million tonnes) and 138.0 mmbls (18.8 million tonnes) of crude oil internationally for trading purposes, respectively.

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil, lubricants and petrochemicals. During the six months ended 30 June 2016, we sold a total of 60.6 million tonnes of refined and petrochemical products through wholesale and retail channels. Of this amount, 10.0 million tonnes, or 16%, were sold in the domestic market, and 50.6 million tonnes, or 84%, were sold internationally. In 2015, we sold a total of 126.5 million tonnes, or 16%, in the domestic market, and 106.1 million tonnes, or 84%, internationally. A substantial part of our international sales relate to our global trading operations. During the six months ended 30 June 2016 and in 2015, we acquired 32.9 million tonnes and 70.2 million tonnes of refined products, respectively.

Retail Marketing

As of 30 June 2016, we owned, leased and franchised 5,286 retail filling stations, consisting of 2,546 in Russia, 245 in the CIS (excluding Russia), 2,209 in Europe and 286 in the United States. As of 31 December 2015, we owned, leased and franchised 5,556 retail filling stations, consisting of 2,544 in Russia, 245 in the CIS (excluding Russia), 142 in the Baltic countries, 2,336 in Europe and 289 in the United States. Most of the stations operate under the LUKOIL brand.

As part of our strategy aimed at optimising our downstream operations in Europe, we sold filling station networks in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Ukraine in the period from 2014 to first half of 2016.

During the six months ended 30 June 2016, we sold 4.5 million tonnes of refined products through our retail network in Russia and 2.0 million tonnes through our retail network outside Russia. In 2015, we sold 9.6 million tonnes of refined products through our retail network in Russia and 4.5 million tonnes through our retail network in Russia and 4.5 million tonnes through our retail network in Russia.

Power Generation and other operations

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally.

As of 31 December 2015, we had installed electric capacity of combined heating plants and hydropower plants of 4.3 GW and installed heating capacity of power plants and boiler plants of 9,627 Gcal/hour,

excluding on-site supporting generating facilities. Our total output of electrical energy was 9.0 billion kWh during the first half of 2016 and 17.8 billion kWh in 2015. Our total output of heat energy was approximately 7.2 million Gcal during the first half of 2016 and 12.8 million Gcal in 2015.

We are also involved in production of diamonds at the Vladimir Grib field in the Arkhangelsk region of Russia. The production at the field was 1.85 million carats of diamonds in the first half of 2016 and 3.36 million carats of diamonds in 2015.

Competitive strengths

We believe the following competitive strengths support our sustainable development and differentiate us from our Russian and international peers:

Large conventional reserve base

As of 31 December 2015, our proved hydrocarbon reserves were 16.6 billion boe, ensuring reserve life of 19 years based on our annual production for 2015. Our subsidiaries and associates hold over 500 licences in Russia and participate in a number of upstream projects outside Russia. Most of our reserves and resources are attributed to the conventional category with approximately 50% of our reserves located in West Siberia, which is our core production region with well-developed infrastructure. The high concentration and conventional nature of our reserves enable us to achieve low development and lifting costs. We have a number of growth projects located in the West Siberia, North Caspian, Timan-Pechora and Perm regions, as well as outside of Russia, including Iraq and Uzbekistan.

High margin greenfields

The Russian Government has enacted tax benefits to incentivise the development of certain higher cost upstream projects in Russia. The tax benefits tend to result in much higher margins per barrel of production at our key strategic growth projects in the West Siberia, Timan-Pechora and North Caspian regions, relative to the standard tax regime, which is generally applied to the majority of brownfields in Russia.

By the end of 2016, we plan to start commercial production at the offshore V. Filanovsky oil field in North Caspian and the Pyakyakhinskoye oil and gas field in West Siberia. In addition, we continue to significantly expand production at the Yaregskoe oil field, our largest heavy oil field in Russia. The high productivity of these assets and special tax regime support the fast ramp-up of daily production rates as well as high margin and cash flow generation per barrel of production.

Technological leadership and extensive offshore expertise

In our operations we apply modern technologies to achieve higher efficiency. We are drilling sophisticated wells at our fields and applying advanced enhanced oil recovery methods. We are actively involved in development of heavy and tight oil reserves, which in some cases require unique technological solutions. We are pioneers in Russian offshore operations with a successful track record of safe and efficient work in the Baltic and Caspian Seas. We believe that our refining segment is one of the most advanced in Russia. In addition, we consider our technological expertise to be efficiently managed and developed by our subsidiary LUKOIL-Engineering and specialised research institutes.

High resilience to low oil price environment

Progressive tax rates under the standard tax regime and high correlation between the oil price and ruble to U.S. dollar exchange rate result in very low sensitivity of our upstream margin in Russia to oil price fluctuations under the standard tax regime. This contributes to a high resilience of our Russian upstream operations to low oil price environment.

Modernised refineries

In 2016, we completed our major refinery modernisation programme which we started more than five years ago. As a result, we enhanced our product slate in Russia, where we produce approximately two-thirds of our refined products. After completion of the refinery modernisation programme, we are now reducing capital expenditures in this segment. We consider our refining portfolio to be among the best in Russia, which results in higher than average refining margins. Our light product yield in Russia increased from 49% in 2010 to 65% in the second quarter 2016, refining depth increased from 75% in 2010 to 89% in the second quarter 2016 and Nelson Complexity Index increased from 6.2 in 2010 to 7.0 in 2015. We expect to enhance further our product slate in 2017.

High level of vertical integration

We operate a full chain of vertically integrated businesses from exploration and production of crude oil and gas to marketing and distribution of petroleum and gas products to end consumers. About two-thirds of the oil that we produce is refined at our eight refineries in Russia and Europe. We sell approximately one-third of the refined products that we produce through our small wholesale channels and our retail network of more than 5,000 filling stations around the world. The remaining two-thirds are sold through our trading company that is active in over 90 countries, as well as through our aircraft and marine vessels refuelling companies. Our gas production business also benefits from the vertical integration of our gas processing and petrochemicals facilities, as well as our power generation and distribution facilities. We also own substantial transportation infrastructure that enables us to deliver our crude oil, gas and petroleum products to international markets more efficiently.

Our well-developed downstream segment helps us to enhance our profitability per barrel of production in the upstream segment and our resilience in volatile macroeconomic environments.

Flexible investment programme

With a flexible investment programme, we can better maintain free cash flow generation and a solid financial position in difficult macroeconomic conditions without jeopardising our strategic projects. Due to a well-balanced asset portfolio, strict capital discipline and ruble devaluation, we decreased our capital expenditures in U.S. dollar terms by more than one-third in the first half of 2016 compared to the first half of 2015 and by more than one-third in 2015 compared to 2014. With the recent completion of our major refinery modernisation programme, we decreased our downstream capital expenditures by more than half in U.S. dollar terms in the first half of 2016 and in 2015, in each case year on year, and we currently enjoy a better than average product slate in Russia (according to CDU TEK), as well as lower capital expenditures.

Solid financial position

We believe that we have established a solid financial track record and financial position. We have retained investment grade credit ratings since 2008, despite market turbulence and sovereign rating downgrades in Russia. Notwithstanding relatively low oil prices, our cash and cash equivalents amounted to RUB 347 billion as of 30 June 2016. Strict financial discipline, a strong balance sheet and low leverage relative to other global energy companies help to support sustainable development under various oil price scenarios.

Experienced management team

We have one of the most experienced executive management teams in the industry led by our founder and President, Vagit Alekperov. We were founded in 1992 by our key management and became the first vertically integrated oil company in post-Soviet Russia. Due to the extensive experience of our management, we were able to build effective relationships with key market players in Russia and internationally. Our management focuses on developing competitive advantages across all areas of our business to achieve a leading position among our peers.

Sustainable development

We aim to conduct our business in a sustainable way, seeking to strike a balance between socio-economic development and environmental sustainability. We share the principles of the United Nations Global Compact and the Social Charter of Russian Business, which is reflected in our efforts to promote sustainable economic growth and corporate social responsibility.

We are an active supporter of social projects across the regions of our operations. We make annual allocations to charity and sponsorship. We increased our allocations by 13% year on year in 2015, focusing on social investments in sports, support for indigenous and minority peoples in northern Russia, and the preservation of cultural and historic heritage.

Strategy

Strategic Objectives

Our strategy aims at creating shareholder value through pursuing attractive oil and gas investment opportunities in Russia and internationally, rigorous cost control and constant improvement of our efficiency and profitability, including through the application of sophisticated technologies. Adherence to key sustainability principles is an integral part of our strategy.

Our key strategic objectives include the following:

- *Efficient reserve replacement.* We seek to achieve a reserve replacement ratio greater than 100% at competitive cost and with balanced risk.
- Long-term sustainable growth of hydrocarbon production. We aim to manage our upstream portfolio to maintain balance and diversification across different regions and types of reserves, securing long-term sustainable hydrocarbon production growth organically and through acquisitions.
- Focus on high margin upstream projects and efficiency. We seek to prioritise investments in upstream projects with the highest returns and margins. We intend to accelerate development of high margin greenfield projects and brownfield projects located close to existing infrastructure, with relatively low cost per barrel. We also intend to continue increasing our efficiency in upstream projects by optimising our investments and lifting costs at our brownfield projects.
- Apply advanced technologies in upstream and downstream. We plan to continue developing our technological expertise (including drilling, enhanced oil recovery, offshore, refining and petrochemical technologies) to achieve higher operational efficiencies and enhance our competitive advantages.
- *Maintain advanced position in downstream segment in Russia.* With the completion of our major refinery upgrade programme in the first half of 2016, we believe our refining segment is one of the most advanced in Russia. We seek to maintain our advanced position in this segment and focus on increasing efficiency of our refineries, reducing operating costs and increasing the light product yield. We also aim to maximise retail sales of the oil products produced at our refineries in the adjacent regions with high sales potential.
- *Maximise positive effect of vertical integration.* We plan to develop the most dynamic and profitable businesses in our vertically integrated production chain to increase our profitability per barrel of hydrocarbon production and reduce our sensitivity to adverse macroeconomic changes.
- *Secure financial stability.* We strive to ensure financial stability in any macroeconomic environment through strict financial discipline, a flexible investment programme and low leverage.
- Adhere to high corporate governance standards. We intend to continue improving our corporate governance system based on international best practices. We believe that a top quality management team and optimal corporate structure will enable us to maximise our efficiency and create shareholder value.
- Adhere to key sustainability principles. We aim to support long-term economic growth, social stability, prosperity and progress in the regions where we operate, as well as caring for the environment and ensuring sustainable use of natural resources. We strive to minimise our environmental impact and to meet or exceed international safety standards.

Risk Factors

Investing in the notes involves a high degree of risk. You should carefully consider the risks and other information contained in this prospectus, although you should note that the risks described in this prospectus are not the only risks we face and there may be additional risks that we currently consider not to be material or of which we are not presently aware.

• Risks relating to our business and the oil and gas industry, including that: (a) global economic and political developments and market conditions may adversely affect our business, financial condition, results of operations and prospects; (b) the designation of LUKOIL in sectoral sanctions imposed by the United States, the imposition of export controls on the energy sector by the European Union and the introduction or expansion of other sanctions or export controls by the United States, European Union or other countries may adversely affect our business, financial condition, results of operation and prospects; (c) a substantial or extended decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition, results of operations and prospects; (d) we face foreign exchange risks that could materially adversely affect our business, financial condition, results of operations and prospects; (e) we depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge; (f) we face several risks in connection with the implementation of our strategy to

develop our natural gas operations; (g) our subsoil licences may be suspended, terminated, limited or revoked prior to their expiration and we may be unable to obtain or maintain various permits or authorisations; (h) our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses; and (i) we have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition.

- Risks relating to business operations in emerging markets, including that: (a) emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant political, legal and economic risks; (b) the ongoing crisis in Ukraine, Crimea's accession to the Russian Federation and the resulting sanctions and export controls create political and economic uncertainty and could adversely impact our business, financial condition, results of operations and prospects; and (c) credit risks of our customers in emerging markets are higher than those of our customers in developed countries.
- Risks relating to the Russian Federation, including that: (a) the Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty; (b) instability in the Russian economy could materially adversely affect our business; (c) social instability could materially adversely affect our business, financial condition, results of operations and prospects; (d) Russian anti-offshore policy may have an adverse impact on our business, financial condition and results of operations; and (e) instability in the Russian economy could materially adversely affect our business.
- Risks relating to the offering and the notes, including that: (a) the notes may not have an active trading market, which may have an impact on the value of the notes; (b) the notes are subject to restrictions on transfer, which may affect the value of the notes; (c) the Issuer can redeem the notes at its option, which may affect the value of the notes; and (d) the protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the notes.

Credit Ratings

We are currently rated by three rating agencies: Moody's Investors Service Ltd. (Moody's), Fitch Ratings Limited (Fitch) and Standard & Poor's Credit Market Services Europe Limited (Standard & Poor's). Our ratings as of the date of this prospectus are as follows:

Moody's		Fitch		Standard & Poor's	
Long term implied Senior unsecured Outlook	Ba1	Long term Short term Outlook	F3	Long term Senior unsecured Outlook	BBB- BBB- Stable

The notes are expected to be assigned a rating of BBB- by Fitch and BBB- by Standard & Poor's.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the notes. The ratings do not address the marketability of the notes or any market price. Any change in the credit ratings of the notes or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the notes. We recommend that you analyse the significance of each rating independently from any other rating.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 (the CRA Regulation) unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA secretified under the CRA Regulation. For the purposes of the credit ratings referred to in this prospectus, each of Moody's, Fitch and Standard & Poor's is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's, Fitch and

Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Recent Developments

In September 2016, our joint venture with PJSC Gazprom (Gazprom) and JSC NC KazMunayGaz (KazMunayGaz), a state-owned oil and gas company of Kazakhstan, was granted a licence for geological exploration and production on the Tsentralnaya structure in the Russian sector of the Caspian Sea. As of 31 December 2015, the recoverable reserves of the Tsentralnoe field, located within the Tsentralnaya structure, were estimated at 682 mmbls (93 million tonnes) of crude oil and gas condensate and 1,483 bcf (247 mmboe) of gas under the C1+C2 categories of the Russian reserves classification system.

In line with our strategy to optimise our downstream operations in Europe, in July 2016, we sold 100% of our interests in LUKOIL Aviation Ukraine and LUK-Avia Oil, companies involved in the jet fuel business in Ukraine, and in the first half of 2016, we sold 100% of our interests in LUKOIL Poland, LUKOIL Baltija and LUKOIL Baltija R, with 230 filling stations that we owned in Poland, Lithuania and Latvia, in each case to AMIC Energy Management GmbH.

In May 2016, at our Volgograd refinery in Russia, we completed construction of a complex for the deep refining of vacuum gas oil, with a capacity of 25.7 mmbls (3.5 million tonnes) per year, to allow the refinery to increase Euro-5 diesel fuel output by 13.2 mmbls (1.8 million tonnes) per year. We have invested substantial capital to upgrade and expand our Russian refineries, and in the first half of 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget.

In April 2016, we commenced construction of the Kandym gas processing complex with an annual capacity of 268.0 bcf (8.1 bcm) of gas. Construction of the complex is part of the Kandym-Khauzak-Shady project for the production of natural gas in Uzbekistan.

	OVERVIEW OF THE OFFERING
	asic information about the notes and the guarantee and is not intended plete understanding of the notes and the guarantee, please refer to <i>tes</i> ".
Issuer	LUKOIL International Finance B.V.
Guarantor	PJSC "LUKOIL"
Notes	US\$1,000,000,000 aggregate principal amount of 4.750% notes due 2026
Issue Price	100%
Closing Date	2 November 2016
Maturity Date	Unless previously redeemed, or purchased and cancelled, the notes will be redeemed at their principal amount on 2 November 2026.
Interest	The notes bear interest at the rate of 4.750% per annum payable in equal instalments semi-annually in arrear on 2 May and 2 November in each year, commencing on 2 May 2017.
Form	The notes will be in registered form, without interest coupons attached, in denominations of US\$200,000 or multiples of US\$1,000 in excess thereof.
	The notes will be issued in the form of the Regulation S Global Note and the Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Status of the Notes	The notes constitute unsubordinated and (subject to Condition 4 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which rank <i>pari passu</i> and without any preference among themselves. Subject to Condition 4 of the Terms and Conditions of the Notes, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the notes and the guarantee, respectively, rank in right of payment at least <i>pari passu</i> with the claims of all their other unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.
Guarantee	The payment, when due, of all sums expressed to be payable by the Issuer under the notes and the trust deed constituting the notes has the benefit of an unconditional and irrevocable guarantee of the Guarantor, as further described in Condition $2(a)$ of the Terms and Conditions of the Notes.
Cross Default	There will be a cross default in respect of certain Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, the Guarantor or any Principal Subsidiary (as defined in the Terms and Conditions) equal to or greater than either (i) an individual amount of US\$50,000,000 or (ii) an aggregate amount of US\$150,000,000 (or their equivalents in another currency), as described in Condition 10(c) of the Terms and Conditions of the Notes.

Negative Pledge	There will be a negative pledge in respect of certain Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, the Guarantor and its Subsidiaries, as described in Condition 4 of the Terms and Conditions of the Notes.
	The protection that the negative pledge affords to Noteholders is limited in the following key ways:
	(1) As the definition of Relevant Indebtedness is limited to present or future Indebtedness (as defined in the Terms and Conditions of the Notes) in the form of, or represented by, notes, debentures, bonds or other securities (but, for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market, the Issuer, LUKOIL and their Subsidiaries will be permitted to secure a range of other forms of Indebtedness without any obligation to provide equal and ratable security in respect of the notes or the guarantee, as the case may be.
	(2) The Issuer, LUKOIL and their Subsidiaries will be further permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of the value of Consolidated Assets (as defined in the Terms and Conditions of the Notes), without any obligation to afford any equal and ratable security to Noteholders. As a result, the Issuer, LUKOIL and their Subsidiaries may create security in respect of a significant amount of their Relevant Indebtedness without, at the same time, being obliged to grant equal and ratable security in respect of the notes or the guarantee, as the case may be.
	We urge you to read the Terms and Conditions of the Notes in their entirety and, in particular, Condition 4, which relates to the negative pledge.
Covenants	The Terms and Conditions of the Notes contain covenants in respect of mergers and the payment of taxes. For more information, see "Terms and Conditions of the Notes".
Tax Redemption	The Issuer may redeem the notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes in taxation in The Netherlands or Russia.
Redemption and "Make- Whole" Premium	The Issuer may also choose to redeem the notes prior to the Maturity Date, in whole or in part, on not less than 30 days' nor more than 60 days' irrevocable notice, by paying a redemption price equal to the sum of:
	(1) 100% of the principal amount of the notes to be redeemed, <i>plus</i>
	(2) the Applicable Premium (as defined in the Terms and Conditions of the Notes), <i>plus</i>
	(3) accrued and unpaid interest thereon, if any, to the redemption date.
Listing of Notes	An application has been made to list the notes on the Official List of the UK Listing Authority and for the notes to be admitted to trading on the Market.

Ownership Restrictions	Neither Euroclear, Clearstream, Luxembourg nor DTC will monitor compliance with any transfer or ownership restrictions.				
Transfer Restrictions	The notes and the guarantee have not been and will not be registered under the Securities Act. You may offer to sell the notes only in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See " <i>Transfer</i> <i>Restrictions</i> ".				
ERISA Considerations	The notes may be acquired by an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA) that is subject to Title I of ERISA, a "plan" described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the Code), any entity whose underlying assets include, or are deemed to include, "plan assets" by reason of such employee benefit plan's or plan's investment in the entity or any employee benefit plan which is subject to any federal, state or local law, or foreign law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (Similar Law), provided that such purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a another employee benefit plan subject to Similar Law, a violation of any Similar Law). Each purchaser and/or holder of notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA and the Code. Potential purchaser should read the sections entitled " <i>Taxation—ERISA</i> " and " <i>Transfer Restrictions</i> ".				
Trustee	Citicorp Trustee Comp	any Limited.			
Principal Paying Agent	Citibank, N.A., Londoz	n Branch.			
Registrar	Citigroup Global Mark	tets Deutschland A	G.		
Governing Law and Arbitration	The notes and the trust deed (including the guarantee) and any non- contractual obligations arising out of or in connection with the notes and the trust deed (including the guarantee) will be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.				
Use of Proceeds	Commissions and expe (including total expen trading of the notes) and We anticipate the aggree to be approximately U	ses related to the re expected to be a egate net proceeds	listing and pproximately	admission to US\$800,000.	
	We intend to use the general corporate purp	-	the issue of	the notes for	
Committee Idontification	Common ISIN Code CUSII				
Security Identification					

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The summary consolidated financial information set out below as of 31 December 2015 and 2014 and 1 January 2014 and for the years ended 31 December 2015 and 2014 has been derived from our audited annual consolidated financial statements and notes thereto included elsewhere in this prospectus. The summary consolidated financial information set out below as of 30 June 2016 and 2015 has been derived from our unaudited condensed interim consolidated financial statements and notes thereto included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. We adopted IFRS starting from the fiscal year ended 31 December 2015, and the date of transition to IFRS is 1 January 2014. Because fiscal year 2015 is the first year we have prepared and presented our financial statements in accordance with IFRS, we did not include historical financial information as of and for the years ended December 31, 2013, 2012 and 2011. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Transition to IFRS" for more information about our transition to IFRS.

The following summary financial information should be read together with "Presentation of Financial and Other Information—Presentation of Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto and the unaudited supplementary information on oil and gas exploration and production activities included elsewhere in this prospectus. Investors should read this prospectus as a whole and not rely solely on summary or selected information. Results for interim periods are not necessarily indicative of results for the full year.

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	
	(million	s of rubles, excep	ot per share amou	nts)	
Consolidated Statement of Profit or Loss and Other Comprehensive Income: Revenues					
Sales (including excise and export tariffs) Costs and other deductions	2,516,633	2,917,271	5,749,050	5,504,856	
Operating expenses Cost of purchased crude oil, gas and products	(226,953) (1,215,030)	(211,509) (1,477,705)	(446,719) (2.891.674)	(368,505) (2,781,856)	
Transportation expenses	(164,364)	(147,162)	(297,977)	(215,198)	
Selling, general and administrative expenses	(93,125)	(81,213)	(168, 669)	(146,550)	
Depreciation, depletion and amortisation	(155,956)	(165,521)	(350,976) (522,620)	(293,052) (467,732)	
Taxes other than income taxes Excise and export tariffs	(202,277) (228,769)	(271,054) (296,458)	(522,620)	(407,732) (807,401)	
Excise and export tarms	(4,552)	(14,783)	(29,177)	(12,228)	
Profit from operating activities	225,607	251,866	465,729	412,334	
Finance income	7,342	8,567	17,763	10,999	
Finance costs	(21,469)	(22,486)	(48,224)	(29,727)	
Equity share in income of affiliates	5,778	6,475	7,047	19,888	
Foreign exchange (loss) gain Other expenses	(74,323) (7,548)	(23,479)	110,912 (164,123)	167,235 (95,874)	
1		(8,556)		/	
Profit before income taxes	135,387	212,387	389,104	484,855	
Current income taxes Deferred income taxes	(27,659) (2,064)	(42,334) (1,358)	(100,335) 3,976	(103,303) 12,524	
Total income tax expense	(29,723)	(43,692)	(96,359)	(90,779)	
Profit for the period	105,664	168,695	292,745	394,076	
(Profit) loss for the period attributable to non-controlling interests	(272)	(916)	(1,610)	1,449	
Profit for the period attributable to LUKOIL shareholders	105,392	167,779	291,135	395,525	
Other comprehensive income (loss), net of income taxes: <i>Items that may be reclassified to profit or loss:</i> Foreign currency translation differences for foreign operations <i>Items that will never be reclassified to profit or loss:</i> Remeasurements of defined benefit liability/asset of pension	(37,314)	(35,641)	12,345	92,770	
plan	33	652	(1,650)	239	
Other comprehensive (loss) income	(37,281)	(34,989)	10,695	93,009	
Total comprehensive income for the period Total comprehensive (income) loss for the period attributable	68,383	133,706	303,440	487,085	
to non-controlling interests	(298)	(967)	(1,609)	1,434	
Total comprehensive income for the period attributable to LUKOIL shareholders	68,085	132,739	301,831	488,519	
Earnings per share of common stock attributable to LUKOIL (in rubles):	147.02	225.24	100.26	554.70	
Basic Diluted	147.83 147.83	235.34 231.28	408.36 405.15	554.79 541.90	

	As of 30 June	As of 31 E	December	As of 1 January
	2016	2015	2014	2014
		(millions d	of rubles)	
Consolidated Statement of Financial Position:				
Cash and cash equivalents	346,703	257,263	169,023	43,092
Property, plant and equipment	3,380,811	3,411,153	3,153,579	2,683,758
Total assets	5,046,471	5,020,607	4,738,953	3,683,015
Total liabilities	1,829,227	1,789,233	1,689,411	1,027,313
Total equity attributable to LUKOIL shareholders	3,210,758	3,222,468	3,037,378	2,641,196

Summary Reserves and Production Information

The reserves and production information in this prospectus includes reserves and production that we do not beneficially own which are attributable to minority interests in our consolidated subsidiaries and our equity share of reserves and production of our affiliated companies. Unless otherwise specified, the reserves and production information in this prospectus does not include information relating to any acquisitions or transactions that we have commenced or completed in 2016.

We have extracted the reserves information set out below without material adjustment from the reserves reports prepared by Miller and Lents. See "*Presentation of Reserves and Resources*". We have extracted the production information set out below without material adjustment from our management accounts and operating records. We use this reserves and production information in managing our business and we expect to continue to report on such reserves and production information in our annual reports.

	As of 31 December		
	2015	2014	2013
Reserves			
Crude oil (mmbls)			
Proved	12,585	13,594	13,461
Probable	5,252	5,158	5,041
Gas (bcf)			
Proved	23,838	23,946	23,642
Probable	9,050	9,990	9,435
Crude oil and gas (mmboe)			
Proved	16,558	17,585	17,401
Probable	6,760	6,823	6,613

	Six months 30 Jun		Year ended 31 December		
	2016	2015	2015	2014	2013
Production					
Crude oil (mmbls)	349.6	370.0	749.2	727.0	683.8
Russia	310.7	321.1	641.9	684.4	642.9
International	38.9	48.9	107.3	78.6	40.9
Gas available for sale (bcf)	368.9	357.1	715.0	705.1	720.0

USE OF PROCEEDS

Commissions and expenses associated with the offering of the notes (including total expenses related to the listing and admission to trading of the notes) are expected to be approximately US\$800,000. We anticipate the aggregate net proceeds from the issue of the notes to be approximately US\$999,200,000.

We intend to use the net proceeds from the issue of the notes for general corporate purposes.

In connection with the issuance of the notes, we will be required to prepay a loan in the amount of approximately US\$338 million from affiliates of the Managers as further described in "Subscription and Sale".

RISK FACTORS

Investing in the notes involves a high degree of risk. You should carefully consider the risks, and the other information contained in this prospectus, before you decide to invest in the notes. The trading price of the notes could decline due to any of these risks and you could lose all or part of your investment. You should note that the risks described below are not the only risks we face. We have described only the risks that we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not presently aware. If any of the following risks were to materialise, our business, financial condition, results of operations and prospects could be materially adversely affected and it could affect the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Risks Relating to Our Business and the Oil and Gas Industry

Global economic and political developments and market conditions may adversely affect our business, financial condition and results of operations.

Our results of operations are significantly influenced by the general economic conditions in the countries in which we operate and those in which we currently make, or in the future may make, sales. The economic situation in these markets in the recent past has been adversely affected by weak economic conditions and turmoil in the global financial and commodity markets. There can be no assurance that a further economic downturn or financial crisis will not occur. A deterioration of the financial condition in Russia, or in any of the countries in which we operate or sell our products, could have an adverse impact on credit ratings and/or access to capital which, in turn, could lower demand for our products and services, hurt our liquidity and prevent us from obtaining financing needed to fund our development strategy.

The political and economic crisis in Ukraine and Crimea's accession to the Russian Federation has resulted in the introduction of sanctions and export controls by the United States, the European Union and other countries, as well as certain counter-sanctions by the Russian Federation. The United States, the European Union and certain other countries have imposed (i) sanctions that block the property of certain designated businesses, organisations and individuals, (ii) sectoral sanctions that prohibit certain types of transactions with companies operating in the Russian energy, financial and defence sectors, and (iii) territorial sanctions restricting investment in and trade with Crimea. The U.S. and EU sanctions (including the sectoral sanctions) apply to entities owned and/or controlled by sanctions-designated entities and individuals and, accordingly, may extend beyond Russia and Ukraine. In addition, the United States and the European Union have implemented certain export control restrictions related to Russia's energy sector and military capabilities. Among other restrictions, the U.S. Department of Commerce, Bureau of Industry and Security (BIS) has imposed a licence requirement for the export, reexport or transfer to designated entities on its Entity List (the Entity List) of items of U.S.-origin and items that contain more than 25% of controlled U.S.-origin content for use in specified types of oil or gas projects in Russia. In addition, the European Union imposed export control restrictions, which are not specific to LUKOIL (or any other entity), on the provision of certain technologies and services related to specified types of oil projects in Russia. United States sanctions include the designation of entities, including LUKOIL and other Russian energy companies, on the Sectoral Sanctions Identifications (SSI) List pursuant to Directive 4 under Executive Order 13662 (Directive 4), and the addition of LUKOIL and other Russian energy companies to the Entity List. See "-The designation of LUKOIL on the SSI and Entity Lists by the United States, the imposition of export controls on the energy sector by the European Union, and the introduction or expansion of other sanctions or export controls by the United States, European Union or other countries may adversely affect our business, financial condition, results of operation and prospects" for a description of these sanctions measures and their potential impact on us, and see "-Risks Relating to Business Operations in Emerging Markets-The ongoing crisis in Ukraine, Crimea's accession to the Russian Federation, and the resulting sanctions and export controls create political and economic uncertainty and could adversely impact our business, financial condition, results of operations and prospects" for more information on the situation in Ukraine and Crimea and related sanctions.

These and other events have resulted and could result in further economic and political uncertainty, a decrease of foreign investments into and increased capital outflows from Russia and emerging markets generally as well as persistent volatility in global and regional financial markets. Any future downturn could negatively affect our business in a number of ways and could have a material adverse effect on our operating results and financial condition. See "*Management's Discussion and Analysis of Financial*

Condition and Results of Operations—Main Factors Affecting Our Results of Operations" for more information.

The designation of LUKOIL on the SSI and Entity Lists by the United States, the imposition of export controls on the energy sector by the European Union, and the introduction or expansion of other sanctions or export controls by the United States, European Union or other countries may adversely affect our business, financial condition, results of operation and prospects.

On 12 September 2014, the United States announced sanctions against certain Russian entities, including through the issuance of Directive 4 by the U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC), which designated LUKOIL and certain other Russian energy companies. Directive 4 prohibits the following activities by U.S. persons (including U.S. citizens, U.S. permanent residents, companies organised under U.S. law and their foreign branches, and persons of any nationality to the extent located within U.S. territory): the provision, exportation, or reexportation, directly or indirectly, of goods, services (except for financial services, including clearing transactions and providing insurance) or technology in support of exploration or production for deepwater (greater than 500 feet), Arctic offshore or shale projects that have the potential to produce oil in Russia or in "maritime area claimed by the Russian Federation and extending from its territory", and that involve any person determined to be subject to Directive 4, or such person's property or interest in property. The Directive 4 prohibitions apply to LUKOIL and all entities 50% or more owned, directly or indirectly, by LUKOIL, including the Issuer, and entities owned 50% or more, in the aggregate, directly or indirectly, by LUKOIL and any other entities listed pursuant to Directive 4.

Furthermore, BIS included LUKOIL on the Entity List, effective 17 September 2014, which imposes export control licencing requirements on the export, reexport or transfer of commercial goods and other items subject to the Export Administration Regulations (EAR) (i.e., items of U.S.-origin and items that contain more than 25% of controlled U.S.-origin content), to LUKOIL and other listed entities, when the exporter, reexporter or transferor knows those items will be used directly or indirectly in support of exploration or production for Russian deepwater, Arctic offshore, or shale projects that have the potential to produce oil and/or gas or is unable to determine whether the item will be used in such projects. The Entity List licencing restrictions applicable to LUKOIL also apply to LUKOIL branches or operating divisions, but do not apply to separately incorporated subsidiaries of LUKOIL. Additionally, any LUKOIL affiliated or unaffiliated company that acts as an agent for LUKOIL in order to facilitate LUKOIL's receipt of relevant EAR-controlled items without applying for an export licence could be charged with violating the EAR. This Entity List announcement followed the adoption of the Russian Oil Industry Sanctions by BIS on 6 August 2014, which imposed general export control restrictions (not specific to LUKOIL) on specified items that could be used in Russian deepwater, Arctic offshore, or shale projects that have the potential to produce oil or gas.

Also, on 12 September 2014, the European Union announced export control restrictions prohibiting the provision of certain associated services (in particular, drilling, well testing, logging and completion services, and the supply of specialised floating vessels) necessary for deep water (greater than 150 meters) oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia. These measures supplement the existing European Union export control restrictions, announced on 31 July 2014, which prohibit the non-licenced sale, supply, transfer or export, directly or indirectly, by persons subject to the jurisdiction of the European Union (including companies incorporated in the EU; persons within the territory of the EU, including its airspace; nationals of EU Member State; and any legal person, entity, or body with respect to any business done in whole or in part within the EU), of certain technologies (whether or not originating in the EU) suited for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia. Additionally, EU sanctions prohibit the provision of technical assistance, brokering services, financing, and financial assistance related to these controlled technologies. These EU restrictions are not specific to LUKOIL.

The current sanctions and export controls may negatively impact the development of our projects (including any future deepwater, Arctic offshore and shale oil extraction projects) and our strategic plans to expand our upstream operations in Russia. By restricting the export, reexport and/or transfer of certain items from the United States and the European Union, the sanctions and export controls have reduced the number of our eligible suppliers, financing sources, and the type of equipment we are able to access. As a result, we may be unable to obtain goods, services and technology on favourable terms (or at all) to develop deepwater, Arctic offshore and shale oil extraction projects in Russia.

Furthermore, sanctions and export controls may increase the time and cost required to develop projects if we are unable to attract foreign joint venture partners or foreign contractors with relevant expertise, or acquire goods, services or technology from certain foreign suppliers. In addition, sanctions, export controls and negative publicity surrounding relations between Russia and Ukraine may have an adverse effect on our ability, or the ability of our joint ventures, to obtain financing on favourable terms and at desired levels. Any of the above circumstances that arise as a result of sanctions and/or export controls imposed by the United States, the European Union or certain other countries, separately or in the aggregate, now or in the future, could have a material adverse effect on our business, financial condition, results of operations and prospects.

The U.S. and EU sanctions and export control programmes described above are relatively recent and the application of these sanctions and export control programmes remain subject to interpretation and implementation by various regulators and market participants which may deviate from our interpretation and application of these sanctions and export control restrictions to ourselves and our counterparties, and no assurance can be given that the potential impact of our dealings with such counterparties or of such varying interpretations would not have a material adverse effect on our business, financial condition and results of operations or the legal positions of the noteholders and/or the value of the notes.

In addition, there can be no assurance that further or more restrictive sanctions and/or export controls will not be introduced which could increase the adverse effects described above. If the relations between the United States and the European Union, on the one hand, and the Russian Federation, on the other hand, continue to worsen, the United States, the European Union or other countries may expand the current sanctions and/or export controls to cover additional entities, persons or items, or new sanctions and/or export controls may be introduced relating specifically to, or that otherwise impact, LUKOIL, including sanctions that restrict access to international capital markets or sanctions that restrict our activities with specific entities or persons, or our ability to acquire certain goods, services or technologies. For example, if OFAC lists LUKOIL as a Specially Designated National, all of LUKOIL's property interests in the United States, including any notes in the possession or control of a U.S. person, would be blocked, and neither U.S. financial institutions nor any other U.S. persons could engage in any further dealings with LUKOIL or involving the notes (including receiving or processing payments on or transferring the notes) unless licenced to do so by OFAC. Expansion of EU sanctions could have similar consequences for noteholders and EU financial institutions. Any restriction on the ability of EU financial institutions to process payments by, or engage in dealings with, LUKOIL could include restrictions on the Agents or the Trustee in respect of the notes.

Furthermore, on 21 September 2016, the U.S. House of Representatives passed a bill on a voice vote, which if enacted into law in its current form, would not impose any new sanctions measures, but would, among other things, codify U.S. sanctions provided for in Executive Order 13685 (relating to Crimea) and provide the U.S. President with additional authority to impose further new sanctions on "foreign sanctions evaders" as well as persons associated with "serious human rights abuses in Crimea". There can be no assurance that this bill, or a similar bill, will or will not be approved by the U.S. Senate and ultimately signed by the U.S. President and enacted into law. Any such legislation could adversely affect the general business and investment climate in Russia and the liquidity of the notes, which may have a material adverse effect on our business and the value of the notes.

If the U.S., EU and/or other countries' sanctions and/or export control programmes are expanded, including among other things, in relation to LUKOIL or the Russian energy sector, the trading market for the notes could be adversely affected. If LUKOIL or any of its subsidiaries become subject to any such expanded sanctions, the relevant clearing systems, brokers and other market participants, as well as the London Stock Exchange, may refuse to permit trading in or otherwise facilitate transfers of the notes and certain noteholders may be unable to continue to hold the notes as a result of applicable law, any or all of which could significantly reduce the trading market for the notes or may otherwise materially impact the value of the notes.

A substantial or extended decline in crude oil, refined products, natural gas or petrochemical products prices would have a material adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations depend substantially upon the prevailing prices of crude oil, refined products, natural gas and petrochemical products. The sharp decline in crude oil prices since the second half of 2014 has significantly affected our financial results. The lower oil prices have negatively impacted our revenues, margins and profitability and resulted in substantial impairment

losses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations".

Historically, prices for crude oil, refined products, natural gas and petrochemical products have fluctuated widely in response to changes in many factors over which we do not and will not have control. These factors include:

- global and regional economic and political developments, particularly in resource-producing regions such as the Middle East, Africa, the United States, Canada and South America;
- global and regional supply and demand and expectations regarding future supply and demand for crude oil, refined products, natural gas and petrochemical products;
- the cost of exploring for, developing, producing, processing and marketing crude oil, refined products, natural gas and petrochemical products;
- the ability and willingness of the Organisation of Petroleum Exporting Countries (OPEC) and other crude oil producing nations to influence global production levels and prices;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or outbreak of armed hostilities or acts of terrorism, including in the United States, the Middle East, the CIS or other resource-producing regions;
- the cost and availability of alternative and competing fuels, including unconventional (such as oil sands and shale) and renewable energies;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes;
- unexpected failure in infrastructure and industrial accidents;
- the cost and availability of new technology; and
- weather and climate conditions and natural disasters.

It is impossible to predict future crude oil, refined products, natural gas and petrochemical price movements with certainty. Moreover, we engage in limited derivative transactions only in respect of our marketing and trading operations and hedging of commodity price risks.

Crude oil pricing has been particularly volatile over the past several years, and oil prices may remain highly volatile. According to data from Platts, the spot price per barrel for Brent crude (an international benchmark oil blend) in 2013, ranged from a low of \$96.83 on 17 April to a high of \$119.03 on 8 February, averaging \$108.66 per barrel for the year; in 2014, ranged from a low of \$54.98 on 31 December to a high of \$115.32 on 19 June, averaging \$98.95 per barrel for the year; and in 2015, ranged from a low of \$35.64 on 22 December to a high of \$66.65 on 13 May, averaging \$52.39 per barrel for the year. For the nine months ended 30 September 2016, the spot price per barrel for Brent crude oil ranged from a low of \$25.99 on 20 January to a high of \$50.72 on 8 June, averaging \$41.88 per barrel. International natural gas, refined products and petrochemical products prices, which typically follow changes in international oil prices, have also fluctuated considerably in recent years, leading to changes in refining margins that can affect our profitability.

A decline in crude oil, refined products, natural gas or petrochemical products prices for protracted periods could materially adversely affect our business, financial condition, results of operations and prospects and our ability to finance planned capital expenditures. Lower prices may reduce the amount of crude oil that we can produce economically (thereby decreasing the size of our reserves) or reduce the economic viability of projects planned or in development. As a result of a nearly two-fold drop in oil prices, 1,006 mmboe of proved reserves were transferred to lower categories of reserves and contingent resources in 2015. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Resource Base" for more information on our reserves estimates.

In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators could lead to further reviews for impairment of the Group's oil and natural gas properties. Such reviews would reflect the management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the results of our operations in the period in which it occurs. As a result of impairment tests in 2014 and 2015, with the sharp decline in crude oil prices and adverse macroeconomic changes, we recognised impairment losses and dry hole write-offs in a total amount of RUB 161,130 million in 2015 and RUB 87,553 million in 2014 (net of tax), which had a significant

negative impact on profit for the year attributable to LUKOIL shareholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Our Results of Operations—Changes in Crude Oil, Refined Products and Gas Prices" for more information on the impact of crude oil price volatility on our results of operations.

Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations.

We conduct our operations in Russia under numerous subsoil licences. The licensing regime in Russia for the exploration, development and production of crude oil and natural gas is governed primarily by the Russian law "On Subsoil" (the Subsoil Law) and related regulations. We may be subject to fines and our licences may be terminated, suspended or limited if we breach licence requirements (including the obligation to reach a certain level of production), do not make timely payments of levies and taxes for the use of the subsoil, fail to provide reports or fail to fulfil any capital expenditure and/or production obligations.

As our licences were mainly issued prior to 2000, our production licences generally have a term of 20 years, while our combined exploration and production licences generally have a term of 25 years. However, since the substantial changes were made in the Subsoil Law in 2000, new exploration and production licences are issued for a period equal to the economic life of the relevant field. With respect to our original licences (those that pre-date such legislation), we routinely obtain extensions to the licences that have expired and to date, none of our licence renewal applications have been denied. Approximately 16% of our subsoil use licences expire between 2017 and 2021, and the licences that need to be extended during the next 12 months do not comprise a material portion of our business or operations. However, we can give no assurance that our original licences will be extended. Regulatory authorities can exercise considerable authority in issuing and renewing licences. The failure to extend our licences, upon expiration, for the economic life of the relevant fields could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We may be unable to comply with certain licence requirements for some or all of our licence areas. In the ordinary course, we are subject to audits by the Russian authorities related to compliance with the terms of our licences. As of the date of this prospectus, we are not aware of any material violations of our licences. However, if we fail to fulfil the specific terms of any of our licences or if we operate in our licence areas in a manner that violates Russian law, government regulators may impose fines on us or suspend, revoke or terminate our licences, any of which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

In addition, because we did not own or control all of our subsidiaries when they obtained their initial subsoil licences, we cannot be certain that all of our subsidiaries' licences were issued, or the preceding and current licences were re-issued, in accordance with all applicable law and regulations at the time. If it is determined that any of these licences were issued and/or re-issued in violation of applicable laws, such licences could be subject to revocation. A loss of any such licence could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

To operate our business as currently contemplated, we must also obtain permits and authorisations to conduct operations, such as land allotments, approvals of design and feasibility studies, pilot projects and development plans and for the construction of any facilities on site. We may not be able to obtain all required permits and authorisations. If we fail to receive any required permits and authorisations (whether in Russia or internationally), we may have to delay our investment or development programmes, or both, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge.

Generally, crude oil production in Russia is transported to refineries or customers through the Russian crude oil pipeline system which is operated by a state-owned company, PJSC Transneft (Transneft), or by railway transport. The Transneft pipeline system is subject to breakdowns, leakage, outages, capacity constraints and other major disruptions. We can give no assurance that the system is adequately funded,

maintained or modernised, and a significant part of the pipeline infrastructure may be in poor condition. Much of the system is located in regions with harsh climates where construction, maintenance and refurbishment can be challenging. In addition, during pipeline maintenance periods, we may experience delays in or be prevented from transporting crude oil from some of our fields. These delays, outages or capacity constraints, or other major disruptions in the Transneft system, could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The Russian Government regulates access to Transneft's pipeline network and is required to provide access on a non-discriminatory basis. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft's pipeline network in the prior quarter. Historically, the Transneft pipeline system did not have sufficient capacity to meet the total demand for crude oil pipeline exports of Russian oil producers. Transneft has made substantial investments in the development of additional export routes and transhipment terminals in order to increase capacity. However, failure by Transneft to maintain or sufficiently increase the capacity of the Transneft system or the occurrence of breakdowns, leakages or other major disruptions in the Transneft system could require us to use more expensive alternative export routes or to sell excess production in the domestic market, either of which could result in a decline in our profit margin.

We, along with all other Russian crude oil producers, must pay transportation fees to Transneft in order to transport crude oil and refined products through the Transneft network. The Russian Federal Antimonopoly Service (FAS) is responsible for setting Transneft's tariffs, which tend to increase annually in ruble terms. Failure to pay these tariffs could result in the termination or temporary suspension of our access to the Transneft network. Significant increases in Transneft's tariffs or the termination or suspension of our access to the Transneft network would materially adversely affect our business, financial conditions and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We face similar risks in some of the other countries where we operate. We can give no assurance that other oil pipeline companies transporting our crude oil or refined products will not cause disruptions in the transportation of our crude oil in the future or that such disruptions will not have a material adverse effect on our business, financial condition and results of operations.

We transport the major part of our refined products by railway transport. We also depend on railway transportation for the distribution of our crude oil. Joint Stock Company "Russian Railways" (Russian Railways) is a state-owned monopoly provider of railway transportation services. According to Russian Railways, parts of Russia's rail infrastructure and related assets have not been adequately maintained or modernised, and use of the railways exposes us to risks such as potential delivery disruptions due to the condition of the railway infrastructure. Russian Railways prepares a maintenance programme on an annual basis. The incompatibility of Russia's wider railway gauge with the railway gauge of most other countries imposes additional costs and logistical constraints on our ability to export our products using the railways. Furthermore, rail freight prices are subject to annual adjustment based on various factors and tend to increase annually. In 2015 and 2016, tariffs for railroad transportation increased by 10.0% and 9.0% on average, respectively. Significant increases in Russian Railways' fees would increase our transportation costs and could materially adversely affect our business, financial condition and results of operations. Moreover, increased dependence on rail transport could lead to a general increase in transportation costs to the point where the economics of transporting by rail is inefficient, or could lead to our inability to meet export plans, causing a temporary diversion of crude oil and oil products on the domestic market and a reduction in domestic prices.

The pipeline system of Joint Stock Company "AK "Transnefteproduct" (Transnefteproduct), a subsidiary of Transneft, transports a portion of our refined products produced in Russia. We, along with other Russian refined product producers, must pay transportation fees to Transneft in order to transport our refined products through the Transnefteproduct network. The FAS is responsible for setting tariffs for the use of the Transnefteproduct network, which tend to increase annually in ruble terms. Any significant disruption in the pipeline system or significant increase in the transportation fees could materially adversely affect our business, financial condition and results of operations.

Further, our ability to exploit reserves discovered in remote locations is dependent upon, among other things, the availability of the necessary infrastructure to transport oil and gas to potential buyers at a competitive price. For example, we face a number of obstacles related to the transportation of crude oil

and natural gas from our holdings in the North Caspian region and the CIS, which may hinder sales of oil and gas to international markets. We also face obstacles related to capacity constraints, general political and economic instability and the necessity of obtaining approvals for pipelines from several governments that may not share a common development strategy.

Any restriction on our ability to access the necessary infrastructure to transport oil and gas, including any limitation on our access to Transneft's pipeline network or Russian Railways' rail network, could negatively impact our ability to transport our crude oil and/or refined products within Russia or to export our crude oil and/or refined products internationally, which in turn could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We face several risks in connection with the implementation of our strategy to develop our natural gas operations.

As of 31 December 2015, our proved gas reserves in Russia comprised 69.2% of our total proved gas reserves. All material aspects of the Russian natural gas industry are subject to or materially affected by government regulation. Through its share ownership, representation on the board of directors and role as regulator, the government has strong influence over Gazprom, the dominant participant in Russia's natural gas industry. Gazprom is the primary buyer of the natural gas we produce in Russia. The significant participation in the Russian natural gas industry of independent gas producers is a relatively recent development. If the government were to determine, through legislation, administrative action or otherwise, that independent gas producers should have a less significant role in the Russian natural gas industry, it could take actions (including through Gazprom) that would have a material adverse effect on our ability to develop our natural gas assets, which could in turn have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee. In 2014, we entered into a strategic partnership agreement with Gazprom whereby Gazprom agreed to accept all gas produced by our Group at the Bolshekhetskaya depression through 2024. In June 2015, we signed an additional agreement with Gazprom to accept the supply of gas through 2024 from North Caspian fields to be commissioned by the Group.

The Unified Gas Supply System (UGSS) is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. The Russian law "On Gas Export" (the Gas Export Law) grants exclusive rights to export natural gas to Gazprom and grants exclusive rights to export liquefied natural gas (LNG) to (i) Gazprom; (ii) entities which have licences for oil fields of federal importance that as of 1 January 2013 had as a condition an obligation to build an LNG plant or an obligation to route natural gas in gaseous state to LNG plants for liquation; (iii) Russian legal entities with over 50% participation of the state or direct or indirect control by the state of over 50% of the voting rights which use oil and gas fields within the internal sea waters, territorial sea or continental shelf of the Russian Federation, the Black Sea or the Azov Sea and which produce LNG from natural gas in gaseous state extracted from the said oil and gas fields, or which produce LNG from natural gas in gaseous state extracted under production sharing agreements; and (iv) subsidiaries of the legal entities identified in (iii) above where such legal entities have over 50% participation in the voting rights of the subsidiaries and where such subsidiaries' activities conform to the conditions described in (iii) above. With respect to export of the natural gas in gaseous state Gazprom remains the sole entity with exclusive rights. Under the existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis subject to spare capacity and other factors. In practice, however, Gazprom exercises considerable discretion over access to the UGSS because it is the sole owner of information relating to UGSS's capacity. See "Business-Transportation-Gas Transportation" for more information about our transportation of gas through the UGSS. We can give no assurance that the legislation requiring Gazprom to provide access on a non-discriminatory basis will remain in place or be enforced, or that Gazprom will continue to provide us with access to the UGSS, to the extent we require, or at all, or that the terms of access offered will be commercially reasonable. A change in the existing legislation, a failure by Gazprom to comply with the legislation or other action by Gazprom to decrease our access to transportation capacity may limit the effective use and value of our gas producing assets and adversely affect our ability to implement our strategy to develop our natural gas resources, which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We can give no assurance that the UGSS is adequately funded, maintained or modernised. Large segments of the UGSS network of pipelines and compressor installations are located in regions with harsh climates where construction, maintenance and refurbishment can be challenging. Any major disruption in the UGSS or any delays during regular maintenance work could impact our ability to implement our strategy to develop our gas producing assets, which could ultimately have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

In Russia, the FAS regulates natural gas transportation tariffs. Regulated natural gas transportation tariffs have risen in recent years and we expect them to continue to rise. If natural gas transportation tariffs continue to rise and we are unable to pass on these additional costs to our end customers, or the impact of increased transportation tariffs on our wholesale customers requires us to decrease the natural gas prices we charge on a non-delivered basis, our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee could be materially adversely affected.

Gazprom is the monopoly supplier of gas in Russia. The Russian Government currently regulates the prices for the gas that Gazprom sells in Russia (other than through exchange sales). Current limitations on our pricing flexibility due to Gazprom's dominant position in Russia and the Russian Government's price regulations could have a material adverse effect on our business, financial condition and results of operations, particularly if we experience a significant increase in our operating costs related to the development of our gas producing assets. The Russian Government may cease to regulate domestic wholesale prices, but we cannot predict the levels or impact of the potential unregulated prices.

Global gas market conditions may also affect internal natural gas prices in Russia. Such factors as shale gas production growth, increased trade of LNG, pipeline infrastructure expansion, increased spot trading and gas demand decline may have a negative impact over gas prices on the main foreign sales markets of Gazprom.

Our international subsoil use rights may be suspended, terminated or revoked prior to their expiration.

We conduct our operations outside of Russia under numerous production sharing and concession agreements. See "—*Risks Relating to Our Business and the Oil and Gas Industry*—*We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition*" for information on the relevant jurisdictions in which we operate. See "*Business*—*Exploration and Production*—*International Exploration and Production*" for information on our various production sharing and concession agreements. The licensing regime for the exploration, development and production of crude oil and natural gas is governed primarily by the relevant local laws, and we may be unable to obtain or extend necessary licences or agreements or comply with the terms thereof in some or all of our production areas abroad. Our production sharing and concession agreements may be terminated, and our subsoil use rights may be suspended, terminated or revoked, if we fail to comply with relevant agreements' requirements, do not make timely payments to foreign governments or state owned operators, go bankrupt or fail to fulfil any substantial production obligations. The occurrence of any of these events could have an adverse effect on our business, financial condition and results of operations.

Our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses.

Our development and exploration projects may be curtailed, delayed or cancelled or may prove to be unsuccessful for many reasons, including cost overruns, obtaining permits, obtaining financing, negotiations with third parties, lower oil and gas prices, equipment shortages, power shortages, mechanical difficulties and failing to discover productive oil and gas reserves. These projects may also require the use of new and advanced technologies, which may be expensive to develop, purchase and implement, and may not function as expected. In addition, some of our development and exploration projects are or may be located in deep water or frozen or other hostile environments, or involve or may involve production from challenging reservoirs, which can exacerbate such problems. The climate and topography of some of the regions where our fields are located limit access to certain fields and facilities during certain times of the year. During the summer and early fall, some fields are partially flooded and operating capacity is limited. If warmer weather starts earlier or ends later in the year than usual, then our operating capacity is more limited than normal. In winter, extreme cold or snowstorms could limit access to certain wells, and extreme cold could cause the temporary suspension of operations of wells with a high water cut. Such weather conditions could also limit our exploration operations.

We conduct exploration activities in areas, including the West Siberia and Timan-Pechora regions and areas in and around the Caspian Sea, where environmental conditions are challenging and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, dry holes, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, our overall drilling activity or drilling activity within a particular project area may be unsuccessful in that we may not find commercially productive reservoirs.

If any of these risks were to materialise, it could impede our development or exploration plans for our fields and facilities and otherwise materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Russian Subsoil Law provides that certain subsoil areas shall be considered as having federal importance. These subsoil areas include areas that, in particular, contain recoverable oil reserves of at least 70 million tonnes or natural gas reserves of at least 50 bcm and any subsoil areas located in domestic sea waters or territorial seas or in any continental shelf of Russia. Pursuant to the Subsoil Law, rights to develop oil fields designated as having federal importance situated on the continental shelf, or within the territory of Russia but extending to the continental shelf, may be granted only to Russian entities having at least five years of experience in the development of the continental shelf of the Russian Federation, with state (federal) equity participation exceeding 50% or in relation to which the Russian Federation has a right to either directly or indirectly control over 50% of the voting shares. Accordingly, there is a risk that if we wish to acquire any such rights, we would be required to participate in a joint venture with state participation, over which we may not have control or the terms of which may not be favourable to us. See "*Regulation of the Oil Industry in the Russian Federation—Subsoil Production Licences—Issuance of licences*" for more information on the use and legal status of the subsoil areas of federal importance.

If we fail to acquire or find and develop additional reserves or to conduct successful development activities, our reserves and production will decline materially from their current levels.

If we fail to conduct successful exploration and development activities or acquire properties with proved reserves, or both, our proved reserves will decline as we extract oil and natural gas. In addition, the rate of production from crude oil and natural gas properties generally declines as reserves are depleted. In 2015, our reserve replacement ratio was negative, as the significant decline in oil prices adversely affected the economic feasibility of the development of some of our reserves, and 1,006 mmboe of proved reserves were transferred to lower reserve categories and contingent resources. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*—*Resource Base*" for more information on our reserves estimates.

West Siberia, our main oil producing region, is maturing. Our future production is highly dependent upon our success in finding or acquiring and developing additional reserves in an economically viable manner. If we are unsuccessful, our total proved reserves and production will decline, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We compete with other oil and gas companies in all areas of our operations, including the acquisition of licences, exploratory prospects and producing properties and we may encounter competition from suppliers of alternative forms of energy sources.

The oil and gas industry is intensely competitive. We compete with other major Russian and international oil and gas companies. Many of our international competitors have substantially greater resources and have been operating in a market-based, competitive economic environment for much longer than we have. See "*Business—Competition*". PJSC Rosneft Oil Company (Rosneft) is our primary competitor in Russia which substantially increased its production volumes by acquiring 100% of TNK-BP in 2013 and a 50.0755% stake in PJSOC Bashneft in October 2016.

The key activities in which we face competition are, among others:

- acquisition of exploration and production licences at auctions or tenders run by governmental authorities;
- acquisition of other companies that may already own licences or existing hydrocarbon-producing assets;
- implementation of international projects for prospecting and exploration and development of oil fields;
- engagement of third-party service providers whose capacity to provide key services may be limited;
- purchase of capital equipment that may be scarce;
- employment of qualified and experienced personnel;
- access to critical transportation infrastructure;
- acquisition of existing retail outlets or of sites for new retail outlets;
- acquisition of or access to refining capacity; and
- marketing and sale of crude oil, oil products and gas.

Additionally, we may encounter competition from suppliers of unconventional energy sources and suppliers of alternative energy sources, including environmentally friendly renewable energy sources such as solar power or wind generated power, for example, as a result of high hydrocarbon prices, public policy measures or potential depletion of hydrocarbon reserves.

Our failure to compete effectively could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations.

While most of our revenues are either denominated in U.S. dollars or are correlated to U.S. dollar oil prices, most of our costs (other than debt service costs and costs that are linked to U.S. dollar oil prices, such as mineral extraction taxes and export duties) are denominated in rubles. Our results of operations are, therefore, significantly affected by the relative movements of inflation and exchange rates. In particular, our operating margin is generally adversely affected by the appreciation of the ruble against the U.S. dollar because this will generally cause our revenues to decrease in ruble terms relative to our costs. In addition, most of our debt service costs are denominated in U.S. dollars, and the depreciation of the ruble against the U.S. dollar will generally cause our debt service costs to increase in ruble terms. The ruble has been subject to significant volatility recently and depreciated by 83% against the U.S. dollar from 2014 to the first half of 2016 in connection with external geopolitical factors, the significant decline in oil prices and other factors. See "*Presentation of Financial and Other Information—Currency Presentation and Exchange Rate Information*" for more information on the currency exchange rates.

The Russian economy has also experienced high levels of inflation. According to Rosstat, inflation in Russia in 2015, 2014 and 2013 was 12.0%, 11.4% and 6.5%, respectively. Over the past five years, the ruble has fluctuated dramatically against the U.S. dollar, from RUB 27.26 to a U.S. dollar on 6 May 2011 to RUB 83.59 to a U.S. dollar on 21 January 2016, according to the official exchange rates published by the CBR.

The exchange rate is expected to continue to be volatile, particularly as the CBR introduced a floating exchange rate regime in November 2014 and limited its currency interventions in 2015 and the first half of 2016. Our operating margins could be adversely affected if the inflation of our ruble costs in Russia is not balanced by a corresponding devaluation of the ruble against the U.S. dollar or an increase in oil prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Our Results of Operations—Changes in U.S. Dollar-Ruble Exchange Rate and Inflation" for more information regarding ruble inflation and movements in U.S. dollar/ruble exchange rates.

We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign exchange rate exposures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market

Risks—Foreign Currency Risk" for discussion of how recent foreign exchange movements have impacted our business and of our hedging policies.

The ruble also remains largely non-convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of rubles into other currencies, but it is limited in size and is subject to rules limiting or prohibiting such conversion. From 31 December 2011 to 31 December 2015, Russia's foreign currency and gold reserves decreased from \$498.6 billion to \$368.4 billion, and as of 30 June 2016 were \$392.8 billion, according to the CBR. Although Russia's foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The Russian Government and the CBR may impose burdensome requirements governing currency operations, as they have done in the past. If these restrictions were re-introduced, they could prevent or delay any operations outside the Russian Federation that we may want to pursue. Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults.

Certain insiders own significant amounts of shares in LUKOIL, giving them a substantial amount of control over our management and business.

As of 30 September 2016, LUKOIL's President, Vagit Alekperov, and Vice President for Strategic Development, Leonid Fedun, owned 22.96% and 9.78%, respectively, of our share capital (taking into account beneficial ownership). Together with other members of LUKOIL's Board of Directors and Management Committee, they collectively owned approximately 34.51% of LUKOIL as of 30 September 2016. As such, these insiders can exercise significant influence over LUKOIL's management and affairs, including:

- the composition of the Board of Directors and, through it, any determination with respect to LUKOIL's business direction and policies, including the election and early removal of the members of the Management Committee;
- the determination and allocation of business opportunities that may be suitable for us;
- any determinations with respect to mergers, acquisitions or other business combinations;
- acquisition or disposition of assets;
- financing arrangements; and
- the incurrence of debt, the pledging of our assets and the use of proceeds from any debt financing.

The influence that they have may not always benefit LUKOIL or be in the best interests of other shareholders or holders of our other securities, including the notes.

We may not be able to finance our planned capital expenditures.

Our business requires significant capital expenditures, including in exploration and development, production, transportation and refining, and to meet our obligations under environmental laws and regulations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Investing Activities", "—Off Balance Sheet Arrangements" and "—Contractual Obligations" for information about our capital expenditures and commitments.

We rely on our cash flows from our operating activities and on external sources, including bank borrowings and offerings of debt or equity securities in the Russian and/or international capital markets, to finance our capital expenditures. If our cash flows decrease or we are unable to raise the necessary financing on favourable terms or at all, we will have to reduce our planned capital expenditures. Any such reduction could materially adversely affect our ability to expand our business and, if the reductions are severe enough, could materially adversely affect our ability to maintain our operations at current levels. If any of these risks were to materialise, it could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Our debt service obligations may adversely affect our cash flow.

We currently have, and will continue to have upon the completion of the issuance of the notes, certain amounts of outstanding indebtedness, including other previously issued notes and our obligations under existing credit arrangements. We may seek additional financing in the future through the placement of additional bank or capital markets financing. We may also obtain working capital lines of credit, additional long-term debt, vendor financing and capital lease arrangements. We may not be able to generate enough cash, or we may be unable to obtain additional financing on favourable terms or at all, to pay the principal, interest and other amounts due under all of our indebtedness.

There can be no assurance that we will be able to meet our debt service obligations, including our obligations under the notes. Any inability to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we would be in default under the terms of our indebtedness, which would permit the holders of such indebtedness to accelerate the maturity of such indebtedness and could cause defaults under our various indebtedness, including the notes. Such defaults could delay or preclude payments of interest or principal on our indebtedness, including the notes.

We may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations.

We incur and expect to continue to incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. These include costs to reduce certain types of air emissions and discharges to the land and sea and to remediate contamination at various owned and previously owned facilities and at third-party sites where our products or waste have been handled or disposed. There are additional costs associated with the handling, use, storage, transportation, disposal and clean-up of hazardous materials and non-hazardous wastes and the dismantlement or abandonment of our properties at the end of their useful lives. Our shipping and other transportation operations are also subject to extensive environmental and other regulations, and our products are subject to various consumer protection laws.

In 2013, our Management Committee approved the LUKOIL Group Environmental Safety Programme for 2014-2018, aimed at improving our environmental monitoring system and minimising any negative environmental impacts caused by our operations, including reducing emissions into the atmosphere and preventing accidents. Environmental protection costs incurred by the Group have been, and in the future may be, significant. Further, there can be no assurance that our Environmental Safety Programme or any environmental safety measures implemented in connection with such programme will protect us from negative environmental impacts caused by our operations.

Managed nuclear explosions were carried out within the Osinskoye oil field in 1969. This field is currently operated by OOO LUKOIL-Perm (LUKOIL-Perm). Subsequent drilling allowed radioactively contaminated water to enter the oil reservoir, which eventually led to a ground-level radioactive contamination problem being identified in 1976. We have implemented procedures to maintain a buffer zone around the location of the nuclear explosions. However, we can give no assurance that further ground water contamination of the surface soil will not occur and will not have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

New laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement or new interpretations of existing laws, regulations and licences or the discovery of previously unknown contamination may require us to modify our operations or require further expenditures. These expenditures may include expenditures to install pollution-control equipment, perform site clean-ups and pay fines or make other payments for discharges or other breaches of environmental standards. Our operations could also expose us to civil claims by third parties for alleged liability resulting from contamination of the environment or personal injuries caused by release of hazardous substances. The expenditures associated with environmental pollution can be substantial. In addition, we may be required to modify, curtail or cease certain activities or implement temporary shutdowns of facilities, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee. See "*Regulation of the Oil Industry in the Russian Federation – Environmental Protection – Gas Flaring Operations*" for information on the recently increased charges for gas flaring operations.

Increasingly strict environmental requirements, including those relating to gasoline sulphur levels, diesel quality and the aromatic content of gasoline, affect product specifications and operational practices. Thus, if environmental requirements change, especially in the European Union or the United States, our refineries may not, without significant modification and capital expenditures, be able to produce significant quantities of refined products that meet product specifications in these markets. In addition, with the admission of Bulgaria and Romania to the European Union on 1 January 2007, our refineries in these countries became subject to more stringent regulations relating to the quality of refined product product our refineries to comply with such regulations, including those that relate to asbestos, which was present at both such refineries. Failure to meet certain international standards at our refineries could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Although the costs of the measures we have taken to comply with environmental regulations have not had a material adverse effect on our business, financial condition or results of operations to date, in the future, the costs of complying with, or as a result of, health, safety and environmental laws and regulations may increase. Any such increased costs, or any requirements to modify our operations, could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Regulatory measures designed to address climate change and physical effects attributed to climate change may adversely affect our businesses.

Growing public concern in the European Union and globally that rising greenhouse gas emissions and climate change may significantly affect the environment and society could adversely affect our businesses, including by the addition of stricter regulations that increase our operating costs, affect product sales and reduce profitability. For example, regulations designed to gradually limit fossil fuel may, depending on the emissions limits and compliance deadlines, negatively and significantly affect the development of certain Group projects and the value of certain Group assets. Furthermore, our business operates in varied locales where the potential physical impact of climate change, including changes in weather patterns, is highly uncertain and may materially adversely affect our business, financial condition and results of operations. The possible effects of climate change that could harm our operations include an increasing scarcity of water resources which may negatively affect certain of our operations, higher sea levels which may harm certain coastal activities, and extreme weather events which may damage our facilities.

We are exposed to potential losses and liabilities arising from natural disasters, operational catastrophes or security breaches.

Exploration for, the production of, the transportation of and any other operations with hydrocarbons and their refined products are hazardous and dangerous. Any natural disaster, operator error or other occurrences can result in oil spills, gas leaks, loss of containment of hazardous materials, irregular waste disposal, cratering, fires, equipment failure, loss of well control and other industrial accidents. Failure to manage these risks could result in injury or loss of life, damage or destruction of wells, production facilities, pipelines and other property, damage to the environment and business interruption. For example, in February 2014, a fire at our Stavrolen petrochemical plant resulted in non-fatal injuries to 10 of our employees and suspension of production. The Russian technical supervisory authority conducted an investigation into the cause of the fire and found that it was caused by depressurisation of the aluminium heat exchanger. The commission recognised that the actions of the personnel during the accident were competent and timely. We resumed the production of ethylene and propylene upon the completion of repair works in April 2015.

All modes of transportation of hydrocarbons contain inherent risks. A loss of containment of hydrocarbons and other hazardous materials could occur during transportation by road, rail, sea or pipeline. Given the high volumes involved, the potential impact of a release on the environment and people could be very significant.

Offshore operations are subject to marine perils, including severe storms and other adverse weather conditions, vessel collisions, as well as interruptions or termination by governmental authorities based on environmental and other considerations. Losses and liabilities arising from such events could significantly

reduce our revenues or increase our costs and have a material adverse effect on our operations or financial condition. Offshore operations may be subject to stringent governmental regulations.

We are exposed to risks regarding the safety and security of our operations. Inability to provide safe environments for our workforce and the public could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to our reputation. Security threats require continuous oversight and control. A breach of security (such as a technical failure, cyber attack, computer virus, act of terrorism or other criminal act) against our plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people.

Any such disasters, catastrophes or breaches could result in significant losses, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

We may not be able to detect and prevent fraud or other misconduct by our employees or third parties.

We may be exposed to fraud or other misconduct committed by our employees, representatives, joint venture partners, suppliers, customers or other third parties that could subject us to litigation, financial losses and sanctions imposed by governmental authorities, as well as affect our reputation. Such misconduct could include misappropriating funds, engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities or otherwise not complying with applicable laws or our internal policies and procedures. Our Code of Business Conduct and Ethics applies to all of our employees and defines our commitment to compliance with applicable laws and high ethical standards. However, we can give no assurance that our Code of Business Conduct and Ethics, or our other internal policies, procedures and controls will work effectively at all times or protect us against liability for the actions of our employees, representatives, joint venture partners, suppliers, customers or other third parties.

The crude oil and natural gas reserves data in this prospectus are only estimates and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

The information concerning the hydrocarbon reserves estimated by LUKOIL included in this prospectus has been prepared in accordance with the definitions contained in SEC Regulation S-X Rule 4-10(a) at that time and has been derived or extracted from the 31 December 2015, 2014 and 2013 reports of Miller and Lents. No more recent reserve estimates than those contained in such reports of Miller and Lents will be included in this prospectus. For further information on the standards used in preparing estimated hydrocarbon reserves, see "*Presentation of Reserves and Resources*".

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of the value and quantity of economically recoverable hydrocarbon reserves, rates of production, future net revenues and the timing of development expenditures are based on existing economic and operating conditions using prices and costs as of the date the estimate is made. In addition, estimates necessarily depend upon a number of variable factors and assumptions, including the following:

- historical production from the area compared with production from other comparable producing areas;
- interpretation of geological and geophysical data; and
- the assumed effects of regulations by governmental agencies.

Because all reserves estimates are subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the production and operating costs incurred;
- the amount and timing of future development expenditures; and
- oil and gas prices.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. Results of drilling, testing and production subsequent to the date of an estimate generally result in revisions to that estimate. Accordingly, reserves estimates may be materially different from the quantities of crude oil and gas that are ultimately recovered and, if recovered, the revenue therefrom could be less, and the costs related thereto could be more, than estimated amounts. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they were based, the quality of the information available and the ability to verify such information against industry standards. The reserves evaluations carried out were based on production data, prices, costs, ownership, geological and engineering data, and other information supplied by us.

In addition, the reserves estimates assume, among other things, that the future development of all of our crude oil and gas fields and the future marketability of our crude oil and gas will be similar to past development and marketability. These economic assumptions may prove to be incorrect. In particular, the economies of Russia, other countries of CIS, the Middle East, West Africa and South America are more volatile and subject to more significant and sudden changes than more developed economies, and thus economic assumptions in Russia, other countries of CIS, the Middle East, West Africa and South America are subject to a significant degree of uncertainty. Potential investors should not place undue reliance on the forward-looking statements in respect of the reserves estimates or on comparisons of similar reserves data of peer international and domestic companies.

The discounted and undiscounted pre-tax future net revenues included in this prospectus should not be considered as the market value of the reserves attributable to our properties. Our actual pre-tax future net revenues will be affected by factors such as:

- the amount, timing and cost of actual production;
- supply, demand and price for oil and gas;
- cost and availability of transportation; and
- changes in governmental regulations (including taxation).

Additionally, in estimating our proved hydrocarbon reserves we have assumed that the production licences for our Russian fields would be renewed and the fields would continue to be in production until the economic limit of production is reached. If any production licences for our Russian fields are not renewed, our estimated hydrocarbon reserves may materially decrease.

We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition.

A significant amount of our hydrocarbon production and reserves are located outside Russia. In 2015, international projects accounted for approximately 17.1% of our marketable hydrocarbon production, and as of 31 December 2015, approximately 11.7% of our proved hydrocarbon reserves were located outside Russia. Currently, we have international upstream interests in various countries, including Iraq, Kazakhstan, Azerbaijan, Uzbekistan, Egypt, Romania, Ghana, Norway, Cameroon, Nigeria and Mexico. In addition, we own refineries in Bulgaria, Romania and Italy, a petrochemical plant in Ukraine and a 45% interest in the Zeeland refinery in The Netherlands.

In Iraq, we are a party to a development and production service contract with two of Iraq's state-owned companies (North Oil Company and South Oil Company) to develop the West Qurna-2 field located in the south of Iraq. See "—*Risks Relating to Our Business and the Oil and Gas Industry*—*We may not be able to realise opportunities in Iraq*" and "*Business*—*Exploration and Production*—*International Exploration and Production*—*Iraq*—*West Qurna-2*" for information on our rights in relation to the West Qurna-2 oil field.

We are exposed to significant political, economic and legal risks in some of these countries, which, if they materialise, could considerably complicate our activities in an individual region or even force us to halt our activities in such regions. There has been war, terrorist activity and civil strife in and around the Middle East and the Caspian region for much of the past two decades. Recent demonstrations, protests and conflicts in Eastern Europe, the Middle East and certain areas of Africa, including in countries in which we operate or have made strategic investments (such as Egypt, Iraq, Nigeria and Cameroon), have resulted in political and economic instability, which in some cases have exposed us to risks that have adversely affected our operating results. For example, in February 2014, we suspended operations at Karpatneftechim, our petrochemical plant in Ukraine, due to continued political instability and poor market conditions in Ukraine. As of 31 December 2014, we recognised impairment losses related to assets held for sale in the amount of RUB 2.2 billion and related to goodwill in the amount of RUB 550 million in connection with our operations in Ukraine. In addition, the recent death of the

president of Uzbekistan in September 2016 may create political and economic instability in the region, which could negatively impact our operations.

If U.S. or other sanctions authorities determine that our actions are inconsistent with their sanctions regimes or foreign policy interests, they could unilaterally target us for sanctions penalties. In 2010, two U.S. congressmen sent a letter to the U.S. President accusing LUKOIL of engaging in sales of petroleum products to Iran that contravened U.S. secondary sanctions subsequent to enactment and implementation of the U.S. Comprehensive Iran Sanctions Accountability and Divestment Act of July 1, 2010. We denied these claims, and have not been found to have violated any international sanctions on Iran or elsewhere. Nonetheless, the international sanctions regime against Iran resulted in the termination of and withdrawal from our geological exploration of the Anaran field in Iran. We booked an impairment loss of \$63 million (RUB 1.9 billion, as of 31 December 2009) in 2009 for the abandonment of this project. Any violations of sanctions by us could have a material adverse effect on our operating results and financial condition.

On 16 January 2016, the United States implemented certain Iran sanctions relief for non-U.S. companies as part of the Joint Comprehensive Plan of Action (JCPOA). In particular, the United States has ceased the application of most secondary sanctions that target non-U.S. companies for engaging in activities with Iran, providing potential opportunities, which we are exploring, for us to engage in commercial transactions and investment in Iran, including engagement with Iran's energy sector. However, the United States continues to maintain and enforce primary sanctions against Iran, imposing compliance obligations on non-U.S. companies with respect to Iran-related activities that have any U.S. jurisdictional nexus. These and certain other Iran-related prohibitions imposed by the United States, the European Union and other countries continue to affect non-U.S. companies, including LUKOIL. Violations of these remaining measures, including certain secondary sanctions which remain in place, could have a material adverse effect on our operating results and financial condition. There is also a potential risk that the United States could re-impose wider secondary or other sanctions on Iran affecting non-U.S. companies that it lifted in connection with implementation of the JCPOA if Iran violates the agreement at some point in the future. Additionally, a significant number of U.S. states maintain state and divestment sanctions laws that prohibit investment of public funds in, and mandate divestment of such pre-existing investments from, companies that engage in certain kinds of business involving Iran. Consequently, as we engage in activities associated with Iran, we are subject to listing and divestment threats and actions in some jurisdictions at the U.S. state and local level for commercial activities or investment in Iran, even if our activities are permitted by U.S. sanctions relief, which could result in certain investors being unable to acquire or hold the notes, reduce the trading market for the notes, or otherwise materially impact the value of the notes.

The ongoing and future success of the Group also depends on securing and maintaining a "social license to operate" from impacted communities and other stakeholders. We believe our operations can provide valuable benefits to surrounding communities, in terms of direct employment, training and skills development, creation of demand for products and services and other community benefits associated with ongoing payment of taxes, royalties and contribution to community development funds. Notwithstanding, communities can become dissatisfied with the Group's activities. Such dissatisfaction may result in civil unrest, protests, direct action or campaigns against the Group. Any such actions may impact our project costs, production or even project viability.

If we fail to integrate our acquisitions successfully, our rate of expansion could decline and our business, results of operations, financial condition and prospects could suffer.

We have expanded our operations significantly through acquisitions since being privatised in 1993, both in Russia and internationally, and we expect to continue to do so in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Changes in Group Structure" for a discussion of our recent acquisitions. The integration of acquired businesses, including businesses we may acquire in the future, requires significant time and effort of our senior management, who are also responsible for managing our existing operations. Integration of new businesses can be difficult, as our culture may differ from the cultures of the businesses we acquire, unpopular cost cutting measures may be required and control over cash flows and expenditures may be difficult to establish. In addition, difficulties can arise in retaining key employees crucial to the success of the newly acquired businesses. We can give no assurance regarding our ability to successfully integrate the businesses that we acquire. Further, we may experience higher costs of integration than we anticipated and unforeseen liabilities in connection with these acquisitions, and the synergies and economies of scale from which we expect to benefit through these acquisitions may

not be realised in full or at all, any of which may adversely affect our business, financial condition and results of operations.

We may not be able to realise opportunities in Iraq.

In December 2009, we won a tender to develop the West Qurna-2 field as part of a consortium with Statoil. In January 2010, we entered into a development and production service contract with two of Iraq's state-owned companies (North Oil Company and South Oil Company) and Statoil, which was ratified by the Iraqi Cabinet of Ministers. In May 2012, Statoil's stake in West Qurna-2 project was transferred to LUKOIL, increasing our total share in the project to 75%. The development and production service contract was amended in January 2013 and currently has a term of 25 years.

We have invested substantial amounts to develop the West Qurna-2 field. As of 30 June 2016, our capital and operating costs incurred in the project were \$7.2 billion, and we are currently discussing further development of the field with the Iraqi Government. In March 2014, we reached production of 120,000 bpd at the West Qurna-2 oil field. In accordance with our development and production service contract, we are compensated for our costs once this level of production has been achieved and maintained during any 90 days within a 120-day period. In June 2014, we met this threshold and accordingly, from the second quarter of 2014, started to receive cost compensation from the West Qurna-2 project. Production related to cost compensation and remuneration was 74 mmbls in 2015 at West Qurna-2. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—West Qurna-2 Project" for more information on this project.

Recent developments concerning the terrorist group Islamic State (also known as ISIS) could disrupt or destroy our development and production operations in Iraq, and threaten to undermine our substantial investments in Iraq. Government intervention, terrorist activity, violent conflict or other political, economic, legal or other factors may adversely affect our development and operation of oil fields in Iraq. We may be unable to maintain or increase our levels of production and to recoup our investments to date or in the future in such fields.

The success of the Group depends in part upon the efforts and abilities of our senior managers and key personnel and may be affected by shortages of skilled labour.

Our growth and future success depend in significant part upon the continued contributions of a number of our key senior management, in particular our President, Executive Director and Chairman of our Management Committee, Vagit Yusufovich Alekperov, as well as the efforts and abilities of other key personnel, in particular skilled technical personnel in both upstream and downstream activities. We can give no assurance that Mr. Alekperov's services or the services of other key persons will continue to be available to us, or that we will be able to continue to attract and retain such personnel.

The competition in Russia (and other markets in which we operate) for skilled technical personnel can be intense due to the limited number of qualified individuals. The demand and related costs for skilled employees is expected to continue to increase, reflecting significant demand from other industries and public projects. Continued high demand for skilled labour in light of an unfavourable demographic situation and continued increases in labour costs could have an adverse effect on our operating results and financial condition.

If the FAS were to conclude that we had conducted our business in contravention of antimonopoly legislation, it could impose administrative sanctions on us.

Russian antimonopoly legislation prohibits anti-competitive behaviour, including abuse of a dominant position, cartels, concerted actions which limit competition and unfair competition. Developments in the Russian antimonopoly law have resulted in stronger state control over market participants.

Some of our subsidiaries from time to time have been found to be in breach of the Russian law "Protection of Competition" (the Antimonopoly Law) as entities with a dominant position in the relevant markets for setting monopolistic high prices and for other anti-competitive behaviour. Pursuant to Article 5 of the Antimonopoly Law, a dominant position is found where an entity (or a group of entities) has definitive influence over the general terms of the goods' turnover in the relevant market, may remove other participants from such markets or may hinder their entry into the market subject to certain other criteria. Some of our Group companies were previously on a list of entities whose market share of certain goods exceeded 35%, which made them subject to a more stringent control regime. This list was abolished pursuant to the recent amendments to the Antimonopoly Law, and the determination of an entity's dominant position is now based on the circumstances of the particular case rather than by

reference to a specified percentage. Although the abolishment of the list relieved the listed entities of certain burdensome obligations, entities which currently satisfy the dominant position criteria are subject to restrictions under the Antimonopoly Law. Administrative penalties for violating the antimonopoly laws imposed by the FAS may be substantial with some of these penalties calculated as a percentage (up to 15%) of the profit received by an entity from the sale of goods in the relevant market. The Antimonopoly Law also grants the FAS with the power to require entities to perform certain actions, including, among others, to sell products at an exchange and to coordinate with the FAS the detailed requirements for setting out the initial bid for the sale at an exchange. Imposition of administrative sanctions by the FAS or the imposition by the FAS of perations and, in turn, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee. Court practice relating to contesting decisions of the FAS, in particular in cases regarding abuse of dominant position and taking concerted actions with other market participants, lacks consistency, but often the Russian courts support the position of the FAS and its regional branches.

With a view to advancing and expanding the regulation of the oil sector, the FAS prepared drafts of the Federal Law on Market Pricing of Oil and Petroleum Products in the Russian Federation (the Draft Law on Market Pricing) and of the Federal Law on particularities of Oil and Oil Products Turnover in the Russian Federation (the Draft Law on Oil and Oil Products Turnover), which as of the date of this prospectus are undergoing independent anti-corruption review in accordance with the established procedure and have not been introduced to the State Duma for consideration. One of the purposes of the Draft Law on Market Pricing is to promote a stable and viable petroleum products market to satisfy domestic demand for oil and petroleum products, and to establish a pricing mechanism that would foster competition in the markets. To achieve these objectives, the Draft Law on Market Pricing introduces an algorithm to determine three price indicators – price index of comparable international markets, exchange prices index and OTC domestic market index. The Draft Law on Market Pricing would also establish a procedure for the mandatory registration at commodity exchanges of all OTC oil and petroleum product transactions.

Some other elements of the Draft Law on Market Pricing and the Draft Law on Oil and Oil Products Turnover include:

- A prohibition affecting entities with a dominant position in the relevant motor or jet fuel markets, restricting their ability to combine retail and wholesale sales of motor fuel or retail and wholesale sales of jet fuel. According to public statements made by the FAS, this prohibition is not intended to require a group that is involved in both the retail and the wholesale markets to sell either of its businesses, but rather to require the group to form separate legal entities for each business and comply with certain independent reporting requirements.
- A prohibition affecting motor fuel retail sale entities whose share in the relevant market exceeds 35% of the total volume of the motor fuel sold in that market, to purchase, lease or otherwise acquire retail gasoline stations or land plots for the construction of retail gasoline stations.
- A requirement affecting entities which own or use motor fuel reservoirs on any other grounds, with the capacity of such reservoirs exceeding 35% of the total capacity of all motor fuel reservoirs located in the territory of the relevant subject of the Russian Federation, to maintain separate records of income and expenses relating to sale of motor fuel and provision of services for the motor fuel storage.
- The creation of an Exchange Council comprised of representatives from the government and suppliers and buyers of exchange commodities, as well as representatives from other infrastructure organisations (commodity exchanges, clearing agencies, etc.). The proposed purpose of the Exchange Council is to develop the oil and petroleum product exchange trade and promote competition in the commodity markets.
- The imposition of disclosure standards, which would require exchanges and information analysis agencies to provide certain information regarding the calculation of price indices, oil and petroleum product exchange prices, registered oil and oil product OTC indices. This information would be published in the media and on the Internet and would not include information about the parties to the transactions. Oil companies would also be required to disclose information on the volumes of the extracted oil and of the stock of oil products at oil reservoirs, on the volumes of refined oil and produced oil products, as well as on the stock of oil products at oil refineries.

Some of the above described regulations may significantly affect our business; however, as of the date of this prospectus, the Draft Law on Market Pricing and the Draft Law on Oil and Oil Products have not been considered or passed by the State Duma and are not in effect. Accordingly, the timing for entry into force of the Draft Laws, their potential interpretation by state authorities (including the courts), and its impact on our business and operations, is uncertain. To the extent that any of the above-mentioned proposed amendments become law, they could result in additional restrictions on our business and operations, which (depending on the nature of these restrictions) could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The FAS considers the sale of oil and oil products through commodity exchanges as one of the key components to fostering increased competition. On 12 January 2015, the FAS and the Ministry of Energy of the Russian Federation signed an order which sets forth requirements on minimum volumes of oil products, and other categories of goods produced from oil and gas, that can be sold on an exchange, and rules of the exchange sales where contracts relating to oil products, and other categories of goods produced from oil and gas, and other categories of goods produced from oil and gas, are executed by entities with a dominant position in the relevant commodity markets (the Joint Order). According to the Joint Order, the minimum amounts to be sold through a commodity exchange are: 10% for the automobile gasoline, 5% for diesel, 10% for jet engine fuels, 2% for fuel oil and 5% for liquefied petroleum gas for household purposes and automobile transport. All percentages are calculated based on the monthly produced volumes by each entity with a dominant position, including entities which are within the same group of companies as the entity with a dominant position. The Joint Order replaced a similar order of 2013 when the minimum amounts to be sold through a commodity exchange were first established.

If the FAS were to conclude that we acquired any shares (equity interests) or assets in contravention of antimonopoly legislation, it could impose administrative sanctions on us and/or file a claim seeking invalidation of the transactions related to such shares (equity interests) or assets.

Our business has grown substantially through acquisitions of shares (equity interests) or assets. Certain of these activities have required the prior consent of the FAS. If the FAS were to conclude that such activity contravened applicable legislation, they could impose administrative sanctions on us and/or file a claim seeking invalidation of the applicable transactions, which could materially adversely affect our acquisition strategy and, more generally, our business, financial condition and results of operations.

Any increase in the disparity between Russian and international market crude oil or refined product prices may have a material adverse effect on our business, financial condition and results of operations.

As is the case with all Russian oil companies, we sell a portion of our crude oil and refined products in the Russian market, where prices have historically been lower than in the international market. Our domestic crude oil sales are small compared to our international crude oil sales. In the past, domestic Russian crude oil prices were set by the Russian Government at levels substantially below those of world market prices. The Russian Government ceased to regulate domestic prices for crude oil in early 1995. Domestic prices have remained below world levels due in part to export duties and transportation costs, although developments in export channels of the Transneft pipeline system and other export infrastructure have had the effect of exerting upward pressure on domestic prices, in part because they reduce the supply available to the Russian market. In recent years, the prices we achieved for exports, minus export duties and transportation costs.

While prices in Russia for refined products are generally determined by the market, occasionally they may still be subject to government control. Furthermore, Russian oil companies may, from time to time, be subject to political pressure to reduce domestic refined product prices. Accordingly, we can give no assurance that governmental price controls will not be implemented or increased for political or other reasons. Any resulting increase in the disparity between Russian and international market prices for refined products could have a material adverse effect on our business, financial condition and results of operations.

A change in the blend of the oil transported through the Transneft pipeline network could affect the price we receive for our oil.

Most of our crude oil production is transported through the Transneft pipeline system. In 2015, we exported 194.9 mmbls (26.6 million tonnes) of crude oil, or 77.8% of our total crude oil exports in 2015, via Transneft. The crude oil that we transport through the Transneft pipeline network is blended with

crude oil of other producers that may differ in quality. Transneft has reported that the quality of crude oil blended in the system declined between 2009 and 2015 and may continue to decline due to an increase in sulphur content. Most of our sales of crude oil that we transport through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as "Urals blend" crude oil. Therefore, the price we get for our oil may be lower than the price that we could get for oil of the same quality if we could transport our crude oil independently or if our crude oil was not blended in the system with crude oil of other producers with higher sulphur content. In mid-2016, Transneft discussed the creation of a new blend of crude oil named "Urals Heavy" to distinguish it from "Urals blend" crude oil. Any further decrease in the quality of the crude oil blend transported through Transneft could reduce the marketability of the oil we produce and, thereby, materially adversely affect our business, financial conditions and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

In July 2013, we began exporting light crude oil through Transneft's Eastern Siberia-Pacific Ocean (ESPO) pipeline, which allows us to sell our light oil as "ESPO crude" (ESPO crude sells at a premium compared to the Urals blend). However, there can be no assurance that we will continue to be included in the Energy Ministry's export schedule for the ESPO.

Our business operations could be disrupted if our existing and new management information and accounting systems fail to perform adequately.

We depend upon our management information systems, including our Industrial Safety Management System and our Environmental Safety Management System, to conduct our operations. We are also in the process of introducing new solutions to support our exploration and development activities and standardising and rationalising the accounting systems used at our subsidiaries. Implementation of any major new systems and enhancements to existing systems could cause disruptions in our operations. If the implementation of our new management information systems is delayed or the systems fail to perform as anticipated, we could experience difficulties in conducting our operations or generating necessary financial and accounting information. Any of these or other systems-related problems could, in turn, adversely affect our financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Notwithstanding the risk described above, in the event that we experience difficulties in generating financial and accounting information using our management information systems, we believe that we have alternative information technology and personnel capabilities to meet our obligations as a listed company. As a result, we believe that our financial systems are sufficient to ensure compliance with the requirements of the UK Listing Authority's Disclosure and Transparency Rules as a listed entity.

We are involved in various legal proceedings that may result in material losses.

We are involved in a number of legal proceedings. Although we do not currently expect a material adverse effect on our financial condition and results of operations because of any proceedings currently known to us, we can give no assurance that we will not incur material losses in connection with any such legal proceedings. Such losses are difficult to predict because of: (i) uncertainty regarding the outcome of the said proceedings; (ii) the occurrence of new developments that we could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) errors in the estimate of probable future losses. Losses associated with legal proceedings could materially adversely affect our business, financial condition and results of operations. For information about certain pending legal proceedings that may have, or have had in the recent past, a significant effect on our financial position or profitability, see "Additional Information Regarding the Company—Litigation and Claims".

A material change in tax legislation in any of the jurisdictions in which we operate could have a material adverse effect on our business, financial condition and results of operations.

As a result of general economic conditions in the countries in which we operate and those in which we currently make, or may in the future make, sales, and in particular as a result of the economic slowdown, tax legislation in these countries may be changed in order to increase tax revenues. A material change in tax legislation in any of the jurisdictions in which we operate (or those in which we currently make, or may in the future make, sales) could have a material adverse effect on our business, financial condition and results of operations.

The introduction of new specifications for fuel quality standards may force us to incur further capital expenditures to upgrade our refineries.

All of the fuel produced at our refineries meets Russian domestic quality standards and, beginning in July 2012, all of our refineries in Russia began exclusively manufacturing Euro-5 compliant gasoline. The Group actively seeks the latest technologies in modernisation of our refineries in order to improve the quality of production and reduce our environmental impact. However, despite our efforts, a risk remains that Russia and other countries in which we operate may introduce more stringent standards for cleaner fuels, which may vary from our current expectations. We intend to work closely with the relevant federal and local authorities to understand the timing for any changes in fuel quality standards. However, any material change to fuel quality standards could force us to incur further capital expenditures to upgrade our refineries and could limit our market for fuel supply until refinery technical upgrades are completed. See "Business—Refining, Marketing and Distribution—Refining".

We do not carry insurance against all potential risks and losses and our insurance might be inadequate to cover all of our losses or liabilities.

We only have limited, and potentially an insufficient level of, insurance coverage for potential losses or liabilities that may arise in connection with our business, including property damage, work-related accidents, business interruption, occupational disease, natural disasters and environmental contamination. Such events may result in loss of revenue, increased costs or other losses or liabilities, which could have a material adverse effect on our business, financial condition and results of operations.

Adoption of IFRS affects the presentation of our financial information, which was prepared under U.S. GAAP prior to our consolidated financial statements for the fiscal year ending 31 December 2015.

We adopted and applied IFRS for the preparation and publication of our consolidated financial statements beginning with our annual consolidated financial statements for the fiscal year ending 31 December 2015 included elsewhere in this prospectus. Because IFRS differs in certain respects from U.S. GAAP, our financial information prepared and presented in prior disclosures under U.S. GAAP is not directly comparable to our IFRS financial data. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Transition to IFRS*" and Note 34 "*First-time adoption of IFRS*" to our audited annual consolidated financial statements elsewhere in this prospectus for more information regarding our transition from US GAAP to IFRS financial statements.

Risks Relating to Business Operations in Emerging Markets

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal, financial and tax advisors before making an investment in the notes.

Emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant political, legal and economic risks.

Investors in emerging markets, such as Russia, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, legal and economic risks. Emerging economies such as the Russian economy are subject to rapid change and the information set out in this prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt and equity markets of other emerging market countries, as investors move their money to more stable, developed markets. For example, the current circumstances involving Ukraine have had, and may continue to have, deleterious macroeconomic and other effects on some regions in which we operate, including, among other things, increased volatility in foreign currency exchange rates and a weaker overall business environment.

Financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. During such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Adverse economic developments of the kind described above may affect our business in a number of ways. As a result, demand for our products may decline, which would materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The ongoing crisis in Ukraine, Crimea's accession to the Russian Federation, and the resulting sanctions and export controls create political and economic uncertainty and could adversely impact our business, financial condition, results of operations and prospects.

In March 2014, following a referendum in Crimea, the parliament of Crimea declared independence from Ukraine, and an agreement was signed with the Russian Federation for the admission of the Republic of Crimea and the city of Sevastopol as federal subjects of Russia. Furthermore, protests in eastern Ukraine in early 2014 escalated into conflicts between the Ukrainian government and pro-Russian insurgents, who were granted self-rule by the Ukrainian parliament in September 2014. The situation in Crimea and Ukraine has prompted a negative reaction from a number of countries, with the European Union and the United States, amongst others, refusing to recognise the referendum in Crimea as legal and accusing Russia of supporting the insurgents in eastern Ukraine. The ongoing conflict in eastern Ukraine and political instability in Ukraine continues to affect international relations between Russia and Ukraine, the European Union, the United States and certain other countries.

In response to these events, a number of countries, including the United States and the European Union, imposed sanctions against certain Russian and Ukrainian individuals and entities, including certain companies operating in the Russian energy, financial and defence sectors, as well as export controls affecting, inter alia, the energy and defence sectors. Additionally, on 19 December 2014, the United States imposed comprehensive sanctions against Crimea (including both the land territory and the related maritime area), which prohibit U.S. persons from engaging in virtually all direct and indirect transactions (including investment, import, or export transactions; sale or supply of goods, services or technology; and financing or facilitation transactions) in, to or from Crimea unless authorised by OFAC. Furthermore, on 21 September 2016, the U.S. House of Representatives passed a bill on a voice vote which, if signed into law, could modify the current U.S. sanctions framework and laws. See "-The designation of LUKOIL on the SSI and Entity Lists by the United States, the imposition of export controls on the energy sector by the European Union, and the introduction or expansion of other sanctions or export controls by the United States, European Union or other countries may adversely affect our business, financial condition, results of operation and prospects" for a description of these existing and possible future sanctions measures and their potential consequences. The EU, through regulations implemented in June, July, and December 2014, has also imposed substantial restrictions on economic exchanges with Crimea, including a ban on imports of goods from Crimea, an investment ban and a prohibition against exporting certain goods and technology suited for, *inter alia*, the energy sector and the exploration and production of oil, gas and mineral resources in Crimea.

In response to U.S. and EU sanctions and export controls, Russia has introduced counter-sanctions in relation to certain consumer products imported from the United States, the European Union and certain other countries, imposed visa bans on certain persons, and imposed restrictions on the ability of Russian companies to comply with sanctions imposed by other countries. Moreover, Ukraine has approved a law on sanctions, which among other things, provides that the National Security and Defence Council of Ukraine is entitled to impose various sanctions against Russia, including limits on gas transit by Russia via the territory of Ukraine. Ukraine has subsequently imposed sanctions against specific individuals and entities.

The events, sanctions and export controls described above may increase capital outflows from Russia and adversely affect the Russian economy and the Russian financial, energy and banking markets, the credit ratings of Russia and Russian companies, the general business and investment climate in Russia and the liquidity in a secondary market for the notes. The impact of these circumstances and any continuing or escalating military action, public protests, unrest or political instability in Ukraine, Crimea or the region may lead to further sanctions and/or export controls (including measures that target LUKOIL's suppliers, joint venture and business partners, affiliates and financial institutions and/or measures that target the Russian energy sector or LUKOIL specifically and may restrict access to international capital markets) and have a material adverse effect on our business, financial condition, results of operations and prospects. See "*—Risks Relating to the Russian Federation—Instability in the Russian economy could materially adversely affect our business*" in relation to recent credit rating downgrades in Russia and "*—Risks Relating to the Notes—The notes may not have an active trading market, which may have an impact on the value of the notes*" in relation to the secondary market for the notes.

Credit risks of our customers in emerging markets are higher than those of our customers in developed countries.

We focus on the selection of reliable partners for our business in terms of their ability to pay in a timely manner for the products purchased from us and perform their obligations in strict compliance with our existing agreements. However, our business is exposed to the risk that the amounts owed by our customers for products sold or services rendered will not be paid when due, and that some of them may not be able to timely and fully perform their obligations. In such cases we seek to resolve any disputes and recover amounts owed to us in conformity with the laws of the jurisdictions where we operate and with established business practices. We note, however, that in the markets of developed countries it is less cumbersome to settle such disputes as compared to emerging markets, due to better developed laws and financial services markets. In developed markets, corporate debts are a financial asset which may be used as security, pledged, sold and purchased; therefore, such debts have high liquidity. In emerging markets, this practice is not as developed and the recovery of overdue debts is a lengthy process. As a result of longer periods which we may need to recover overdue debts from our customers in emerging markets, we may need substantial financial resources to meet our financial obligations and maintain the financial stability of a number of our subsidiaries, which may adversely affect our business, financial condition and results of operations.

Risks Relating to the Russian Federation

We were founded in Russia, most of our assets are located in Russia and a significant portion of our revenues are derived from Russia. There are certain risks associated with an investment in Russia.

The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty.

We are subject to a broad range of taxes and other compulsory payments and levies imposed at the federal, regional and local levels, which include, among others, corporate income tax, mineral extraction tax, value added tax, excise duties, export duties, compulsory insurance payments and property tax, and we are one of the largest sources of tax revenue to the federal authorities and to the regional and local authorities in those regions and locations in which we operate.

Russian laws and regulations relating to these taxes, such as the Tax Code of the Russian Federation (the Russian Tax Code), have been in force for a relatively short period of time as compared to tax laws and regulations in more developed market economies, and the implementation of these tax laws is often unclear or inconsistent. The taxation system in Russia is subject to frequent changes and inconsistent enforcement at the federal, regional and local levels. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continuous changes to the tax legislation, some of which apply retroactively and might occur on short notice, and also in reversal of the interpretation and application of the existing laws and regulations by the various authorities. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that the Russian Government may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect our business.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and, in addition, some sections of the Russian Tax Code are comparatively new, interpretation and application of these laws and regulations is often unclear and inconsistent. The Russian tax system is, therefore, impeded by the fact that it continues to be characterised by inconsistent judgments of the tax authorities and the failure by these tax authorities to address the existing problems.

The current practice is that private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the representatives of the local Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. In practice, Russian tax authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory. In certain instances the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased

number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the oil industry. In some instances the Russian tax authorities have applied new interpretations of tax laws retroactively. In addition, the Russian Federation may introduce changes into tax legislation that may adversely affect our business, including certain changes aimed at maximising state budget income received from the oil and gas industry. It is therefore possible that our transactions and activities that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Tax declarations are subject to review and inspection by a number of Russian tax authorities, which are empowered by Russian law to impose fines and penalties on taxpayers. Generally, in the course of on-site tax audits taxpayer business activity remains subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Tax audits can however go beyond this general three year term to cover the tax period for which an amended tax return (if any) has been filed. The fact that a particular year has been reviewed by the Russian tax authorities does not preclude the taxpayer from subsequent reviews or tax audits by the Russian tax authorities during the three-year limitation (or the period extended by filing an amended tax return, as discussed above). In particular, a repeat tax audit may be conducted (i) by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, (ii) in connection with the reorganisation or liquidation of a taxpayer or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the payable tax. Therefore, previous tax audits do not necessarily preclude subsequent tax claims relating to the audited period.

It should be noted, however, that on 17 March 2009, the Russian Constitutional Court issued a decision which deems unconstitutional provisions of the Russian Tax Code allowing to perform such repeat tax audits by a higher tax authority for the same tax period where there has been a court decision taken in respect of the tax dispute between the relevant taxpayer and the relevant tax authority over taxation matters raised during the initial tax audit. Currently, there is quite limited court practice relating to the application of this decision by Russian courts.

Further, the Russian Tax Code provides for the possible extension of the three-year limitation period with respect to liability for tax offences if the taxpayer obstructed the performance of the tax audit and this obstruction has become an insurmountable obstacle for the tax audit. Therefore, the statute of limitations is not entirely effective with respect to on-site tax audits or liability for tax offenses in Russia. If as a result of such extended tax audit, it is concluded that we had significant tax underpayments relating to previous tax periods, it may have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

In its Decision No. 138-O of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in the Russian tax law or any other branches of Russian law. Nevertheless, in practice this concept has been used by the Russian tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on the available practice the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 which introduced the concept of an "unjustified tax benefit". This concept is defined by reference to the specific examples of tax benefits, such as absence of reasonable business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of the application of that specific tax benefit resulting from the transaction or the re-characterisation of the status of the transactions for tax purposes. Although the intention of this Ruling was to combat abuse of tax law, in practice the Russian tax authorities actively seek broad application of the Supreme Arbitration Court's principles to contest the correctness of a taxpayer's tax assessment. Based on cases brought to courts to date relating to this ruling, the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been intended by the Supreme Arbitration Court. The available court practice is rather contradictory. Importantly, the Group is aware of cases where this concept has been successfully applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. It is difficult to predict how the court practice will evolve in future.

Russian transfer pricing legislation that came into effect on 1 January 2012 allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. These rules require taxpayers to justify the compliance of factual prices of transactions qualified as "controlled" for taxation purposes with market level, using transfer pricing methods as envisaged in the tax legislation. Under the Russian transfer pricing rules taxpayers are obliged to submit transfer pricing notifications on "controlled" transactions and, at the request of the Russian tax authorities, transfer pricing documentation, justifying the compliance of prices applied in "controlled" transactions with market prices. Starting 1 January 2016, special transfer pricing rules apply to transactions with securities and derivatives only if they fall within the scope of "controlled".

Due to uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge prices of transactions of the Group and make adjustments, which could adversely affect the Group's tax position, unless the Group is able to confirm the use of market prices with respect to "controlled" transactions, supported with the appropriate transfer pricing documentation. Consequently, the imposition of additional tax liabilities under the Russian transfer pricing legislation, in case the Russian tax authorities challenge the level of prices applied by the Group, could have a material adverse effect on the Group's business, results of operations or financial condition.

A new concept of a "consolidated taxpayer" was incorporated into the Russian Tax Code and became effective on 1 January 2012. There are several requirements that must be met for a group to be considered a "consolidated taxpayer" (the Tax Group) under this new legislation, including meeting revenue thresholds and the amount of corporate income tax payable by the Tax Group. The new rules introduced consolidated tax reporting, which enables Russian companies that form a Tax Group to consolidate financial results for corporate tax purposes. Intragroup transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing control. We have created a Tax Group consisting of the Group's Russian entities. There can be no assurance that this new consolidated taxpayer regime, or our creation of the Tax Group under this regime, will not be challenged in future due to, among other things, the lack of interpretive guidance and precedent by the Russian tax authorities and courts related to this new taxpayer regime. If any such challenge were effective, it could result in increased taxes, which in turn could have a material adverse effect on our business, revenues, financial condition, results of operations and prospects.

The Group includes companies incorporated and operating outside of Russia. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the permanent establishment concept under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at a risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. There are a few precedents where the Russian tax authorities sought to challenge the Russian tax status of foreign companies and some of their attempts were successful. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or courts to their interpretation and application, we might become subject to additional taxation in Russia in respect of the operations of foreign companies of the Group.

Although the Group intends to conduct its affairs so that foreign entities of the Group are not treated as having a permanent establishment in Russia, no assurance can be given that activities of these foreign entities will not be treated as creating a permanent establishment in Russia and subjected to Russian tax in a manner similar to the taxation of a Russian legal entity. Only the amount of the income of a foreign entity that is attributable to its permanent establishment should be subject to taxation in Russia.

The amount of the income of a foreign entity that is attributable to its permanent establishment is to be measured based on the functions carried out by a Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity that is attributable to a permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity performed by a foreign entity in the territory of Russia. However, the practice of application of these rules is not developed since such approach was introduced from 1 January 2012. There is, therefore, a risk that the Russian tax authorities might seek to assess Russian tax on the entire amount of income of a foreign company attributable to its permanent establishment.

Recent events in the Russian Federation suggest that the Russian tax authorities may be more actively seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Having a permanent establishment in Russia may also lead to other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, a potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the Russian tax authorities for the failure to register a permanent establishment with the Russian tax authorities. Any such taxes or penalties could have a material adverse effect on the business, financial condition, results of operations or prospects of the Group.

In 2016, the Russian Government continued moving towards a transformation of the tax regime for upstream from a royalty based tax system to a profits based tax system. During 2016 the Ministry of Energy and the Ministry of Finance have been discussing the parameters of the new tax regime ("added income tax") but no certain decisions have been taken yet. Further changes to the oil tax regime, including amendments of export duty rates for crude oil and gas condensate are uncertain and are subject to ongoing discussions by the Russian Government.

All of the factors described above create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems. It imposes additional burdens and costs on our operations, including management resources, and complicates our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at complying with Russian tax legislation.

The occurrence of any of the events set out above could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Russian anti-offshore policy may have an adverse impact on the Group's business, financial condition and results of operations.

The Russian Federation, like a number of other countries in the world, is actively involved in discussing measures against tax evasion by the use of low tax jurisdictions and aggressive tax planning structures. Some of these measures have been introduced into the Russian Tax Code by Federal Law No. 376-FZ dated 24 November 2014 (as amended and restated from time to time) (the Anti-Offshore Law) which came into force starting 1 January 2015.

The Anti-Offshore Law introduced into the Russian Tax Code "controlled foreign companies" rules pursuant to which undistributed profits of organisations as well as foreign structures not being legal entities (such as funds or partnerships), which do not fall within the exemptions envisaged by the Anti-Offshore Law, controlled by Russian tax residents (both legal entities and individuals) should be subject to taxation in Russia provided certain criteria are met. Furthermore, the Anti-Offshore Law introduced (1) the concept of tax residency for legal entities, whereby foreign legal entities would be deemed Russian tax residents if their place of management is located in Russia and (2) a beneficial ownership concept which is broadly in line with the beneficial ownership concept developed by the Organisation for Economic Co-operation and Development (the OECD).

Introduction of these new rules and concepts by the Anti-Offshore Law is likely to impose additional administrative burdens on the Group. No assurance could currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including additional tax liability, if any) on the Group.

Each of the foregoing factors creates tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems. These tax risks impose additional burdens and costs on the Group's operations, including management resources. Although the Group undertakes measures aimed at minimising tax risk, there can be no assurance that the Group will not be required to make substantially larger tax payments in the future that would affect the financial results of the Group. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations or financial condition.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures

will arise. Additional tax exposures could have a material adverse effect on the Group's business, results of operations or financial condition.

Instability in the Russian economy could materially adversely affect our business.

For the year ended 31 December 2015, 37% of our revenues (including export sales from Russia to group companies and third parties) were derived from our operations in Russia. In addition, as of 31 December 2015, approximately 94.3% of our proved crude oil reserves were located in Russia. As a result, any instability in the Russian economy could materially adversely affect our business. Since the dissolution of the Soviet Union, the Russian economy has been subject to abrupt downturns and has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- unstable credit conditions;
- a weakly diversified economy which depends significantly on global prices for raw materials;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The condition of the Russian economy has deteriorated in recent years, particularly since early 2014. Russia's gross domestic product (GDP) growth in real terms decreased from 1.3% in 2013 to 0.6% in 2014 to negative 3.7% in 2015, and the World Bank has projected real GDP growth of negative 1.2% for 2016 (assuming an average Brent crude oil price of \$41.0 per barrel in 2016). In response to high inflation and ruble devaluation, the CBR increased its key interest rate several times in 2014 from 5.5% to 17.0%. As a result of the unexpected and significant increase in the CBR's key interest rate in December 2014 (from 10.5% to 17.0%) as well as the overall decline in the Russian economy, the domestic financial and banking markets have experienced and continue to experience substantial volatility, and periodic shortages of liquidity persist in the domestic money market. The CBR subsequently decreased the key interest rate several times in 2015 and 2016 from 17.0% to 10.5%, and the key interest rate may change significantly in the future. See "*—Risks Relating to Our Business and the Oil and Gas Industry—We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations*" for information on recent inflation and ruble devaluation in Russia.

Moody's, Fitch and Standard & Poor's downgraded the credit ratings of the Russian Federation in 2014 and 2015, primarily as a result of the negative impact on the Russian economy from the ongoing crisis in Ukraine, the related sanctions imposed on certain Russian individuals and legal entities and the significant decline in global oil prices. In particular, Moody's downgraded the Russian Federation's sovereign credit rating to Baa2 (with a negative outlook) in November 2014, to Baa3 in January 2015 and to Ba1 in February 2015; Fitch downgraded the Russian Federation's long-term sovereign credit rating to BBB- (with a negative outlook) in January 2015; and Standard & Poor's downgraded the Russian Federation's foreign currency long-term sovereign credit rating to BBB- (with a negative outlook) in April 2014 and to BB+ in January 2015. The rating agencies also downgraded the credit ratings of numerous Russian companies following the sovereign credit rating downgrades. Moody's downgraded LUKOIL's long-term implied credit rating from Baa2 to Baa3 (with a negative outlook) in January 2015 and to Ba1 (with a negative outlook) in February 2015; and Fitch downgraded LUKOIL's long-term implied credit rating from Baa2 to Baa3 (with a negative outlook) in January 2015 and to Ba1 (with a negative outlook) in February 2015; and Fitch downgraded LUKOIL's long-term implied credit rating from Baa2 to Baa3 (with a negative outlook) in January 2015 and to Ba1 (with a negative outlook) in February 2015; and Fitch downgraded LUKOIL's long-term

credit rating from BBB to BBB- (with a negative outlook) in January 2015. Credit rating downgrades with respect to the Russian Federation and LUKOIL may have a negative impact on the liquidity and trading price of the notes. See "*Business—Credit Rating*" for more information about the current credit ratings with respect to LUKOIL.

In September 2016 and October 2016, respectively, Standard & Poor's and Fitch each revised its outlook on the credit ratings of the Russian Federation and several Russian companies, including LUKOIL, from negative to stable. However, there can be no assurance that a further economic slowdown or further credit ratings downgrades resulting from the situation in Ukraine and Crimea (or from sanctions imposed by the European Union, the United States or other countries) will not have a negative effect on investors' confidence in the Russian markets or economy or the ability of Russian-based groups to raise capital in the international markets, any of which, in turn, could have a material adverse effect on our business or the Russian economy. A deterioration of the Russian economy could negatively impact our revenue and could materially adversely affect our business, financial condition, results of operations and prospects. See "*—The current crisis in Ukraine, Crimea's accession to the Russian Federation and the resulting introduction of sanctions creates political and economic uncertainty and could adversely impact our business, financial condition, results of operation on the situation in Ukraine and Crimea and related sanctions.*

The involvement of the Russian Federation in domestic or foreign conflicts could adversely affect our business, financial condition and results of operations.

Ethnic, religious, historical and other divisions in Russia have, on occasion, given rise to tensions and, in certain cases, violence and military conflict, both internally and with other countries. For example, Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a visible presence there. Moreover, in 2008, Russia and Georgia were involved in an armed conflict, which ended with Russian recognition of the independence of South Ossetia and Abkhazia. Such events have resulted in heightened volatility, significant overall price declines in Russian stock exchanges, capital outflow from Russia and temporary closures of international capital markets to Russia.

In addition, Russia and Turkey were involved in a political and economic conflict after the Turkish Air Force shot down a Russian Sukhoi SU-24 in November 2015. As a result, Russia imposed economic restrictions on Turkey, including on the import of certain Turkish products, the sale of holiday tours to Turkish resorts and the participation by Turkish firms in Russian construction projects absent a special exemption. Certain of these restrictions have been removed since June 2016, however, there can be no assurance regarding future relations between these countries.

The emergence or escalation of any tensions in Russia or with neighbouring countries could negatively affect business relations among these countries, relationships with Western countries and the economy of Russia. Such tensions, conflicts and violence could also negatively affect the liquidity, stability and trading price of the notes and our ability to raise debt or equity capital in the international capital markets. See also "—*Risks Relating to Business Operations in Emerging Markets*—*The ongoing crisis in Ukraine, Crimea's accession to the Russian Federation, and the resulting sanctions and export controls create political and economic uncertainty and could adversely impact our business, financial condition, results of operations and prospects*".

The Russian banking system is still developing, and another banking crisis in Russia or international sanctions could place severe liquidity constraints on our business, materially adversely affecting our business, financial condition and results of operations.

Russia's banking and other financial systems are less well developed or regulated compared to those in developed countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector does not meet internationally accepted norms.

The CBR's supervisory/control mechanisms may be in certain cases insufficient to timely identify non-compliance with banking legislation. As part of a gradual consolidation process, which started in 2014, Russia's larger banks have acquired smaller banks and increased their market share, and banks with stronger credit profiles have merged with distressed banks. In connection with this consolidation, the CBR has revoked banking licences from a substantial number of Russian banks. The CBR's orders on revocation of such licences state that the banks were in breach of banking laws and regulations and were

found to have false statements in the reports. The revocations have raised some concerns about the stability of the Russian banking system and the adversely affected liquidity on the domestic market.

The deficiencies in the Russian banking sector, combined with the deterioration of Russian banks' credit portfolios' condition, may result in the banking sector being more susceptible to the current worldwide macroeconomic situation. The credit crisis that began in the United States in the autumn of 2008 resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Russian banks experienced difficulties with funding on domestic and international markets and continue to experience serious mismatches in their liabilities and assets. Credit ratings of several banks were lowered. In response to the situation in Ukraine and Crimea, sanctions have been imposed by a number of countries against certain Russian banks, financial institutions and companies, as well as certain Russian individuals who hold interests or positions in such banks, financial institutions and companies. Among other measures, the United States and the European Union have imposed sectoral sanctions on certain major Russian financial institutions. These sectoral sanctions generally prohibit persons from engaging in transactions involving new equity or new debt (in the case of the United States) or transferable securities, money market instruments, and loans or credit (in the case of the European Union) of greater than 30 days maturity with the targeted entities and entities owned and/or controlled by such entities (including Bank of Moscow, VTB Bank, Vnesheconombank, Gazprombank, Russian Agricultural Bank and Sberbank), substantially cutting off these financial institutions from the United States and European Union debt and equity markets. It is hard to predict the full impact of the above sanctions on the Russian banking sector over time; however, there is a risk that Russian banks could be unable to refinance their existing debt or that such refinancing may become more expensive, and/or that Russian banks could be unable to issue loans in amounts necessary for borrowers, and/or that the cost of borrowing could increase significantly for borrowers. Moreover, over time, the above prohibitions could lead to a shortage of U.S. dollars or EUR in the Russian markets, which may affect a borrower's performance under contracts with settlement occurring in U.S. dollars or EUR. Because we rely substantially on financing from financial institutions, and a substantial number of our commercial contracts specify settlement in U.S. dollars or EUR, any of these circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects.

These weaknesses in the Russian banking sector make the sector more susceptible to market downturns or economic slowdowns including due to defaults by Russian borrowers that may occur during such market downturn or economic slowdown. A banking or liquidity crisis or the bankruptcy or insolvency of the banks which lend to us or in which we hold our funds or use for banking transactions could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Limitations on our ability to convert rubles into other currencies may materially adversely affect our business, financial condition and results of operations.

Because of the limited development of the foreign currency market in Russia, we may experience difficulty converting rubles into other currencies. Furthermore, the Russian Government and the CBR may impose burdensome requirements governing currency operations, as it has done in the past. Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults. There are also only a limited number of available ruble-denominated instruments in which we may invest our excess cash. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that we might wish to pursue.

In addition, restrictive currency regulations in foreign countries where we have assets could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

A substantial amount of our shares is represented by ADRs, which may impede our ability to implement important business decisions.

Pursuant to recent changes in the Russian law "On Joint-Stock Companies" (the JSC Law), our depositary bank (The Bank of New York Mellon or BNYM) may vote the shares underlying our American Depositary Receipts (ADRs) on behalf of an ADR holder if the ADR holder has disclosed certain information (such as its identity and the corresponding number of shares attributable to it) and provided voting instructions to BNYM. If ADR holders fail to disclose the required information to

BNYM (due to multi-layered ADR ownership chains or otherwise) or if BNYM fails to provide such information to LUKOIL in a prompt manner, ADR holders may be unable to vote the shares underlying their ADRs.

LUKOIL's ADR programme currently accounts for approximately 60% of its total outstanding ordinary shares. In order for LUKOIL's shareholder meetings to reach a quorum, shareholders representing over 50% of the ordinary shares must participate at the meeting (either directly or by proxy). If a substantial amount of the ordinary shares underlying the ADRs were unable to vote at LUKOIL's shareholder meetings, LUKOIL would be unable to reach a quorum at any such meeting. Moreover, there is a draft law on amendments to the JSC Law under discussion, which, *inter alia*, states that ordinary shares which are owned by companies controlled by a parent company (or quasi-shares) will not provide voting rights and will not be taken into account in votes counting. We are unable to predict if and when such draft law will be adopted and entered into force. However, if a substantial amount of ordinary shares underlying the ADRs and quasi-shares were unable to vote at LUKOIL's shareholder meeting, LUKOIL ultimately would be unable to conduct any business at its shareholder meetings.

If any of these events were to occur, LUKOIL's ADR holders could be restricted or hindered from voting at LUKOIL's shareholder meetings, which could impede our ability to implement business decisions and, in turn, materially and adversely affect our business, financial condition and results of operations.

The Russian legal system and Russian law are still at a development stage and may create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required by a market economy. The relatively recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability of laws in doubt and result in ambiguities and inconsistencies. Many new laws, including recent substantial changes in the Civil Code of the Russian Federation, the JSC Law and the Russian law "On Securities Markets", many of which became effective between 2013 and 2016, remain untested. Among the risks of the current Russian legal system are:

- inconsistencies among federal laws; among decrees, orders and regulations issued by the President, the Russian government, federal ministries and regulatory authorities and among regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- gaps in the regulatory structure due to delay or absence of implementing legislation;
- uncertainties in interpretation of Russian legislation and corporate law generally by Russian courts;
- difficulties in enforcing court judgments in practice; and
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as the suspension or termination of our licences.

All of these weaknesses could affect our ability to enforce our rights under contracts and/or subsoil licences, or to defend ourselves against claims by others in respect of our Russian subsidiaries, and could affect enforcement of any rights of holders of the notes against the Issuer or LUKOIL. Furthermore, we can give no assurance that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not adversely affect foreign investors (or private investors generally).

The current lack of a developed share registration system in the Russian Federation may result in improper record ownership of our ordinary shares.

Ownership of shares in Russian joint stock companies is determined by entries in a share register and a nominal depositary, and is evidenced by extracts from that register or depositary. Currently, there is no operating central registration system in the Russian Federation. Pursuant to changes in the Civil Code of the Russian Federation, a register of shareholders must be held by a specialised licenced registrar, which must follow specific procedures when performing the functions of a registrar. Historically, however, registrars generally have had relatively low levels of capitalisation and inadequate insurance coverage and have not been necessarily subject to effective governmental supervision.

In 2011, the registration system was reformed with the introduction of a central depositary. In 2012, the National Settlement Depositary was officially appointed as the Russian central depositary (Central

Depositary), and the Central Depositary opened an account in LUKOIL's shareholder register on 29 March 2013.

In general, if transactions involving our ordinary shares were to be improperly or inaccurately recorded by our registrar, the Central Depository or a nominal depositary, or registration of our ordinary shares were to be lost by such registrar, the Central Depository or nominal depositary, it may result in improper record ownership of our ordinary shares owned by beneficial holders of such ordinary shares, including ADR holders.

The accession of Russia to the WTO may lead to changes in Russia's business and legal environment.

On 16 December 2011, Russia signed the protocol of accession to the World Trade Organisation (WTO). The protocol was ratified on 21 July 2012 and on 22 August 2012 Russia became a member of the WTO. Russian membership in the WTO has resulted in significant changes in Russian legislation, including (among others) changes to Russia's taxation system and customs regulations, regulation of foreign investments and foreign workforce in Russian companies and more stringent anti-monopoly laws. Further, the implementation by Russia of WTO rules may lead to further changes in Russian laws or regulations, resulting in increased competition in the markets in which we operate. There can be no assurance that any such new legislation would not have a material adverse effect on our business, financial condition and results of operations.

The judiciary's lack of independence and relative inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of the notes from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, social and political influences in Russia remains largely untested, and the court system is generally understaffed and underfunded. Under Russian legislation, judicial decisions are not recognised as a source of law and generally have no binding effect on subsequent decisions. In addition, court claims are often used in furtherance of political and commercial aims, and we may be subject to such claims and may not be able to receive a fair hearing. Enforcement of court judgments in practice also can be very difficult in Russia, and court judgments are not always enforced or followed by law enforcement agencies. All of these factors make judicial decisions in Russia difficult to predict and make effective redress uncertain.

Russia is not a party to multilateral or bilateral treaties for the mutual enforcement of court judgments with most Western countries, and federal law does not generally provide for the recognition and enforcement of foreign court judgments, although foreign court judgments are sometimes recognised and enforced by Russian courts on the basis of reciprocity, if courts of the country where the foreign judgment was rendered have previously enforced judgments issued by Russian courts. The existence of reciprocity must be established in each case at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether in the future a Russian court will recognise and enforce a judgment issued by a foreign court on the basis of reciprocity. Consequently, should a judgment be obtained from a foreign court, it may not be given direct effect in Russian courts.

Russia (as a successor to the Soviet Union) is a party to the New York Convention. A foreign arbitral award obtained in a state which is a party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and in compliance with Russian civil and arbitration procedures and other procedures and requirements established by Russian legislation). The Arbitration Procedure Code of the Russian Federation is in conformity with the New York Convention and thus has not introduced any substantial changes relating to the grounds for refusing to recognise and enforce foreign arbitral awards and court judgments. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. For example, the legislation provides for fair compensation for property that is expropriated or nationalised. However, there can be no assurance that such protections would be enforced in practice, due to a lack of experience enforcing these provisions, political pressure or otherwise. In addition, land may be subject to compulsory purchase by the state for its own needs or as a penalty for the inappropriate use of the land. It is not clear from Russian law how losses from

nationalised assets would be calculated or whether it would be possible to challenge (and therefore prevent) the confiscation of such assets. Expropriation or nationalisation of any of the Group's members or assets, potentially with little or no compensation, could have a material adverse effect on our business, results of operations or financial condition and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Selective or arbitrary government action could materially adversely affect our business, financial condition and results of operations.

Governmental authorities in Russia have a high degree of discretion and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects and oversights in documentation and business and regulated activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often for political purposes. Selective or arbitrary government action directed at us or preferential treatment by the Russian Government of any of our competitors could have a material adverse effect on our business, financial condition and results of operations.

Laws restricting foreign investment could materially adversely affect our business, financial condition and results of operations.

We could be materially adversely affected by the adoption of new laws or regulations restricting foreign participation in, or increasing state regulation of, the oil and gas industry in Russia. On 7 May 2008, a law restricting the level of foreign investment in the form of acquisition of shares (interests) in the charter capital of entities having strategic importance for ensuring the defence and security of the state, and other transactions as a result of which foreign investors or a group of persons, of which a foreign investor is a member, gain control over such entities, came into force. Federal Law No. 57-FZ "On procedure for carrying out foreign investments into enterprises which have strategic importance for ensuring defence and security of the State", dated 29 April 2008, as amended (the Law on Strategic Enterprises), places restrictions on foreign investors and/or groups of persons of which a foreign investor is a member, in connection with their participation in charter capital of entities having strategic importance for ensuring defence and security of the state, and/or the transactions made by them resulting in the establishment of control over such entities. Such transactions may only be made having received prior approval in accordance with the Law on Strategic Enterprises. The activities having strategic importance for ensuring defence and security of the state include, inter alia, geological exploration of subsoil and/or exploration and extraction of natural resources from subsoil areas of federal significance. Pursuant to the Law on Strategic Enterprises, any transaction involving acquisition by foreign investors of shares (interests) in an entity having strategic importance for ensuring defence and security of the state and operating at a subsoil area of federal significance, if such investors have the right to directly or indirectly dispose of 25% or more of the total number of votes attaching to the voting shares (interests) in the charter capital of such entity, is subject to the prior approval of a governmental commission. See "Regulation of the Oil Industry in the Russian Federation-Strategic Investments-Approval Requirements" for more information. Still, foreign-state investors, international organisations or entities controlled by them must apply for prior approval of a governmental commission when acquiring the right to directly or indirectly dispose of more than 5% of the total number of votes attaching to the voting shares (interests) in the charter capital of an entity having strategic importance for ensuring defence and security of the state and carrying out subsoil exploration or production at a subsoil area of federal significance. The above-mentioned restrictions on foreign investment may limit our ability to raise equity financing in foreign capital markets, consummate strategic transactions in the future and, therefore, may have a material adverse effect on our business, financial condition and results of operations and may affect the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Moreover, the Russian Law "On Special Economic Measures" grants the President of Russia, acting upon recommendation of the Russian Security Council, authority to (i) prohibit dealings with foreign states and/or foreign organisations, as well as citizens and persons without citizenship who continuously reside in the territory of a foreign state and (ii) impose obligations to perform specific activities in furtherance of adopted economic measures. The imposition of any such restrictions, prohibitions, obligations or measures with respect to countries in which we currently operate or may operate in the future could materially adversely affect our business, financial condition, results of operations and prospects.

Russia's physical infrastructure is not as well developed or maintained as the infrastructure in more developed countries, which could disrupt normal business activity.

Russia's physical infrastructure is not as well developed or maintained as the infrastructure in more developed countries. Such physical infrastructure includes the road networks, railroad system, power generation and transmission systems, communication systems and building stock. The Russian Government has implemented in the past, and may further implement, infrastructure improvements and reorganisations of the nation's rail, road and power systems. These reorganisations may result in increased charges and tariffs and may not generate sufficient capital investment to repair, maintain and improve these systems. A prolonged or major disruption in our normal business activity due to a deterioration of Russia's infrastructure, especially as it relates to transportation, and significant increases in charges and tariffs, could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and may interrupt business operations in Russia, any or all of which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Salary increases in Russia may reduce our profit margins.

Salaries in Russia have historically been significantly lower than salaries in the more economically developed countries of North America and Europe for similarly skilled employees, although they have increased significantly in recent years. Salaries in Russia may increase rapidly, and our margins could be reduced. Unless we are able to continue to increase the efficiency and productivity of our employees in line with, or at a faster rate than, the rate of salary increases, salary increases could have a material adverse effect on our business, results of operations, financial condition and prospects.

Corruption and negative publicity could harm our business.

The local and international press have reported high levels of corruption and extortion in Russia, including selective investigations and prosecutions to further the personal or commercial interests of certain favoured companies or individuals. The local and international press have also generated reports with speculation or allegations of criminal conduct or corruption on the part of Russian companies, individuals within Russian companies or government officials. In addition, the Russian press and other non-traditional media are suspected of publishing biased articles and reports in return for payment. The effects of demands of corrupt officials or claims that we have been involved in corruption could result in negative publicity, could disrupt our ability to conduct our business effectively and could, thus, have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Social instability could materially adversely affect our business, financial condition and results of operations.

Increased unemployment resulting from weak economic conditions, the failure of businesses to pay full salaries on a regular basis, the failure of salaries and benefits generally to keep pace with increasing cost of living and high levels of crime and corruption have led in the past, and could lead in the future, to labour and social unrest in Russia and the other countries in which we operate. Labour and social unrest may have political, social and economic consequences, such as increased support for further political reforms, increased nationalism (with restrictions on foreign involvement) and increased violence.

Any of these consequences could restrict our operations and lead to the loss of revenue, materially adversely affecting our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Our ownership in our privatised companies may be challenged and, if these challenges are successful, we could lose our ownership interests in these companies or their assets.

Our business includes a number of privatised companies and our business strategy will likely involve the acquisition of additional privatised companies. Many privatisations are arguably deficient and, therefore, vulnerable to challenge because the relevant privatisation legislation is vague, inconsistent or in conflict with other legislation. In the event that the privatisation of any of our companies is successfully challenged, we could risk losing our ownership interest in that company or its assets, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

In addition, under Russian law, transactions with shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party or major transaction rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions with shares in our subsidiaries (where such shares were acquired from third parties) may raise questions as to the validity of our title to such shares.

Russia's lack of developed corporate and securities laws and regulations may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate and securities laws, including those relating to corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new to Russia. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other, including the CBR, the Ministry of Finance, the FAS and various professional self-regulatory organisations. The regulations of these various authorities are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations can change rapidly, which may adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether, or how, regulations, decisions and letters issued by various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures, including delisting of our shares in Russia, despite our best efforts at compliance, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The Russian Government can mandate deliveries of crude oil and refined products, including at less than market prices, which could materially adversely affect our relationships with other customers and, more generally, our business, financial condition and results of operations.

The Russian Government has the authority to direct us to deliver crude oil or refined products to certain government-designated customers, which may take precedence over market sales. In addition, the Russian Government has used, and may continue to use, various administrative and fiscal measures to ensure sufficient supplies of crude oil and refined products are made available to domestic customers. Government-directed deliveries may take several forms. We may be directed to make deliveries to government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in general. Requirements for the delivery of domestic crude oil and refined products, with or without a corresponding limitation or ban of export sales, could be used or extended if the domestic market starts experiencing a shortage of crude oil or refined products. In addition, some of our oil production licences require us to sell crude oil that we produce to local government agencies. We have in the past and may in the future be directed to make such deliveries. Our deliveries of refined products under government-directed programmes in 2015, 2014 and 2013, however, were made at domestic market prices. Notwithstanding, no assurance can be given that the Russian Government will not require that we deliver our products to government-designated customers at below-market prices in the future. See "Business-Refining, Marketing and Distribution-Refined Products Sales-Refined Products Sales in Russia" for more information on governmentdirected deliveries.

Depending on the level of such required supplies, any government-directed deliveries may force us to curtail our export of crude oil or refined products, which have been generally made at higher prices than

domestic sales. In addition, any government-directed deliveries may disrupt our relations with our customers and lead to delays in payments for crude oil and refined products. In addition, any failure to make government-directed deliveries may affect our ability to export our crude oil. For example, the Russian Government has previously threatened to limit the access of Russian oil companies to export pipelines for failing to provide domestic refineries with steady supplies of oil. An increase in the levels of government-directed deliveries, or a revocation of export rights, could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Any reintroduction of export quotas or an export licensing regime could materially adversely affect our business, financial condition and results of operations.

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on exports may be imposed only if required to comply with Russia's obligations under international treaties or for national security purposes. No such restrictions currently apply to the export of crude oil, natural gas or refined products. However, there can be no assurance that export quotas and/or an export licensing regime will not be introduced in the future. In 2015, we exported 40.3% of the crude oil that we produced in Russia and 51.5% of the refined products that we produced in Russia. Accordingly, any restriction on our ability to export our products from Russia could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Parent company liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation provides that when one legal entity is capable of determining or approving decisions made by another legal entity. The entity capable of determining or approving such decisions is deemed a "parent". The person whose decisions are capable of being so determined or approved is deemed a "subsidiary". Under the Civil Code of the Russian Federation, the parent bears joint and several responsibility for transactions concluded by the subsidiary in carrying out the parent's instructions or upon consent of the parent, excluding cases when the parent company approves a transaction and the approval is envisaged by the charter of the subsidiary and/or the parent company. In addition, a parent is secondarily liable for a subsidiary's debts if a subsidiary becomes insolvent or bankrupt due to the fault of a parent. For example, this liability could arise through ownership of voting securities or by contract. In these instances, under the JSC Law and the Limited Liability Companies Law, other shareholders or participants of the subsidiary may claim in the interest of the subsidiary, compensation by the parent of the loss caused to the subsidiary due to the fault of the parent, provided that the parent exercised its right and/or capability to cause the subsidiary to take action knowing that such action would result in losses to the subsidiary. Accordingly, we could be liable in some cases for the debts of our consolidated subsidiaries. This liability could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Shareholder rights provisions under Russian law may impose significant additional obligations on us.

Russian law provides that shareholders that vote against, or do not participate in the voting on, certain matters have the right to demand LUKOIL to repurchase all or some of their shares at a price not less than the market value, as determined in accordance with Russian law. Decisions that trigger this put right include:

- a corporate reorganisation;
- the approval by shareholders of a "major transaction", which involves property worth more than 50% of the book value of a company's assets determined according to Russian accounting standards;
- the amendment (adoption of a resolution at a general shareholders' meeting that may serve as a basis for an amendment of our charter) or restatement of our charter in a manner that limits shareholder rights; and
- an application for the delisting of shares and/or securities convertible into shares.

Our obligation to purchase shares in these circumstances, which is limited to 10% of our net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon,

could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Some transactions between us and interested parties or affiliated companies require the approval of disinterested directors or shareholders. If such transactions are not approved in due course, they could be challenged by our shareholders and invalidated by the court.

We are required by Russian law and our charter to obtain the approval of disinterested directors or shareholders for certain transactions with "interested parties". Under Russian law, the definition of an "interested party" includes members of the board of directors and members of a collegial executive body of a company, the chief executive officer of the company, the managing company or a manager of the company (if any) and any shareholder that owns, together with that person's close relatives and affiliates, at least 20% of the company's voting shares or a person who has the right to give binding instructions to the company if any of the above listed persons, or a close relative or affiliate of such person:

- is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary to the transaction;
- is the owner (individually or collectively) of at least 20% of the shares in the company that is a party to or beneficiary, intermediary or representative in a transaction; or
- holds a position with any management body of the company or the managing company of such company that is a party to or beneficiary, intermediary or representative in a transaction.

In addition, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons" under Russian law, which are subject to many different interpretations. The provisions of Russian law defining the transactions which must be approved as "interested party" transactions are subject to different interpretations. Although we have generally taken a reasonably conservative approach in applying these concepts, our application of these concepts may be subject to challenge by shareholders. Furthermore, while we follow all the relevant procedures, we may not always have complete information on who our interested parties are at any moment in time, as we rely on obtaining information from persons, including individuals, who we cannot control due to the fact that the control criteria do not apply to them and also because they themselves may not always have complete information about certain circumstances. Therefore, there is a risk that we could enter into an interested party transaction without our knowledge and without following of the special procedures provided for by Russian law. If an interested party transaction were conducted without the required corporate approvals, one of our shareholders could challenge such transactions. Any such challenge could result in the invalidation (if there are circumstances provided for by the law) of transactions that are important to our business, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of the United States and the United Kingdom, which could have a material adverse effect on the value of the notes in the event of our insolvency.

Russian bankruptcy law differs considerably from comparable law in the United States and the United Kingdom and is subject to varying interpretations. For example, there is little precedent to predict how claims of noteholders against a Russian guarantor would be resolved in a bankruptcy of the guarantor. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and could have a material adverse effect on the value of the notes.

In addition, under Russian bankruptcy law, in case of LUKOIL's bankruptcy, its obligations as guarantor of the notes could be subordinated to, among others, the following obligations:

- certain payment obligations that arise after an application for bankruptcy has been duly accepted by a Russian court;
- personal injury and "moral harm" obligations;
- severance pay and employment-related and copyright royalty obligations; and
- secured obligations.

In the event of LUKOIL's bankruptcy, this legislative framework may materially adversely affect the value of the notes.

One or more of our subsidiaries may be forced into liquidation due to formal non-compliance with certain requirements of Russian law, which could have a material adverse effect on our business, financial condition and results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements in connection with its formation or reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as of the end of the financial year following the second or any subsequent financial year of a company's operation can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities (if no decision is taken to decrease the charter capital or liquidate the company). Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian balance sheets. However, their solvency (i.e., their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets.

Some of the companies in our Group may have negative net assets. In addition, although some of our subsidiaries may have failed from time to time to fully comply with all the applicable legal requirements, we believe that neither we nor any of our subsidiaries should be subject to liquidation on such grounds, and none of the possible violations has caused any damage to anyone or has had any other negative consequences. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganise the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantee.

Risks Relating to the Offering and the Notes

The notes may not have an active trading market, which may have an impact on the value of the notes.

The notes have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although it is expected that the notes will be admitted to trading on the London Stock Exchange on or after the Closing Date, there may be little or no secondary market for the notes. Even if a secondary market for the notes develops, it may not provide significant liquidity and it is expected that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for the notes in any secondary market could be substantial and the value of the notes could be adversely affected.

The notes are subject to restrictions on transfer, which may affect the value of the notes.

The notes are being offered and sold in the United States in reliance on Rule 144A (the Rule 144A Offering) to purchasers who are QIBs. The notes also may be offered and sold outside the United States (the Regulation S Offering) in reliance on Regulation S. Each purchaser of notes pursuant to the Rule 144A Offering will be deemed to have represented to the Issuer that it is a QIB. Each purchaser of the notes pursuant to the Regulation S Offering will be deemed to have represented to have represented to the Issuer that it is not a U.S. person within the meaning of Regulation S and is not acquiring notes for the account or benefit of any U.S. person. As a result of the foregoing, the notes are subject to certain restrictions on transfer, which may adversely affect the liquidity and the value of the notes. See "*Transfer Restrictions*".

The Issuer can redeem the notes at its option, which may affect the value of the notes.

The Issuer has the option to redeem the notes prior to their scheduled maturity date in certain circumstances as described in Condition 7 of the Terms and Conditions of the Notes. Even if the Issuer does not exercise its option to redeem the notes, its ability to do so may adversely affect the value of the notes.

The protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the notes.

We have agreed in Condition 4 of the Terms and Conditions of the Notes not to, and to procure that no Subsidiary (as defined in the Terms and Conditions of the Notes) will, create or permit to subsist any Security Interest (as defined in the Terms and Conditions of the Notes) other than a Permitted Security Interest (as defined in the Terms and Conditions of the Notes) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) any payment in respect of or relating to any Relevant Indebtedness without procuring that the notes are secured equally and rateably with such Relevant Indebtedness to the satisfaction of the Trustee. The application of this negative pledge and the protection that it affords to holders of the notes, however, is limited. For example, the definition of Relevant Indebtedness is limited to our present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other securities (but, for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market. In addition, pursuant to an exemption from the negative pledge, we will be permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of the value of Consolidated Assets (as defined in the Terms and Conditions of the Notes), without any obligation to afford any equal and ratable security to holders of the notes. As a result, we will be permitted to secure a range of other forms of Indebtedness (as defined in the Terms and Conditions of the Notes) and may also create security in respect of a significant amount of Relevant Indebtedness without, at the same time, being obliged to grant equal and ratable security in respect of the notes or the guarantee, as the case may be, which may adversely affect the value of an investment in the notes and/or cause holders of the notes to rank in terms of priority behind such secured creditors.

The Issuer has limited net assets with which to meet its obligations under the notes.

The Issuer is an indirect wholly-owned subsidiary of LUKOIL and will lend the net proceeds from the issue of the notes to LUKOIL or to other entities within the Group. As of the date of this prospectus (and prior to consummation of this offering), the Issuer had obligations under the US\$500,000,000 6.356% notes due 2017 and the US\$500,000,000 6.656% notes due 2022, which were both issued in June 2007, the US\$600,000,000 7.250% notes due 2019, which were issued in November 2009, the US\$1,000,000,000 6.125% notes due 2020, which were issued in November 2010 and the US\$1,500,000,000 3.416% notes due 2018 and the US\$1,500,000,000 4.563% notes due 2023, which were both issued in April 2013. See "*Capitalisation*". The principal activity of the Issuer is to act as a financing company. Accordingly, it has limited net assets (other than amounts due to it from LUKOIL and other Group entities in respect of intercompany loans) to meet its obligations to pay interest and other amounts payable in respect of the notes. While LUKOIL has guaranteed the Issuer's obligations under the notes, LUKOIL is dependent in large part on its subsidiaries' operations to fund payments on its outstanding obligations.

We operate through our subsidiaries, which effectively subordinates the claims under our guarantee of the notes to the claims of creditors of our subsidiaries.

LUKOIL will guarantee the notes, but the notes will not be guaranteed by LUKOIL's subsidiaries. Our operations are, to a significant extent, conducted through our subsidiaries. Accordingly, LUKOIL is and will be dependent on its subsidiaries' operations to service its indebtedness, including its guarantee of the notes. The guarantee is effectively subordinated to the claims of all of the creditors, including trade creditors, of LUKOIL's subsidiaries. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of LUKOIL, creditors of such subsidiary generally will have the right to be paid in full before any distribution will be made to LUKOIL or the holders of the notes.

Noteholders may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the notes do not contain provisions that would afford protection to holders of the notes in the event of a decline in our credit quality resulting from highly leveraged or other similar transactions in which we may engage. We are also not limited in the amount of other indebtedness or other liabilities that we may incur or securities that we may issue. Holders of the notes do not have the right to require us to repurchase or redeem the notes in the event of many types of highly leveraged transactions.

Noteholders may face difficulties enforcing their rights under LUKOIL's guarantee or the notes.

LUKOIL and most of its subsidiaries are incorporated outside of the United States and the United Kingdom, primarily in Russia. It may not be possible for investors to effect service of process within the United States or the United Kingdom on LUKOIL, the Issuer or their respective directors and executive officers or enforce judgments obtained in the United States or the United Kingdom against LUKOIL, the Issuer or their respective directors and executive officers. The enforceability of the guarantee issued in connection with the notes may be subject to numerous legal defences, some of which could be based upon the fact that there may be no recognition and enforcement of foreign court judgments in Russia. See "Limitation on Enforceability of Civil Liabilities".

Payments under the guarantee may be subject to Russian withholding tax.

Payments under the guarantee to be made by the Guarantor to the Trustee acting on behalf of the noteholders should be subject to the Russian withholding tax in respect of these payments at the rate of 20 per cent. (in the case of applicability of the rate established for Non-Resident Noteholders–Legal Entities (as defined in "*Taxation—Russian Federation*")) or at a rate of 30 per cent. (in the case of applicability of the rate established for Non-Resident Noteholders–Individuals (as defined in "*Taxation—Russian Federation*")) unless the specific exemption contemplated by the Russian Tax Code with respect to "issued bonds" is applied or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty (see "*Taxation—Russian Federation*"). However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for Non-Resident Noteholder-Legal Entities or the Russian tax exemption established for the "issued bonds" will be available in practice. See "*Taxation—Russian Federation*".

Further, there can be no assurance that the Russian withholding tax would not be imposed on the payments made under the guarantee to Non-Resident Noteholders–Legal Entities not residing for tax purposes in countries which have concluded a double tax treaty with Russia. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the guarantee payment, including the principal amount of the notes. Since the above could only be relevant in the case of payments made in favour of Non-Resident Noteholders–Legal Entities residing for tax purposes in countries which do not have a double tax treaty with Russia, reduction or elimination of the 20% Russian withholding tax on the basis of the double tax treaties under such circumstances should not be possible.

There is also some residual risk that the exemption from the obligation to act as withholding tax agent would not be available in relation to payments under the guarantee in respect of net proceeds of the notes to the extent that the Guarantor is not able to prove that such proceeds were used to provide funds in the form of debt to the Russian subsidiaries of the Group. In such a case, there is a risk that payments under the guarantee to the Non-Resident Noteholders–Legal Entities would be subject to Russian withholding tax at 20 per cent., which could be reduced or eliminated based on consideration of the position of each individual noteholder with respect to such noteholder's residence, the applicable double tax treaty, if any, between the Russian Federation and the country where such noteholder is resident and the provisions of such treaty subject to compliance with treaty clearance formalities. However, there is no assurance that the provisions of the relevant double tax treaty can be applied in practice given that the noteholders will not be the immediate recipients of the payments under the guarantee.

Importantly, the Russian Tax Code does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance has acknowledged in an information letter published on its website that the release of Russian companies from the obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. However, to date, this acknowledgement by the Russian Ministry of Finance has not been formalised. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including Non-resident Noteholders–Legal Entities and/or the Trustee.

Payments under the guarantee to a Non-resident Noteholder–Individual (as defined in section "*Taxation—The Russian Federation*") made by the Guarantor may be subject to Russian withholding

tax. In this case, depending on how these payments would be effected, either the full amount of payment or a part of such payments (covering interest on the notes) would be subject to the 30 per cent. tax which may be withheld at the source or paid on a self-assessed basis. This tax may be subject to relief or reduced tax rate under the terms of an applicable double tax treaty.

Given the uncertainties regarding the form and procedures for providing the documentary support, it is unlikely that Non-resident Noteholders–Individuals in practice would be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. See *"Taxation—The Russian Federation"*.

If any payment required under the guarantee becomes subject to Russian withholding tax or deduction for any taxes, duties, assessments or governmental charges of any nature (as a result of which the Guarantor would have to reduce payments made under the guarantee by the withheld amount), we will be obliged (subject to certain conditions) to increase the amount payable under the guarantee so as to result in the receipt by the Trustee acting on behalf of the noteholders of such amounts as would have been received by it if no such withholding or deduction had been (except in circumstances specified in Condition 7(b) of the Terms and Conditions of the Notes (*Redemption for tax reasons*). As a result, we could incur expenses well in excess of the amount due to the noteholders. We cannot be certain that we would have sufficient funds to make any payment required under the guarantee or to pay the additional amounts associated with withholding tax. Further, we can give no assurance that our obligation to pay the additional amounts associated with withholding tax is enforceable under Russian law.

There is some uncertainty under Russian law as to the enforceability of such gross-up provisions. If the Guarantor were to fail to make tax gross-up payments in accordance with the terms of the guarantee and the related provisions under the guarantee were deemed to be unenforceable, the net amount of the payments made by the Guarantor to the Trustee acting on behalf of the noteholders could be insufficient to make payment in full under the notes.

Withholding of tax on disposals of the notes in Russia may reduce their value.

Where income resulting from sale, redemption or disposal of the notes is deemed to be received from a source within Russia by a Non-Resident Noteholder–Individual, a Russian personal income tax at a rate of 30 per cent. (or such other rate as may be in force at the time of payment) should be charged on the gross amount of proceeds from disposal of the notes less any available duly documented cost deductions (including the original purchase price of the notes and other documented expenses related to the acquisition, holding and sale or other disposal of the notes), provided that the documentation supporting cost deductions is made available in a timely manner to the tax agent obliged to calculate and withhold Russian personal income tax.

For personal income tax purposes, deductible costs and proceeds from disposal of the notes are converted into rubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in ruble terms due to devaluation of the ruble (whereas in foreign currency terms there might be no gain or even a capital loss).

Although Russian personal tax rate on proceeds from disposal of the notes may be reduced or eliminated under an applicable double tax treaty entered into between Russia and the country of tax residency of a particular noteholder subject to timely compliance by that noteholder with the treaty clearance formalities, in practice, individuals may not always be able to obtain advance treaty relief in relation to proceeds or interest income received from a source within Russia, whilst obtaining a refund of taxes withheld that were excessively withheld in relation to such income can be difficult or impossible in some cases. Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker, or another person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting in a similar capacity to withhold the tax from payment to an individual associated with disposal of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia or an individual entrepreneur located in Russia or an individual entrepreneur located math disposal of securities, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia or an individual entrepreneur l

Generally, there should be no Russian tax on gains from sale or other disposition of the notes imposed on Non-Resident Noteholder—Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the notes (i.e. debt obligations) where proceeds from sale or other disposition of the notes are received from a source within Russia by a Non-Resident Noteholder—Legal Entity. The uncertainty is driven by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the

amount of accrued interest (coupon) embedded into the sale price of the notes. Consequently, there is a risk that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

In addition, while some noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the notes. See "*Taxation—The Russian Federation*".

U.S. Foreign Account Tax Compliance Act Withholding.

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with The Netherlands (the IGA). Under the IGA, as currently drafted, the Issuer does not expect non-U.S. source payments made on or with respect to the notes to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments in relation to a note were subject to withholding or deduction under FATCA, neither the Issuer nor the Guarantor would have an obligation to pay any additional amounts in relation to such withholding or deduction in accordance with Condition 9 (Taxation) of the notes. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this prospectus from third parties, including private companies and Russian governmental agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

CAPITALISATION

The following table sets forth our consolidated capitalisation and short-term debt as of 30 June 2016 based on data extracted from our unaudited consolidated financial statements as of 30 June 2016. The net proceeds of the offering will be used as described under "Use of Proceeds". There have been no material changes in our capitalisation since 30 June 2016, except as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources". For further information regarding our financial condition, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes included elsewhere in this prospectus.

	As of 30 June 2016
	(millions of
	rubles)
Short-term debt	(0.00)
Short-term borrowings from third parties	60,096 5,063
Short-term borrowings from related parties Current portion of long-term debt	66,938
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Total short-term debt	132,097
Long-term debt	
Long-term loans and borrowings from third parties	436,448
6.356% non-convertible U.S. dollar bonds, maturing 2017	32,129
3.416% non-convertible U.S. dollar bonds, maturing 2018	96,124
7.250% non-convertible U.S. dollar bonds, maturing 2019	38,442
6.125% non-convertible U.S. dollar bonds, maturing 2020	64,173
6.656% non-convertible U.S. dollar bonds, maturing 2022	32,129
4.563% non-convertible U.S. dollar bonds, maturing 2023	96,124
Capital lease obligations	3,951
Total long-term debt	799,520)
Current portion of long-term debt	(66,938)
Total non-current portion of long-term debt	732,582
Total debt ⁽¹⁾	864,679
Equity	
Share capital	1,151
Treasury shares	(241,615)
Additional paid-in capital	129,508
Other reserves	66,791
Retained earnings	3,254,923
Total equity attributable to LUKOIL shareholders	3,210,758
Total capitalisation ⁽²⁾	4,075,437

⁽¹⁾ Comprising short-term debt and non-current portion of long-term debt.

⁽²⁾ Comprising total debt and total equity attributable to LUKOIL shareholders.

Of the total debt of the Group of RUB 864,679 million, as of 30 June 2016, RUB 476,490 million was guaranteed by LUKOIL, RUB 57,410 million was secured (with no LUKOIL guarantee) and RUB 330,779 million was neither secured nor guaranteed.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial information set out below as of 31 December 2015 and 2014 and 1 January 2014 and for the years ended 31 December 2015 and 2014 has been derived from our audited annual consolidated financial statements and notes thereto included elsewhere in this prospectus. The selected consolidated financial information set out below as of 30 June 2016 and 2015 has been derived from our unaudited condensed interim consolidated financial statements and notes thereto included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. We adopted IFRS starting from the fiscal year ended 31 December 2015, and the date of transition to IFRS is 1 January 2014. Because fiscal year 2015 is the first year we have prepared and presented our financial statements in accordance with IFRS, we did not include historical financial information as of and for the years ended December 31, 2013, 2012 and 2011. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Transition to IFRS*" for more information about our transition to IFRS.

The following selected financial information should be read together with "*Presentation of Financial and Other Information*—*Presentation of Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our consolidated financial statements and notes thereto and the unaudited supplementary information on oil and gas exploration and production activities included elsewhere in this prospectus. Investors should read this prospectus as a whole and not rely solely on summary or selected information. Results for interim periods are not necessarily indicative of results for the full year.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June		Year of 31 Dec		
	2016	2015	2015	2014	
	(millions	of rubles, exc	ept per share	amounts)	
Consolidated Statement of Profit or Loss and Other Comprehensive Income:					
Revenues					
Sales (including excise and export tariffs)	2,516,633	2,917,271	5,749,050	5,504,856	
Costs and other deductions					
Operating expenses	(226,953)	(211,509)	(446,719)	(368,505)	
Cost of purchased crude oil, gas and products	(1,215,030)	(1,477,705)	(2,891,674)	(2,781,856)	
Transportation expenses	(164,364)	(147,162)	(297,977)	(215,198)	
Selling, general and administrative expenses	(93,125)	(81,213)	(168, 669)	(146,550)	
Depreciation, depletion and amortisation	(155,956)	(165,521)	(350,976)	(293,052)	
Taxes other than income taxes	(202,277)	(271,054)	(522,620)	(467,732)	
Excise and export tariffs	(228,769)	(296,458)	(575,509)	(807,401)	
Exploration expenses	(4,552)	(14,783)	(29,177)	(12,228)	
Profit from operating activities	225,607	251,866	465,729	412,334	
Finance income	7,342	8,567	17,763	10,999	
Finance costs	(21, 469)	(22,486)	(48,224)	(29,727)	
Equity share in income of affiliates	5,778	6,475	7,047	19,888	
Foreign exchange (loss) gain	(74,323)	(23,479)	110,912	167,235	
Other expenses	(7,548)	(8,556)	(164,123)	(95,874)	
Profit before income taxes	135,387	212,387	389,104	484,855	
Current income taxes	(27,659)	(42,334)	(100,335)	(103,303)	
Deferred income taxes	(2,064)	(1,358)	3,976	12,524	
Total income tax expense	(29,723)	(43,692)	(96,359)	(90,779)	
Profit for the period	105,664	168,695	292,745	394,076	
(Profit) loss for the period attributable to non-controlling	<i>/</i>	()	<i>.</i>		
interests	(272)	(916)	(1,610)	1,449	
Profit for the period attributable to LUKOIL shareholders	105,392	167,779	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	(37,314)	(35,641)	12,345	92,770	
plan	33	652	(1,650)	239	
Other comprehensive (loss) income	(37,281)	(34,989)	10,695	93,009	
Total comprehensive income for the period	68,383	133,706	303,440	487,085	
Total comprehensive (income) loss for the period attributable to non-controlling interests	(298)	(967)	(1,609)	1,434	
Total comprehensive income for the period attributable to LUKOIL shareholders	68,085	132,739	301,831	488,519	
Earnings per share of common stock attributable to LUKOIL (<i>in rubles</i>): Basic Diluted	147.83 147.83	235.34 231.28	408.36 405.15	554.79 541.90	

Consolidated Statement of Financial Position

	As of 30 June	As of 31 D	ecember	As of 1 January
	2016	2015	2014	2014
		(millions o	of rubles)	
Assets				
Current assets Cash and cash equivalents	346,703	257,263	169,023	43,092
Accounts receivable, net	388,706	440,489	471,811	205,500
Other current financial assets	16,970	23,768	10,700	11,592
Inventories	388,783	340,196	340,693	281,284
Income tax prepaid	15,668	7,413	11,367	22,182
Other taxes receivable	67,009	81,692	115,930	124,102
Other current assets	61,063	62,826	50,470	41,901
Assets held for sale			66,233	
Total current assets	1,284,902	1,213,647	1,236,227	729,653
Property, plant and equipment	3,380,811	3,411,153	3,153,579	2,683,758
Investments in associates and joint ventures	169,047	181,744	145,404	114,799
Other non-current financials assets	106,424	102,067	94,037	52,451
Deferred income tax assets	27,018	28,735	22,111	15,473
Goodwill and other intangible assets	47,416	51,749	56,386	47,846
Other non-current assets	30,853	31,512	31,209	39,035
Total non-current assets	3,761,569	3,806,960	3,502,726	2,953,362
Total assets	5,046,471	5,020,607	4,738,953	3,683,015
Liabilities and Equity				
Current liabilities	404 715	204 220	200.007	220 224
Accounts payable	424,715 132,097	394,339 60,506	398,996 121,271	238,224 42,905
Short-term borrowings and current portion of long-term debt	6,990	11,640	7,486	42,903
Income tax payable Other taxes payable	93,545	73,277	75,588	77,832
Provisions	27,168	25,553	21,007	21,560
Other current liabilities	114,141	129,853	154,555	30,278
Liabilities related to assets held for sale	-	129,000	543	- 50,270
Total current liabilities	798,656	695,168	779,446	412,133
Long-term debt	732,582	799,207	634,847	306,273
Deferred income tax liabilities	234,943	234,107	227,071	227,330
Provisions	55,019	51,115	34,419	79,241
Other non-current long-term liabilities	8,027	9,636	13,628	2,336
Total non-current liabilities	1,030,571	1,094,065	909,965	615,180
Total liabilities	1,829,227	1,789,233	1,689,411	1,027,313
Equity				
Share capital	1,151	1,151	1,151	1,151
Treasure shares	(241,615)	(241,615)	(158,615)	(158,615)
Equity-linked notes	-	-	(83,000)	(83,000)
Additional paid-in capital	129,508	129,403	128,846	130,599
Other reserves	66,791	104,150	93,454	460
Retained earnings	3,254,923	3,229,379	3,055,542	2,750,601
Total equity attributable to LUKOIL shareholders	3,210,758	3,222,468	3,037,378	2,641,196
Non-controlling interests	6,486	8,906	12,164	14,506
Total equity	3,217,244	3,231,374	3,049,542	2,655,702
Total liabilities and equity	5,046,471	5,020,607	4,738,953	3,683,015

Consolidated Statement of Cash Flows

	Six months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
		(millions o	of rubles)	
Cash flows from operating activities Profit for the period attributable to LUKOIL shareholders Adjustments for non-cash items:	105,392	167,779	291,135	395,525
Depreciation, depletion and amortisation Equity share in income of affiliates, net of dividends	155,956	165,521	350,976	293,052
received	(3,839)	65	2,680	(6,940)
Dry hole write-offs	522	13,668	25,447	10,055
Loss on disposals and impairments of assets	4,718	8,251	167,295	91,341
Income tax expense	29,723	43,692	96,359	90,779
Non-cash foreign exchange gain	70,506	21,211	(122,955)	(157,684)
Non-cash investing activities	(69)	(161)	(334)	(1,534)
Finance income	(7,342)	(8,567)	(17,763)	(10,999)
Finance costs	21,469	22,486	48,224	29,727
Bad debt allowance	2,913	821	4,045	3,977
All other items – net	6,374	8,510	3,808	5,157
Changes in operating assets and liabilities:	2 459	(0.450	110 251	(112.52())
Trade accounts receivable	2,458	69,459	112,351	(112,526)
Inventories	(87,849)	(54,162)	78,622	59,832
Accounts payable	85,588 37,183	(24,766)	(87,621) 30,461	(35,822) 4,310
Other taxes Other current assets and liabilities	(49,754)	57,356 (75,076)	(65,004)	4,510 57,665
	(49,734) (35,788)	(38,373)	(03,004) (92,377)	(85,851)
Income tax paid Dividends received	2,102	(38,373)	9,443	12,848
Interests received	4,215	5,389	14,180	8,504
Net cash provided by operating activities	344,478	383,103	848,972	651,416
Cash flows from investing activities				
Acquisition of licenses	(2,408)	(371)	(686)	(3,535)
Capital expenditures	(248, 664)	(302,853)	(600,639)	(575,981)
Proceeds from sale of property, plant and equipment	624	1,219	1,898	2,505
Purchases of financial assets	(13,299)	(2,924)	(21,203)	(14,203)
Proceeds from sale of financial assets	5,651	5,504	19,837	6,256
Sale of subsidiaries, net of cash disposed	1,414	2,718	3,804	6,043
Sale of equity method affiliates	-	9,410	79,328	8
Acquisitions of subsidiaries, net of cash acquired	_	(272)	(1,501)	11,246
Acquisitions of equity method affiliates	(1,833)	(3,299)	(6,560)	(10,713)
Net cash used in investing activities	(258,515)	(290,868)	(525,722)	(578,374)
Cash flows from financing activities	16.044	7 1 550	76.070	172 (11
Proceeds from issuance of short-term borrowings	46,941	71,559	76,078	173,641
Principal repayments of short-term borrowings	(12,178)	(26,447)	(76,673)	(163,790)
Proceeds from issuance of long-term debt	89,276	19,402	104,433	160,325
Principal repayments of long-term debt	(14,050)	(94,255)	(198,157)	(63,396)
Interests paid Dividends paid on LUKOIL common shares	(23,574)	(18,190)	(41,359)	(22,880)
Dividends paid on EOKOL common shares Dividends paid to non-controlling interest shareholders Financing received from non-controlling interest	(46,324) (1,587)	(40,934) (767)	(111,858) (3,248)	(49,651) (3,076)
shareholders	48	61	105	94
Sale of non-controlling interests	_	9	2,568	_
Purchases of non-controlling interest	(1,285)	-	(4,952)	(1,124)
Net cash (used in) provided by financing activities	37,267	(89,562)	(253,063)	30,143
Effect of exchange rate changes on cash and cash equivalents Change in cash related to assets held for sale	(33,790)	(19,429)	18,053	22,826 (80)
Net increase in cash and cash equivalents	89,440	(16,756)	88,240	125,931
Cash and cash equivalents at beginning of period	257,263	169,023	169,023	43,092
Cash and cash equivalents at end of period	346,703	152,267	257,263	169,023

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

The following discussion and analysis should be read in conjunction with our IFRS audited annual consolidated financial statements as of 31 December 2015 and 2014 and 1 January 2014 and for the years ended 31 December 2015 and 2014 and the notes thereto, our IFRS unaudited condensed interim consolidated financial statements as of and for the three and six-month periods ended 30 June 2016 and the notes thereto, and the unaudited supplementary information on oil and gas exploration and production activities included elsewhere in this prospectus. This discussion contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward looking statements as a result of numerous factors, including the risks discussed in the section entitled "Risk Factors" and elsewhere in this prospectus.

Overview

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). As of 31 December 2015, as audited by Miller and Lents, our proved hydrocarbon reserves were 16,558 mmboe, including 12,585 mmbls (1,717 million tonnes) of crude oil and 23,838 bcf (3,973 mmboe) of gas. Most of our hydrocarbon reserves are conventional. Our daily hydrocarbon production in the first half of 2016 amounted to 2.3 mmboe, with liquid hydrocarbons representing approximately 85% of our overall production volumes. Our primary activities are crude oil exploration, production, refining, marketing and distribution. LUKOIL is the ultimate parent entity of our Group.

LUKOIL was established in accordance with Presidential Decree No.1403, issued on 17 November 1992. Under this decree, on 5 April 1993, the Russian Government transferred to the Group 51% of the voting shares of 15 enterprises. Under Government Resolution No.861, issued on 1 September 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, we have carried out a share exchange programme to increase our shareholding in each of 24 founding subsidiaries to 100%. We have expanded substantially through organic growth, consolidation of interests, acquisitions of new companies and establishment of new businesses. We are now a global energy company operating in over 30 countries on four continents. In July 2015, we changed our legal form and name from OAO LUKOIL, an open joint stock company, to PJSC "LUKOIL", a public joint stock company, in accordance with changes to the Civil Code of the Russian Federation.

	Six mo	onths ended 30	June	Year o	ended 31 Dece	mber
	2016	% Change	2015	2015	% Change	2014
		(millions	of rubles, exc	ept per share	amounts)	
Sales Profit for the period attributable to LUKOIL	2,516,633	(13.7)	2,917,271	5,749,050	4.4	5,504,856
shareholders EBITDA	105,392	(37.2)	167,779	291,135	(26.4)	395,525
(operating) ⁽¹⁾ Capital expenditures, including non-cash	381,563	(8.6)	417,387	816,705	15.8	705,386
transactions ⁽²⁾	241,447	(20.8)	304,844	607,205	(0.6)	611,106

Key Financial and Operational Results

(1) EBITDA (operating) is profit from operating activities before depreciation, depletion and amortisation. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures (Unaudited)*" for more detail on our use of EBITDA (operating) as a non-IFRS financial measure.

(2) Non-cash transactions consist of barter transactions and transactions in which we receive assets before making payment in the relevant period.

	Six months ended 30 June			Year ended 31 December			cember	
	2016	% Change	2015	2015	% Change	2014	% Change	2013
Production by the Group, including our share in equity affiliates: Daily hydrocarbons								
(<i>mboe per day</i>) Hydrocarbons (<i>mboe</i>) Crude oil and natural gas	2,259 411,110	(4.8) (4.3)	2,373 429,529	2,379 868,325	2.8 2.8	2,314 844,469	5.1 5.1	2,202 803,825
liquids (<i>mbls</i>) Gas available for sale	349,629	(5.5)	370,009	749,150	3.1	726,955	6.3	683,822
(<i>mmcm</i>) Refined products	10,447	3.3	10,114	20,251	1.4	19,968	(2.1)	20,391
(thousand tonnes)	30,327	5.3	28,793	60,900	(5.0)	64,118	(0.1)	64,196

Our total revenues were RUB 2,517 billion for the six months ended 30 June 2016, compared to RUB 2,917 billion during the same period in 2015. Our total revenues were RUB 5,749 billion in 2015, compared to RUB 5,505 billion in 2014.

Our results for the first half of 2016 were affected by a decrease in average hydrocarbon prices and fluctuations of ruble exchange rates to the U.S. dollar and euro. Lower mineral extraction tax and export duty rates partially offset the effects of the decreased hydrocarbon prices and ruble fluctuations, and the upgrade of our Russian refineries allowed us to enhance our product slate and support our financial results in an unfavourable macroeconomic environment.

In the first half of 2016, profit for the period attributable to LUKOIL shareholders was RUB 105 billion, a decrease of 37.2%, compared to the first half of 2015. As most of the initial costs we incurred for the West Qurna-2 project in Iraq were compensated prior to 2016, we were eligible for significantly lower volumes of compensation crude oil, compared to the first half of 2015, which negatively impacted our production volumes and EBITDA (operating). See "—Recent Developments—West Qurna-2 Project". Our EBITDA (operating) was RUB 382 billion in the first half of 2016, an 8.6% decrease compared to the first half of 2015.

Our results for 2015 and 2014 were significantly affected by the sharp decrease in crude oil prices and devaluation of the ruble. The ruble devaluation offset a decrease in export sales and international revenues and also resulted in foreign exchange gains. However, with the sharp decline in crude oil prices and adverse macroeconomic changes, we recognised certain impairment losses on assets and dry hole write-offs.

In 2015, profit for the year attributable to LUKOIL shareholders was RUB 291 billion, a decrease of 26.4% from 2014. As a result of impairment tests in 2015 and 2014, we recognised impairment losses and write-offs in a total amount of RUB 161 billion in 2015 and RUB 88 billion in 2014 (net of tax). See "—*Results of Operations*—*Additional information on losses on disposal, impairments and other write-offs*" for more information on these losses and write-offs. Our EBITDA (operating) in 2015 was RUB 817 billion, an increase of 15.8% from 2014.

In 2015, daily hydrocarbon production increased by 2.8%, continuing a three-year trend of year-to-year growth. In the first half of 2016, daily hydrocarbon production decreased by 4.8% compared to the same period in 2015.

Transition to IFRS

The audited annual consolidated financial statements of the Group included elsewhere in this prospectus are the first financial statements prepared by the Group in accordance with IFRS, and accordingly, IFRS 1 *First-time adoption of International Financial Reporting Standards*, was applied. The date of transition to IFRS is 1 January 2014.

We transitioned from US GAAP to IFRS due to the requirements of Russian legislation. The presentation currency of our IFRS consolidated financial statements is the ruble. Previously, we presented our consolidated financial statements in U.S. dollars.

Some requirements and principles of accounting for certain operations under IFRS differ from those under US GAAP. For information on the differences between our IFRS and US GAAP financial statements, see "-Operational Highlights" and "-Results of Operations" below, as well as Note 34

"First-time adoption of IFRS" to our audited annual consolidated financial statements included elsewhere in this prospectus.

The Group made a number of assumptions in respect of the transition to IFRS. The principal factors and assumptions that affect our financial statements significantly with the transition to IFRS are as follows:

Change of functional currency. Under US GAAP, the U.S. dollar was the functional currency of all Group companies. Therefore, translation differences were based on net monetary positions in currencies other than the U.S. dollar. IFRS requirements for determining functional currency differ from those of US GAAP. Under IFRS, the local currency is the functional currency for the majority of Group companies (i.e., ruble for Russian subsidiaries). As a result, translation differences arise from recalculation of the value of assets and liabilities denominated in foreign currencies to the functional currency of subsidiaries' financial statements to the Group's presentation currency, ruble, are included in other comprehensive income.

Property, plant and equipment valuation. We engaged an independent appraiser to measure the fair value of property, plant and equipment of major subsidiaries at the date of the transition to IFRS. The result of this assessment (the fair value of property, plant and equipment) was used as the deemed cost of property, plant and equipment. At the same time, the value of each subsidiary's property, plant and equipment is fixed in its functional currency, whereas under US GAAP, historical cost of property, plant and equipment was fixed in U.S. dollars.

Impairment of assets. According to US GAAP, an impairment test is performed in two steps. During the first step, the carrying amount of assets is compared to the estimated undiscounted future cash flows expected to be generated by that assets. If the carrying amount of assets exceeds the undiscounted future cash flows (impairment indicator exists), during the second step, an impairment loss is recognised in the amount of excess of the assets' carrying amount over its estimated fair value, generally determined as discounted future net cash flows. Impairment reversal is not allowed.

According to IFRS, an impairment test is performed in one step, when the carrying amount of assets is compared to their estimated fair value (or discounted future net cash flows). An impairment charge is also recognised in the amount of excess of the assets' carrying amount over the discounted future net cash flows. Impairment reversal is allowed (except for impairment of goodwill).

Changes in accounting of joint arrangements. We analysed the Group's participation in joint arrangements and determined the list of jointly controlled operations and jointly controlled ventures to be accounted for in accordance with IFRS. The Group's share in 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 jointly controlled ventures are accounted for under the equity method. In some cases, the method of accounting for joint ventures required by IFRS differs from that required by US GAAP. In accordance with IFRS, the Group's 50% share in Caspian Investment Resources Ltd was accounted for as a joint venture rather than the proportionate consolidation method applied under US GAAP. Under IFRS, the Group uses the proportionate consolidation method to account for its 45% share in the Zeeland refinery, whereas it was accounted for as an equity affiliate under US GAAP.

See Note 34 "*First-time adoption of IFRS*" to our audited annual consolidated financial statements included elsewhere in this prospectus for a detailed reconciliation of our IFRS and US GAAP financial statements.

Segment Information

Our operations are divided into three main business segments:

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

• **Corporate and other** – which includes operations related to our headquarters (which coordinates the operations of Group companies), finance activities, production of diamonds and certain other activities.

Each of our three main segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors described in "*Main Factors Affecting Our Results of Operations—Changes in Crude Oil, Refined Products and Gas Prices*" below, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of refining crude oil and other factors. Accordingly, an analysis of any of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyse any of our main segments separately in the discussion that follows. For a presentation of separate financial data for each of our main segments and Note 28 "Segment information" to our unaudited condensed interim consolidated financial statements, each of which are included elsewhere in this prospectus.

Recent Developments

Changes in Group Structure

In line with our strategy to optimise our downstream operations in Europe, in July 2016, we sold 100% of our interests in LUKOIL Aviation Ukraine and LUK-Avia Oil, companies involved in the jet fuel business in Ukraine, and in the first half of 2016, we sold 100% of our interests in LUKOIL Poland, LUKOIL Baltija and LUKOIL Baltija R, with 230 filling stations that we owned in Poland, Lithuania and Latvia, in each case to AMIC Energy Management GmbH.

In July 2015, we sold 100% of our interests in LUKOIL Eesti, with 37 filling stations in Estonia, to Aqua Marina AS, and we sold 100% of our interests in LUKOIL Ukraine, with 240 filling stations in Ukraine, to AMIC Energy Management GmbH. Also in December 2014, we sold 100% of our interests in LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd. and LUKOIL Czech Republic s.r.o., with approximately 140 filling stations in Slovakia, Hungary and the Czech Republic, to Slovnaft Česká Republica, Spol. s.r.o. and Norm Benzinkút Kft, respectively, for €98 million.

In August 2015, a Group company sold our 50% interest in Caspian Investment Resources Ltd, an exploration and production company operating in Kazakhstan, to a Sinopec group company for \$1,067 million.

In March 2015, a Group company closed a transaction to enter a project to develop the Etinde block, offshore from the Republic of Cameroon in the Gulf of Guinea. The Etinde project is being executed under a PSA. The project partners are LUKOIL (30% interest), New Age (African Global Energy) Ltd (30% interest, operator), Bowleven Plc (20% interest), and state-owned Societe Nationale des Hydrocarbures of Cameroon (20% interest). The license to develop the Etinde area was issued on 29 July 2014 and is valid for 20 years.

In December 2014, LUKOIL sold to Rosneft its 20% share in National Oil Consortium (NOC), established by Russian oil companies in 2008 for the development of economic cooperation between Russia and Venezuela. In 2010, NOC and a Venezuelan state-owned oil company, PDVSA, established a joint venture, PetroMiranda, to develop the Junin-6 field in the Orinoco river basin in Venezuela.

West Qurna-2 Project

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

We launched the "Mishrif Early Oil" production phase at the West Qurna-2 field and reached the planned production of 120,000 bpd in March 2014. According to the development and production service

contract between the parties, we are compensated for our costs once this level of production has been achieved and maintained during any 90 days within a 120-day period. In June 2014, we met this threshold and accordingly, from the second quarter of 2014, started to receive cost compensation from the West Qurna-2 project.

The project's target production level is 1.2 mmboe per day and the total term of the contract is 25 years.

Cost compensation for the West Qurna-2 project is accounted for in our consolidated statement of financial position and our consolidated statement of profit or loss and other comprehensive income as follows.

Capital expenditures are recognised in *Property, plant and equipment*. Extraction expenses are recognised in *Operating expenses* in respect of all volumes of crude oil production at the field, regardless of the volume of compensation crude oil for which the Group is eligible. As compensation revenue is recognised, capitalised costs are amortised.

There are two steps for revenue recognition:

- The South Oil Company approves a quarterly invoice for the cost compensation and remuneration fee for which the Group company is eligible in the period. The total amount of the invoice depends on crude oil production volumes and crude oil market prices during the period. The amount of the approved invoice, including the remuneration fee, is recognised in crude oil sales revenue.
- Based on the approved invoices, the South Oil Company arranges shipments of crude oil against its debt for the cost compensation and remuneration fee. As this crude oil is actually shipped, the cost is recognised at the current market price in *Cost of purchased crude oil, gas and products*. Revenue from sales of this crude oil, or products from its refining, is recognised in *Sales (including excise and export tariffs)*. Unsold crude oil and refined products are recognised in *Inventories*.

The following table summarises data on capital and operating costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee in respect of the West Qurna-2 project:

	Costs incurred ⁽¹⁾	Crude oil received	Unrecovered costs	Remuneration fee
		(millions o	f U.S. dollars)	
Cumulative at 31 December 2015	6,801	5,169	1,632	198
Change during the first half of 2016	429	1,071	(642)	64
Income tax	_	_	_	(54)
Cumulative at 30 June 2016	7,230	6,240	990	208

(1) Including prepayments.

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

	Six months ended 30 June				Y	ear ended 3	1 Decemb	er
	20	16	2015		2015		2014	
	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)
Total production ⁽¹⁾ Production related to cost compensation	75,062	10,942	57,686	8,410	140,071	20,418	72,676	11,030
and remuneration ⁽¹⁾	24,081	3,510	30,260	4,412	73,574	10,725	41,749	6,087
Shipment of compensation crude $oil^{(1)}$ (2)	35,282	5,143	32,708	4,769	71,802	10,467	29,746	4,337
	(millions	(millions	(millions	(millions	(millions	(millions	(millions	(millions
	of RUB)	of US\$)	of RUB)	of US\$)	of RUB)	of US\$)	of RUB)	of US\$)
Cost compensation	42,860	598	83,501	1,475	176,791	2,928	138,934	3,616
Remuneration fee Cost of compensation crude oil, received as debt settlement (included in <i>Cost of</i>	4,536	65	3,446	60	8,087	132	2,536	66
purchased crude oil, gas and products) ⁽²⁾	73,994	1,071	95,065	1,683	184,665	3,068	80,686	2,100
Depreciation, depletion and amortisation.	24,345	330	57,060	1,017	127,071	2,109	114,497	2,980

(1) Translated into barrels using conversion rates characterising the density of the field.

(2) This crude oil is sold to third party customers or delivered to our refineries. After realisation of these products, the respective revenues are recognised.

We are exposed to political, economic and legal risks in connection with our operations in Iraq. We continue to monitor the risks associated with the projects in Iraq. See "—*Risks Relating to Our Business and the Oil and Gas Industry*—We may not be able to realise opportunities in Iraq" and "Business—Exploration and Production—International Exploration and Production—Iraq—West Qurna-2" for information on our rights in relation to the West Qurna-2 oil field.

Sanctions against Russian entities

On 12 September 2014, the United States and European Union announced sanctions against Russian entities. Among other measures, these U.S. sanctions include action by OFAC to include LUKOIL and other Russian energy companies on the SSI List pursuant to Directive 4. The Directive 4 designation prohibits the provision, exportation, or reexportation, directly or indirectly, by U.S. persons (as described in "Risk Factors"), of goods, services (except for financial services) or technology in support of specified types of oil projects in Russia that involve any person determined to be subject to Directive 4. Effective 17 September 2014, LUKOIL and other Russian energy companies were added to the Entity List maintained by the BIS, imposing a license requirement for the export of certain commercial goods and other items to listed entities for use in specified types of oil or gas projects in Russia. In addition, the EU imposed export control restrictions, which are not specific to LUKOIL (or any other entity), on the provision of certain services relating to specified types of oil projects in Russia. See "Risk Factors-Risks Relating to Our Business and the Oil and Gas Industry-The designation of LUKOIL on the SSI and Entity Lists by the United States, the imposition of export controls on the energy sector by the European Union, and the introduction or expansion of other sanctions or export controls by the United States, European Union or other countries may adversely affect our business, financial condition, results of operation and prospects" for a description of the sanctions measures and their potential impact on us.

Resource Base

The table below summarises the net oil-equivalent proved reserves of consolidated subsidiaries and our share in equity affiliates under SEC Rule 4-10(a) of Regulation S-X (until the economic limit of commercial production is reached) that have been derived or extracted from the reserve reports prepared by Miller and Lents, as of 31 December 2015 and 2014. See "*Presentation of Reserves and Resources*" for more information on our reserves estimates. See also "*Business—Exploration and Production*".

		С			
	31 December 2015	Production ⁽¹⁾	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2014
			(mmboe)		
West Siberia	8,718	(406)	215	(677)	9,586
Timan-Pechora	2,374	(136)	210	(191)	2,491
Ural Region	2,215	(124)	69	(33)	2,303
Volga Region	1,117	(57)	29	(105)	1,250
Other in Russia	193	(14)	9	2	196
Outside Russia	1,941	(153)	(26)	361	1,759
Total proved oil and gas reserves	16,558	(890)	506	(643)	17,585
Total probable oil and gas reserves	6,760				6,823
Total possible oil and gas reserves	3,216				3,375

(1) Gas production shown before Group consumption.

Our proved hydrocarbon reserves as of 31 December 2015 totalled 16,558 mmboe, consisting of 12,585 mmbls of crude oil and 23,838 bcf of gas, compared to proved hydrocarbon reserves as of 31 December 2014 of 17,585 mmboe, consisting of 13,594 mmbls of crude oil and 23,946 bcf of gas.

In 2015, the increase in proved reserves related to geological exploration, production drilling, acquisitions and disposals totalled 506 mmboe, which included an increase of 546 mmboe in our reserves as a result of geological exploration and production drilling activities in our traditional regions of operations, as well as a disposal of 49 mmboe of our reserves outside Russia with the sale of our 50% interest in Caspian Investment Resources Ltd. in Kazakhstan.

The significant decline in oil prices in 2015 negatively impacted the economic feasibility of the development of some of our reserves, and as a result, 1,006 mmboe of proved reserves were transferred to lower categories of reserves and contingent resources. Our management expects these amounts to return to the proved reserves category when economic conditions improve.

The positive revision of previous estimates outside Russia mainly related to our development of the West Qurna-2 project and our gas projects in Azerbaijan and Kazakhstan.

Under SEC standards, undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless specific circumstances justify a longer period of time. We expect to transfer oil and gas reserves classified as contingent resources to the category of proved resources as their commissioning date approaches, as programmes to enhance volumes of gas utilisation are implemented, as new advanced technologies are applied and/or as economic conditions improve, which would allow us to develop hard-to-recover reserves in a cost-effective manner.

Main Factors Affecting Our Results of Operations

The main factors that have affected our results of operations during the periods being analysed, and that can be expected to affect our results of operations in the future, are:

- changes in crude oil, refined products and gas prices;
- changes in U.S. dollar-ruble exchange rate and inflation;
- taxation, including changes in mineral extraction tax, export duty and excise taxes;
- changes in tariffs of natural monopolies (for pipeline and railway transport); and
- changes in the production volumes of crude oil, gas and refined products.

Changes in Crude Oil, Refined Products and Gas Prices

The prices of crude oil and refined products internationally and in Russia have a substantial impact on our results of operations and are subject to significant fluctuations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand. Substantially all the crude oil that we export is through the Transneft pipeline system, which is blended with oil of other producers and is of a different quality. The resulting "Urals blend" is traded at a discount to Brent.

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

The dynamics of refined product prices in the international and Russian markets are determined by a number of factors, the most important among them being the level of world prices of crude oil, supply and demand for refined products, competition in the different markets and distances separating them from the refineries where the crude oil is refined into useable end products or intermediate products.

Crude oil prices have decreased significantly since late 2014, with average prices of crude oil dropping in 2015 to nearly half of the average prices in 2014 and continuing to drop in the first half of 2016. The Brent crude oil price fluctuated between \$55 and \$115 in 2014 (with a minimum of \$54.97 in late December and maximum of \$115.32 in mid-June), between \$35 and \$66 in 2015 (with a minimum of \$35.63 in late

December and maximum of \$66.66 in mid-May) and between \$26 and \$50 during the first half of 2016 (with a minimum of \$25.98 in late January and maximum of \$50.72 in early June).

As a result of ruble devaluation, the prices of crude oil expressed in rubles decreased less significantly.

Average Crude Oil and Refined Products Prices Worldwide and in Russia

The following table shows the average crude oil and refined product prices worldwide and the average domestic wholesale prices (excluding VAT) of refined products for the periods and in the currencies indicated.

	Six months ended 30 June		
	2016	% Change	2015
	(U.S. dolla	ars per barrel ex	cept %)
World market			
Brent crude	39.81	(31.2)	57.84
Urals crude (CIF Mediterranean) ⁽¹⁾	38.55	(33.2)	57.68
Urals crude (CIF Rotterdam) ⁽¹⁾	37.56	(33.9)	56.83
	(U.S. dolla	urs per tonne, ex	cept %)
Fuel oil 3.5% (FOB Rotterdam)	167.77	(44.0)	299.51
Diesel fuel 10 ppm (FOB Rotterdam)	362.30	(34.7)	554.66
High-octane gasoline (FOB Rotterdam) Source: Platts	445.11	(26.9)	608.90
	(rubles	per tonne, excep	ot %)
Brent crude	2,797	(15.8)	3,320
Urals crude (CIF Mediterranean) ⁽¹⁾	2,708	(18.2)	3,311
Urals crude (CIF Rotterdam) ⁽¹⁾	2,639	(19.1)	3,262
	(rubles	per tonne, excep	ot %)
Fuel oil 3.5% (FOB Rotterdam)	11,787	(31.4)	17,191
Diesel fuel 10 ppm (FOB Rotterdam)	25,455	(20.0)	31,836
High-octane gasoline (FOB Rotterdam) Translated into rubles using average exchange rates for the period	31,273	(10.5)	34,949
Russian market	(rubles	per tonne, excep	ot %)
Fuel oil	5,674	(17.8)	6,900
Diesel fuel	28,011	(2.1)	28,619
High-octane gasoline (Regular)	33,081	9.7	30,159
High-octane gasoline (Premium)	34,637	10.3	31,391

Source: InfoTEK (Russian market)

	Year ended 31 December				
-	2015	% Change	2014	% Change	2013
World market		(U.S. dollars	per barrel	except %)	
Brent crude	52.39	(47.1)	98.95	(8.9)	108.66
Urals crude (CIF Mediterranean) ⁽¹⁾	51.87	(47.0)	97.95	(9.3)	108.03
Urals crude (CIF Rotterdam) ⁽¹⁾	50.97	(47.6)	97.23	(9.5)	107.38
		(U.S. dollars	per tonne,	except %)	
Fuel oil 3.5% (FOB Rotterdam)	256.23	(51.4)	527.06	(10.9)	591.43
Diesel fuel (FOB Rotterdam)	499.55	(41.6)	855.17	(8.9)	938.66
High-octane gasoline					
(FOB Rotterdam) Source: Platts	569.25	(38.0)	918.87	(6.9)	986.86
		(rubles pe	r barrel, ex	cept %)	
Brent crude	3,193	(16.0)	3,802	9.9	3,461
Urals crude (CIF Mediterranean) ⁽¹⁾	3,162	(16.0)	3,764	9.4	3,441
Urals crude (CIF Rotterdam) ⁽¹⁾	3,107	(16.8)	3,736	9.2	3,420
		(rubles pe	er tonne, ex	cept %)	
Fuel oil 3.5% (FOB Rotterdam)	15,619	(22.9)	20,251	7.5	18,836
Diesel fuel (FOB Rotterdam) High-octane gasoline (FOB	30,451	(7.3)	32,857	9.9	29,894
Rotterdam) Translated into rubles using average exchange rates for the period	34,700	(1.7)	35,305	12.3	31,430
Russian market		(rubles pe	er tonne, ex	cept %)	
Fuel oil	6,604	(29.3)	9,342	(14.1)	10,870
Diesel fuel	29,215	3.6	28,206	4.1	27,096
High-octane gasoline (Regular)	32,120	3.6	30,993	17.3	26,424
High-octane gasoline (Premium) Source: InfoTEK (Russian market)	33,612	4.9	32,050	12.2	28,571

(1) We sell crude oil on foreign markets on various delivery terms. Thus, our average realised sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern European markets.

Gazprom is the monopoly supplier of gas in Russia. We are not able to sell our gas other than through the UGSS, which is controlled by Gazprom. The Russian Government currently regulates the prices for the gas that Gazprom sells in Russia (other than through exchange sales). The regulated price has affected, and is likely to continue to affect, the pricing of the gas that we sell to Gazprom. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We face several risks in connection with the implementation of our strategy to develop our natural gas operations*". The Russian Government may cease to regulate domestic wholesale prices, but we cannot predict the levels or impact of the potential unregulated prices.

Changes in U.S. Dollar-Ruble Exchange Rate and Inflation

A substantial part of our revenue is either denominated in U.S. dollars or is correlated to some extent with U.S. dollar crude oil prices, while most of our costs in the Russian Federation are settled in rubles. Therefore, a devaluation of the ruble against the U.S. dollar generally causes our revenues to increase in ruble terms, and *vice versa*. Ruble inflation, which slowed in the first half of 2016, also affects the results of our operations.

We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign currency exchange rate exposures.

Whether the ruble appreciates or depreciates in real terms is a function of the relationship between movements in the nominal exchange rate and inflation. The table below sets forth information on ruble-U.S. dollar and ruble-euro exchange rate movements and inflation during the period.

	Six months ended 30 June		Year end	led 31 Decem	ber
	2016	2015	2015	2014	2013
Ruble inflation (CPI) for the period					
(%)	3.3	8.5	12.0	11.4	6.5
Average exchange rate for the					
period (rubles/U.S. dollar)	70.3	57.4	61.0	38.4	31.8
Exchange rate at the beginning of					
the period (rubles/U.S. dollar)	72.9	56.3	56.3	32.7	30.4
Exchange rate at the end of the					
period (rubles/U.S. dollar)	64.3	55.5	72.9	56.3	32.7
Average exchange rate for the					
period (rubles/EUR)	78.4	64.3	67.8	50.8	42.3
Exchange rate at the beginning of					
the period (rubles/EUR)	79.7	68.3	68.3	45.0	40.2
Exchange rate at the end of the					
period (rubles/EUR)	71.2	61.5	79.7	68.3	45.0

Source: CBR, Rosstat.

See "-Quantitative and Qualitative Disclosures about Market Risks-Foreign Currency Risk" for more information about foreign currency risk.

Taxation

We are subject to a broad range of taxes imposed at the federal, regional and local levels, and the taxes to which we are subject have had a significant effect on our results of operations. Given the significant size of our activities in Russia relative to other jurisdictions, our tax profile is largely determined by the taxes payable in Russia (based on records maintained under Russian legislation and not IFRS). In 2015 and 2014, the tax charge on our operations in Russia was 81% and 84% of our total tax charge, respectively.

Apart from income taxes, the main taxes applicable to the oil industry in Russia are mineral extraction tax, excise taxes and export tariffs. In addition, we are subject to a number of other taxes in Russia, including social taxes, property tax, VAT and other local and regional taxes.

The effective rates of total taxes and tariffs (total taxes, including income taxes, taxes other than on income and excise taxes and export tariffs, divided by income before taxes and tariffs) for 2015 and 2014 were 80%. In 2015, tax expenses in Russia were 46% of the domestic and export sales revenue of the Russian companies in the Group.

The measures that we use for tax planning and management strategies have been based on our understanding of tax legislation existing at the time of implementation of these measures. We are subject to audits by tax authorities on an ongoing basis, as is normal in the Russian environment, and, at times, the authorities have attempted to impose significant additional taxes on us. We believe that we have adequately met and provided for tax liabilities based on our interpretation of existing tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant. See "Regulation of the Oil Industry in the Russian Federation—Current System of Oil and Gas-Related Taxes and Duties" for more information on hydrocarbon taxes and other payments in Russia. See also "Risk Factors—Risks Relating to the Russian Federation—The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty".

The tax rates used in the oil industry in Russia are linked to international crude oil prices and change in line with them. Starting from 1 January 2015, the method of calculation for certain tax and duty rates was amended. The mineral extraction tax rate increased significantly, while export tariff and excise tax rates decreased. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is changed monthly and is calculated by multiplying the base rate by a coefficient reflecting the average international market price of Urals blend and the ruble-U.S. dollar exchange rate during the month. The base rate for 2016 is set at RUB 857 per tonne extracted, compared to RUB 766 per tonne extracted in 2015 and RUB 493 per tonne extracted in 2014.

The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to \$15.00 per barrel. In 2016, each \$1.00 per barrel increase in the international Urals blend price above \$15.00 per barrel results in an increase of the tax rate by \$0.45 per barrel (\$0.40 per barrel in 2015; \$0.26 per barrel in 2014).

The mineral extraction tax on crude oil is payable in rubles per tonne of crude oil extracted.

There are different types of tax incentives on the mineral extraction tax on crude oil applied to our fields and deposits:

- A special coefficient is applied to the standard tax rate depending on location, depletion, type of reserves, size and complexity of a particular field, as well as on the average international Urals blend price and the ruble-U.S. dollar exchange rate. To encourage continued operation of depleted fields, lower coefficients (which reduce the rate of tax) are applied to highly depleted fields (more than 80% depletion). Such special coefficients are also applied to our Yu. Korchagin field located in the Caspian offshore, the Permian layers of our Usinskoye field in Timan-Pechora producing high-viscous crude oil, our Pyakyakhinskoye field located in the Yamal-Nenets region of West Siberia, a number of fields in the Nenets Autonomous region, as well as to our new small-sized fields (recoverable reserves less than 5 million tonnes) and fields and deposits with low permeability like the V. N. Vinogradov field and Tyumen deposits;
- A fixed tax rate of 15% of the international Urals blend price is applied to our V. Filanovsky field, located in the Caspian offshore; and
- A zero tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to unconventional deposits (Bazhenov and others).

Some of the mineral extraction tax incentives are limited in time or by cumulative oil production volumes.

Natural gas extraction tax rate. The mineral extraction tax on natural gas produced by independent producers in Russia was calculated using a flat rate until 1 July 2014. In the first half of 2014, the rate was set at RUB 471 per thousand cubic metres.

Starting from 1 July 2014, the base rate was set at RUB 35 per thousand cubic meters and is adjustable, depending on average wholesale natural gas prices in Russia, the share of gas production out of the particular taxpayer's total hydrocarbon production, the complexity of a particular gas field and the costs of gas transportation. In 2015, the actual average natural gas extraction tax rate for our major gas production field, Nakhodkinskoye in West Siberia, amounted to RUB 161.9 rubles per thousand cubic meters, compared to RUB 132.1 rubles in the second half of 2014. In the first half of 2016, actual average natural gas extraction tax rate for this field amounted to RUB 208 per thousand cubic meters. The rate applicable to this field is subject to a special regional reducing coefficient.

Crude oil export duty rate is denominated in U.S. dollars per tonne of crude oil exported and is calculated on a progressive scale according to the table below.

International Urals price	Export duty rate		
Less than, or equal to, \$109.50 per tonne (\$15.00 per barrel)	\$0.00 per tonne		
Above \$109.50 but less than, or equal to, \$146.00 per tonne (\$20.00 per barrel)	35% of the difference between the actual price and \$109.50 per tonne (or \$0.35 per barrel per each \$1.00 increase in the Urals price over \$15.00)		
Above \$146.00 but less than, or equal to, \$182.50 per metric tonne (\$25.00 per barrel)	\$12.78 per tonne plus 45% of the difference between the actual price and \$146.00 per tonne (or \$0.45 per barrel per each \$1.00 increase in the Urals price over \$20.00)		
Above \$182.50 per metric tonne (\$25.00 per barrel)	 \$29.20 per tonne plus 59% of the difference between the actual price and \$182.50 per tonne (or \$0.59 per barrel per each \$1.00 increase in the Urals price over \$25.00) (from 1 January 2014 to 31 December 2014) \$29.20 per tonne plus 42% of the difference between the actual price and \$182.50 per tonne (or \$0.42 per barrel per each \$1.00 increase in the Urals price over \$25.00) (from 1 January 2015 to 31 December 2016) 		

The crude oil export duty rate changes every month with the rate for the next month being based on average Urals blend price for the period from the 15th day of the previous month to the 14th day of the current month.

Crude oil produced at some of our fields is subject to special export duty rates calculated according to specified formulas, which are lower than standard rates. A reduced rate is applied to crude oil produced at our Yaregskoye field producing extra-viscous crude oil and at our Yu. Korchagin field in the Caspian offshore. A zero rate applies to crude oil produced at our V. Filanovsky field, which is also located in the Caspian offshore.

The table below illustrates the impact of tax incentives for different fields and deposits in our portfolio at \$50 per barrel international Urals blend price under the 2016 tax formulas.

	Mineral extraction tax	Export duty	Total	As % of oil price
		(\$ per barrel,	except %)	
Standard	15.7	14.5	30.2	60.5
Yaregskoye field	0.0	1.8	1.8	3.6
Yu. Korchagin field	5.5	0.0	5.5	10.9
V. Filanovsky field	7.5	0.0	7.5	15.0
Usinskoye (Permian layers)	5.5	14.5	20.0	39.9
Pyakakhinskoye field	5.5	14.5	20.0	39.9
V. Vinogradova field	7.5	14.5	22.0	44.1
Highly depleted fields	8.6-15.7	14.5	23.1-30.2	46.1-60.5
Small sized fields	9.3-15.7	14.5	23.8-30.2	47.6-60.5
Tyumen deposits	13.7	14.5	28.2	56.4

Export duty rates on refined products are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below for the periods indicated. See "*Risk Factors*—*Risks Relating to the Russian Federation*—*Changes to the Russian fiscal regime for the oil industry could have a material adverse effect on our business, financial condition, results of operations and prospects*".

		From 1 January 2015 to 31 December 2015	From 1 January 2014 to 31 December, 2014
Multiplier for:			
Light and middle distillates	0.40	0.48	0.66
Diesel fuel	0.40	0.48	0.65
Gasolines	0.61	0.78	0.90
Straight-run gasoline	0.71	0.85	0.90
Fuel oil	0.82	0.76	0.66

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

Crude oil and refined products exported to member countries of the Customs Union in the Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic (Customs Union) are not subject to export duties.

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

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		Six months ended 30 June		
		2016	2015	%
		2016	2015	Change
Export tariffs on crude oil	\$/tonne	61.08	130.30	(53.1)
Export tariffs on refined products				
Light and middle distillates	\$/tonne	24.41	62.48	(60.9)
Fuel oil	\$/tonne	50.04	99.00	(49.5)
Gasoline	\$/tonne	37.20	101.59	(63.4)
Straight-run gasoline	\$/tonne	43.32	110.71	(60.9)
Diesel fuel	\$/tonne	24.41	62.48	(60.9)
Export tariffs on crude oil ⁽¹⁾ Export tariffs on refined products ⁽¹⁾	RUB/tonne	4,291	7,479	(42.6)
Light and middle distillates	RUB/tonne	1,715	3,586	(52.2)
Fuel oil	RUB/tonne	3,516	5,682	(38.1)
Gasoline	RUB/tonne	2,614	5,831	(55.2)
Straight-run gasoline	RUB/tonne	3,043	6,354	(52.1)
Diesel fuel	RUB/tonne	1,715	3,586	(52.2)
Mineral extraction tax				
Crude oil	RUB/tonne	5,109	6,954	(26.5)

(1) Translated to rubles at the average exchange rate for the period.

		Year ended 31 December			
		2015	2014	% Change	
Export tariffs on crude oil Export tariffs on refined products	\$/tonne	120.31	366.53	(67.2)	
Light and middle distillates	\$/tonne	57.70	241.88	(76.1)	
Fuel oil	\$/tonne	91.39	241.88	(62.2)	
Gasoline	\$/tonne	93.80	329.83	(71.6)	
Straight-run gasoline	\$/tonne	102.22	329.83	(69.0)	
Diesel fuel	\$/tonne	57.70	238.52	(75.8)	
Export tariffs on crude oil ⁽¹⁾ Export tariffs on refined products ⁽¹⁾	RUB/tonne	7,334	14,083	(47.9)	
Light and middle distillates	RUB/tonne	3,517	9,293	(62.2)	
Fuel oil	RUB/tonne	5,571	9,293	(40.1)	
Gasoline	RUB/tonne	5,718	12,673	(54.9)	
Straight-run gasoline	RUB/tonne	6,231	12,673	(50.8)	
Diesel fuel	RUB/tonne	3,517	9,164	(61.6)	
Mineral extraction tax				× ,	
Crude oil	RUB/tonne	6,312	5,827	8.3	

(1) Translated from U.S. dollars at the average exchange rate for the period.

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

In other countries where we operate, excise taxes are paid either by producers or retailers depending on the local legislation.

Excise tax rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for the first half of 2016 and 2015 are listed below, and during the first half of 2016, excise rates in Russia were increased twice (on 1 January and 1 April):

		Post 1 April	Pre 1 April	Six months ended 30 June	% Change (2015 vs. post 1 April	% Change (2015 vs. pre 1 April
		2016	2016	2015	2016)	2016)
Gasoline						
Euro-4 and below	RUB/tonne	13,100.00	10,500.00	7,300.00	79.5	43.8
Euro-5	RUB/tonne	10,130.00	7,530.00	5,530.00	83.2	36.2
Diesel fuel						
All ecological classes	RUB/tonne	5,293.00	4,150.00	3,450.00	53.4	20.3
Motor oils	RUB/tonne	6,000.00	6,000.00	6,500.00	(7.7)	(7.7)
Straight-run gasoline	RUB/tonne	13,100.00	10,500.00	11,300.00	15.9	(7.1)

Excise tax rates for 2015 and 2014 are listed below:

		2015	% Change	2014
Gasoline				
Below Euro-3	RUB/tonne	7,300.00	(34.3)	11,100.00
Euro-3	RUB/tonne	7,300.00	(31.9)	10,725.00
Euro-4	RUB/tonne	7,300.00	(26.4)	9,916.00
Euro-5	RUB/tonne	5,530.00	(14.3)	6,450.00
Diesel fuel				
Below Euro-3	RUB/tonne	3,450.00	(46.5)	6,446.00
Euro-3	RUB/tonne	3,450.00	(46.5)	6,446.00
Euro-4	RUB/tonne	3,450.00	(36.4)	5,427.00
Euro-5	RUB/tonne	3,450.00	(27.6)	4,767.00
Motor oils	RUB/tonne	6,500.00	(21.3)	8,260.00
Straight-run gasoline	RUB/tonne	11,300.00	0.4	11,252.00

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

Certain Russian companies in our Group pay income taxes in Russia as part of a "consolidated taxpayers' group" (the Tax Group), which enables taxpayers to offset taxable losses generated by certain participants within a Tax Group against taxable profits of other participants with the Tax Group.

Changes in Tariffs of Natural Monopolies (for Pipeline and Railway Transport)

The main Russian crude oil production regions are far from the main crude oil and refined products markets. Therefore, access to these markets is dependent on the extent of diversification of transport infrastructure and our ability to access this infrastructure. As a result, transportation costs are an important factor affecting our profit. We transport most of our crude oil via a pipeline network owned and operated by Transneft, which is the state-owned pipeline monopoly. In 2015, approximately 78% of the crude oil that we exported was transported through Transneft's oil pipelines. We also transport crude oil and petroleum products via a railway network owned and operated by Russian Railways, the state-owned railroad monopoly. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over the infrastructure they maintain or the fees they charge*" for more information on providers of certain crude oil and refined products transportation of refined products in Russia is carried out by railway transport and the pipeline system of Transnefteproduct.

In Russia, gas is primarily sold at the wellhead and then transported through the UGSS, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia, and is owned and operated by Gazprom. We are not able to sell our gas other than through the UGSS.

The FAS, a governmental body supervising natural monopolies, sets Transneft's and Transnefteproduct's base tariffs for transportation of crude oil and petroleum products, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transhipment and other tariffs. Tariffs for railroad transportation are also regulated by the FAS. The FAS assumed responsibility for tariff regulation from the Federal Service for Tariffs Regulation, which was merged into the FAS in 2015. The tariffs are set in rubles and are not linked to the exchange rate. Instead, changes in the tariff rates depend on inflation forecasts by the Ministry of Economic Development of the Russian Federation, the investment needs of owners of transport infrastructure, other macroeconomic factors, and compensation of economically reasonable expenses incurred by the natural monopolies. Tariff rates were revised by the Federal Service for Tariffs Regulation from time to time, and the FAS is expected to continue the established practice, with tariff rates tending to increase annually.

The tariffs are set for each separate route of the pipeline networks depending on transport destination, delivery volume, distance of transportation, and several other factors, alternatively tariffs may be set for the entire route of the pipeline network. Tariffs for railroad transportation, where these costs are not already incorporated in pipeline tariffs, often depend on the type of cargo and the transportation route.

Pipeline Transportation Tariffs

Transneft's tariffs for crude oil transportation increased by an average of 6.75% from January 2015 (compared to 2014) and by an average of 5.76% from January 2016 (compared to 2015).

Railroad Transportation Tariffs

Rail freight prices are subject to annual adjustment based on various factors and tend to increase annually. In 2015 and 2016, tariffs for railroad transportation increased by 10.0% and 9.0% on average, respectively.

Changes in the Production Volumes of Crude Oil, Gas and Refined Products

Our revenues and costs are directly affected by the volume of crude oil, refined products and gas produced by the Group. Please see "*—Operational Highlights—Hydrocarbon Production*" for a discussion of production volumes, sales and expenses.

Operational Highlights

Hydrocarbon Production

The table below summarises the results of our hydrocarbon production activities for the periods indicated.

	Six months 30 Jun		Year end	ed 31 Deceml	ber ⁽¹⁾
	2016	2015	2015	2014	2013
		(m	boe per day)		
Crude oil and natural gas liquids production ⁽²⁾					
Consolidated subsidiaries					0.0.6
West Siberia	855	934	914	970	996
Timan-Pechora	343	332	336	313	302
Ural region	323	316	317	308	297
Volga region	130	140	139	136	120
Other in Russia	36	37	37	38	38
Total in Russia	1,687	1,759	1,743	1,765	1,753
Iraq ⁽³⁾	132	167	201	114	_
Other outside Russia	43	41	40	37	39
Total outside Russia	175	208	241	151	39
Total consolidated subsidiaries	1,862	1,967	1,984	1,916	1,792
Our share in equity affiliates					
in Russia	20	15	16	11	8
outside Russia	39	62	52	65	73
Total share in equity affiliates	59	77	68	76	81
Total crude oil and natural gas liquids	1,921	2,044	2,052	1,992	1,873
Natural and petroleum gas available for sale					
production Consolidated subsidiaries					
	162	177	174	187	187
West Siberia	163				
Timan-Pechora	15	12	13	14	14
Ural region	13	22	19	19	17
Volga region	22	6	6	6	6
Total in Russia	213	217	212	226	224
Total outside Russia	115	101	104	85	93
Total consolidated subsidiaries	328	318	316	311	317
Share in equity affiliates					
in Russia	1	1	1	1	1
outside Russia	9	10	10	10	11
Total share in production of equity affiliates	10	11	11	11	12
Total natural gas available for sale	338	329	327	322	329
Total daily hydrocarbon production	2,259	2,373	2,379	2,314	2,202

(1) As a result of our transition to IFRS financial statements, production volumes for 2014 and 2013 are presented differently than they were in connection with our US GAAP financial statements. See "*—Transition to IFRS—Changes in accounting of joint arrangements*".

(2) Natural gas liquids produced at the Group's gas processing plants.

(3) Compensation oil that represented approximately 32% of production from the West Qurna-2 field in the first half of 2016, 52%% in the first half of 2015, 52% in 2015 and 55% in 2014.

	Six months ended 30 June		Year e 31 Dece		
	2016	2015	2015	2014	
		(millions o	of rubles)		
Hydrocarbon extraction expenses	107,671	103,978	217,174	173,809	
in Russia	80,818	74,015	155,373	142,582	
outside Russia	26,853	29,963	61,801	31,227	
Mineral extraction tax in Russia	174,811	245,369	470,013	420,946	
		(rubles p	ver boe)		
Hydrocarbon extraction expenses	270	251	258	214	
in Russia	234	207	218	197	
outside Russia	497	520	474	354	
		(U.S. dollar	rs per boe)		
Hydrocarbon extraction expenses	3.85	4.40	4.25	5.56	
in Russia	3.35	3.64	3.60	5.12	
outside Russia	7.06	9.09	7.80	9.22	

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are OOO LUKOIL-West Siberia (LUKOIL-West Siberia), OOO LUKOIL-Komi (LUKOIL-Komi), JSC RITEK (RITEK), OOO LUKOIL-Nizhnevolzhskneft (LUKOIL-Nizhnevolzhskneft) and LUKOIL-Perm. Our international upstream operations include interests in PSAs and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria and Mexico. See "Business—Corporate Structure" for information about the internal restructuring of our international operations in 2015.

Crude oil and natural gas liquids production. In the first half of 2016, we produced (including our share in equity affiliates) 46.8 million tonnes, or 342.8 mmbls, of crude oil (compared to 49.6 million tonnes, or 363.4 mmbls, in the first half of 2015). In 2015, we produced (including our share in equity affiliates) 100.7 million tonnes, or 736.5 mmbls, of crude oil (compared to 97.2 million tonnes, or 713.1 mmbls, in 2014).

The output of natural gas liquids at the Group's gas processing plants in West Siberia, Ural and Volgograd regions of Russia was 6.8 mmboe in the first half of 2016 (compared to 6.6 mmboe in the first half of 2015) and 12.7 mmboe in 2015 (compared to 13.9 mmboe in 2014).

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

		Ch			
	Six months ended 30 June 2016	Total, %	Change in structure	Organic change	Six months ended 30 June 2015
		(thousand	ls of tonnes, ex	cept %)	
West Siberia Timan-Pechora Ural region Volga region Other in Russia Crude oil produced in Russia	20,629 8,644 7,548 3,160 922 40,903	(7.9) 3.9 1.7 (6.6) (1.4) (3.7) (5.6) (3.7) (5.7) (5.6) (5.7)		$(1,773) \\ 328 \\ 123 \\ (223) \\ (13) \\ (1,558) $	22,402 8,316 7,425 3,383 935 42,461
Iraq ⁽¹⁾ Other outside Russia	3,510 1,000	(20.4) 5.3		(902) 50	4,412 950
Crude oil produced internationally Total crude oil produced by	4,510	(15.9)		(852)	5,362
consolidated subsidiaries Our share in crude oil produced by equity affiliates:	45,413	(5.0)	-	(2,410)	47,823
in Russia outside Russia	468 893	33.7 (39.0)	(523)	118 (49)	350 1,465
Total crude oil produced	46,774	(5.8)	(523)	(2,341)	49,638

(1) Compensation oil that represented approximately 32% of production from the West Qurna-2 field in the first half of 2016 and 52% in the first half of 2015.

The following table summarises our crude oil production volumes in 2015, 2014 and 2013 by major regions.

		Change from 2014				Cha	nge from 20	13	
	2015	Total, %	Change in structure	Organic change	2014	Total, %	Change in structure	Organic change	2013
				(thousands	of tonnes,	except %)			
West Siberia Timan-Pechora Ural region Volga region Other in Russia Crude oil produced in Russia	44,205 16,976 15,020 6,761 1,904 84,866	(5.6) 7.3 3.0 1.5 (0.4) (1.1)	- - - - -	(2,635) 1,162 435 102 (7) (943)	46,840 15,814 14,585 6,659 1,911 85,809	(2.8) 3.8 4.4 14.8 0.4 0.8	- 34 657 - 691	(1,368) 582 580 201 8 3	48,208 15,232 13,971 5,801 1,903 85,115
Iraq ⁽¹⁾ Other outside Russia	10,725 1,887	76.2 10.2	-	4,638 174	6,087 1,713	100.0 (7.2)	-	6,087 (133)	
Crude oil produced internationally Total crude oil produced by consolidated	12,612	61.7	_	4,812	7,800	322.6	_	5,954	1,846
subsidiaries Our share in crude oil produced by equity affiliates:	97,478	4.1	-	3,869	93,609	7.6	691	5,957	86,961
in Russia outside Russia	746 2,464	43.7 (20.0)	(373)	227 (243)	519 3,080	41.8 (11.5)		170 (400)	366 3,480
Total crude oil produced	100,688	3.6	(373)	3,853	97,208	7.0	674	5,727	90,807

(1) Compensation oil that represented approximately 52% of production from the West Qurna-2 field in 2015 and 55% in 2014.

Our main oil producing region is the West Siberia region of Russia, which accounted for 45.4% of our crude oil in the first half of 2016 (compared to 46.8% in the first half of 2015) and 45.3% of our crude oil in 2015 (compared to 50.0% in 2014).

Crude oil production in West Siberia continued to decline due to natural depletion of reserves, an increase in water cut and our decision to reallocate capital to higher return projects in other regions of Russia, in particular those benefitting from tax incentives. This decrease was partially offset by the development of greenfields, successful employment of new technologies and an increase in drilling footage. We expect production decline rates in West Siberia to decrease as a result of our recent decision to intensify production drilling in this region. Production growth in Timan-Pechora was primarily driven by ramp-up of production at the Yaregskoye and Usinskoe fields, as well as the fields in Denisovskaya depression. Production growth in Ural region was primarily driven by successful drilling on existing brownfields and launch of production at new small sized fields.

The decrease in our international production in the first half of 2016 was a result of lower volumes of production attributable to us from the West Qurna-2 field in Iraq. A significant part of the initial costs we incurred for the project were compensated prior to 2016 and therefore we were eligible for lower volumes of compensation crude oil compared to the first half of 2015. The increase in our international production in 2015 was a result of the commencement of commercial production at the West Qurna-2 field in the second quarter of 2014. See "*—Recent Developments—West Qurna-2 Project*".

The increase in our share of crude oil produced by equity affiliates in Russia was due to increased production at the Trebs and Titov oilfields by Bashneft-Polus, in which we hold a 25.1% interest.

The decrease in our share of crude oil produced by equity affiliates outside Russia was due to the disposal of our 50% share in Caspian Investment Resources Ltd in the third quarter of 2015. In accordance with IFRS, this 50% share was accounted for as a joint venture rather than the proportionate consolidation method applied under US GAAP.

By the end of 2016, we plan to start commercial production at the offshore V. Filanovsky oil field in North Caspian and the Pyakyakhinskoye oil and gas field in West Siberia. We expect the V. Filanovsky oil field to achieve its designed production level of approximately 120,000 barrels of oil per day in 2017, and the Pyakyakhinskoye oil and gas field to produce 11.0 mmbls (1.5 million tonnes) of crude oil and gas condensate, as well as approximately 18 mmboe (106 bcf) of gas, in 2017.

Natural and petroleum gas production. During the first half of 2016, we produced 12,261 mmcm (72.2 mmboe) of gas available for sale (including our share in equity affiliates), an increase of 3.1% compared to the first half of 2015. In 2015, we produced 20,251 mmcm (119.2 mmboe) of gas available for sale (including our share in equity affiliates), an increase of 1.4% compared to 2014.

The following table summarises our gas production in the first half of 2016 and 2015 by major regions.

	Six months	Ch	Six months		
	ended 30 June 2016	Total, %	Change in structure	Organic change	ended 30 June 2015
		(m	mcm, except %	5)	
West Siberia	5,024	(7.4)	_	(399)	5,423
Timan-Pechora	472	25.5	_	96	376
Ural region	395	(40.8)	_	(272)	667
Volga region	680	261.7	_	492	188
Other in Russia	11	-	-	_	11
Gas produced in Russia	6,582	(1.2)		(83)	6,665
Gas produced internationally	3,572	15.0	_	466	3,106
Total gas produced by consolidated					
subsidiaries	10,154	3.9	-	383	9,771
Our share in gas produced by equity affiliates:					
in Russia	28	21.7	_	5	23
outside Russia	265	(17.2)	(63)	8	320
Total gas produced	10,447	3.3	(63)	396	10,144

The following table summarises our gas production in 2015, 2014 and 2013 by major regions.

		Change from 2014					Change fr	om 2013	
	2015	Total, %	Change in Structure	Organic Change	2014	Total, %	Change in Structure	Organic Change	2013
				(mmc	cm, except	%)			
West Siberia Timan-Pechora Ural region Volga region Other in Russia	10,805 813 1,175 374 23	(6.8) (3.9) (1.1) (1.1) -		(791) (33) (13) (4) –	11,596 846 1,188 378 23	0.3 (0.7) 9.4 (3.8) 21.1	2	30 (6) 100 (15) 4	11,566 852 1,086 393 19
Gas produced in Russia Gas produced internationally	13,190 6,450	(6.0) 22.5		(841) 1,186	14,031 5,264	0.8 (9.0)	2	113 (522)	13,916 5,786
Total gas produced by consolidated subsidiaries Our share in gas produced by equity affiliates:	19,640	1.8	-	345	19,295	(2.1)	2	(409)	19,702
in Russia outside Russia	45 566	(13.5) (8.9)	(43)	(7) (12)	52 621	10.6 (3.3)	(1)	6 (21)	47 642
Total gas produced	20,251	1.4	(43)	326	19,968	(2.1)	1	(424)	20,391

Our major gas production field is the Nakhodkinskoye field in West Siberia, which is in natural decline. Our production at the field was 3,423 mmcm of natural gas in the first half of 2016 (compared to 3,731 mmcm in the first half of 2015) and 7,469 mmcm of natural gas in 2015 (compared to 8,247 mmcm in 2014).

The decrease in production at the Nakhodkinskoye field was partially offset by the commencement of gas production at the Yu. Korchagin field in the first half of 2016. The decrease in production in the Ural region was largely a result of an increase in our own gas consumption following the launch of a new power generation unit at the Perm refinery. We plan to start commercial gas production at the Pyakyakhinskoye field in the Bolshekhetskaya depression in West Siberia by the end of 2016, which should increase our daily gas production in the region.

In the first half of 2016, our international gas production (including our share in affiliates' production) increased by 12.0%, compared to the first half of 2015, largely as a result of increased production in Uzbekistan, related to new wells and a compressor booster station at the Gissar field, and in Azerbaijan. In 2015, our international gas production (including our share in affiliates' production) increased by

19.2%, compared to 2014, largely resulting from the increase in production in Uzbekistan and Azerbaijan.

Refining, Marketing and Trading

Refining. We own and operate four refineries located in Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in The Netherlands. In accordance with IFRS, the Group's investment in this refinery is accounted for using the proportionate consolidation method and its production volumes are included in the Group's production volumes. Under US GAAP, Zeeland was an equity affiliate and its volumes of production were included in the third party and affiliated refineries total.

We also own two petrochemicals plants in Russia and one in Ukraine, and we manufacture petrochemicals at our Burgas refinery in Bulgaria and ISAB refinery in Italy. Production at our petrochemical plant in Ukraine is currently suspended due to continued political instability and poor market conditions. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition*".

Compared to the first half of 2015, the total volume of refined products produced by the Group increased by 5.3% in the first half of 2016. Production volumes decreased by 2.0% at our Russian refineries due to throughput optimisation, which in turn resulted from excise tax increases in January and April 2016 that reduced refining margins. Despite negative benchmark refining margins in Russia, our Russian refineries remained profitable in the first half of 2016 due to our throughput optimisation and a completed upgrade programme. The launch of new secondary processing units in 2015 and 2016 enabled us to substantially enhance our refined product slate by reducing the production of fuel oil and vacuum gas oil in favour of light products. In order to optimise dark products yield, in the first half of 2016, we also decreased throughput volumes and redirected vacuum gas oil produced at our Perm and Ukhta refineries from export deliveries to supply the catalytic cracking unit at our refinery in Nizhny Novgorod. We expect that full utilisation of the hydrocracking unit at our Volgograd refinery launched in the second quarter of 2016 will allow us to further enhance our refined product slate. Routine maintenance works at our refineries in Nizhny Novgorod and Ukhta in the first half of 2016 also had a negative impact on our refining volumes compared to the first half of 2015.

Internationally, production volumes increased by 19.9% in the first half of 2016 compared to the first half of 2015, as a result of low input in the first quarter of 2015 due to overhauls at our Italian refinery, as well as strong refining margins.

Compared to 2014, the total volume of refined products produced by the Group decreased by 5.0% in 2015. Production volumes decreased by 9.1% at our Russian refineries and increased by 3.7% internationally. In Russia, the decrease was a result of amendments in the tax legislation that decreased our refining margins. In June 2015, we completed construction of a preliminary distillation unit at our refinery in Volgograd with a capacity of 6 million tonnes per year, which partially offset the decrease in production volumes.

Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. In the periods considered, we processed our crude oil at third party refineries in Belarus and Kazakhstan. The following tables summarise key production and expense figures for our refining activities.

	Six months 30 Jur		Year en	ded 31 Decen	ıber
-	2016	2015	2015	2014	2013
		(n	nbls per day)		
Refinery throughput at Group					
refineries	1,298	1,237	1,295	1,337	1,332
– in Russia	803	818	840	909	909
– outside Russia ⁽¹⁾	495	419	455	428	423
Refinery throughput at third party					
refineries	6	17	18	37	31
Total refinery throughput	1,304	1,254	1,313	1,374	1,363
		(the	ousand tonnes)	
Production of the Group refineries					
in Russia	18,818	19,194	39,692	43,673	43,426
Production of the Group refineries					
outside Russia	11,509	9,599	21,208	20,445	20,770
Refined products produced by the					
Group	30,327	28,793	60,900	64,118	64,196
Refined products produced at third					
party refineries	159	406	850	1,687	1,439
Total refined products produced	30,486	29,199	61,750	65,805	65,635

(1) Including refined product processed.

	Six months 30 Ju		Year ended 31 December	
	2016	2015	2015	2014
	(millions of rubles)			
Refining expenses at the Group refineries	45,254	43,172	94,449	84,816
– in Russia	21,211	18,925	44,145	41,280
– outside Russia	24,043	24,247	50,304	43,536
Refining expenses at third party refineries	421	1,078	2,604	2,900
Capital expenditures	22,539	42,783	73,325	102,400
– in Russia	18,447	30,131	55,042	73,907
– outside Russia	4,092	12,652	18,283	28,493

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

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

The following table sets forth crude oil purchased in Russia and internationally for the periods indicated.

	Six months ended 30 June				
	2016		201	2015	
	(mbls)	(thousand of tonnes)	(mbls)	(thousand of tonnes)	
Purchases in Russia	3,035	414	6,854	935	
Purchases for trading internationally	88,832	12,119	79,655	10,867	
Purchases for refining internationally	53,458	7,293	37,947	5,177	
Shipment of West Qurna-2 compensation crude oil ⁽¹⁾	35,281	5,143	32,706	4,769	
Total crude oil purchased	180,606	24,969	157,162	21,748	

	Year ended 31 December				
	2015		201	2014	
	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)	
Purchases in Russia	13,238	1,806	7,579	1,034	
Purchases for trading internationally	137,995	18,826	121,377	16,559	
Purchases for refining internationally Shipment of West Qurna-2 compensation crude	92,864	12,669	88,473	12,070	
oil ⁽¹⁾	76,723	10,467	31,790	4,337	
Total crude oil purchased	320,820	43,768	249,219	34,000	

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

A significant portion of our crude oil purchases is used for processing. Compared to the first half of 2015, our purchases for processing at international refineries increased by 40.9%, and our purchases for trading increased by 11.5%, in the first half of 2016. In addition, the Group received 5.1 million tonnes of compensation crude oil from Iraq's state-owned South Oil Company as cost compensation for the West Qurna-2 project, compared to 4.8 million tonnes of compensation crude oil received in the first half of 2015.

In 2015, our purchases for refining at international refineries increased by 5.0% and our purchases for trading increased by 13.7% compared to 2014. In addition, the Group received 10.5 million tonnes of compensation crude oil from Iraq's state-owned South Oil Company as cost compensation for the West Qurna-2 project, compared to 4.3 million tonnes of compensation crude oil received in 2014.

As of 30 June 2016, we owned, leased, and franchised 5,286 retail filling stations, consisting of 2,546 in Russia, 245 in the CIS (excluding Russia), 2,209 in Europe and 286 in the United States. As of 31 December 2015, we owned, leased, and franchised 5,556 retail filling stations. Most of the stations operate under the LUKOIL brand.

The table below summarises figures for our refined products marketing and trading activities.

Six months ended 30 June		Year ended 31 December		
2016	2015	2015	2014	
(thousand tonnes)				
6,507 53,390	6,676 53,809	14,063 111,199	15,543 102,684	
59,897	60,485	125,262	118,227	
791 32,089	777 33,771	1,674 68,536	2,041 58,910	
32,880	34,548	70,210	60,951	
	2016 6,507 53,390 59,897 791 32,089	2016 2015 (thousan) (thousan) 6,507 6,676 53,390 53,809 59,897 60,485 791 777 32,089 33,771	2016 2015 2015 (thousand tonnes) (thousand tonnes) (thousand tonnes) 6,507 6,676 14,063 53,390 53,809 111,199 59,897 60,485 125,262 791 777 1,674 32,089 33,771 68,536	

In the first half of 2016, in line with our strategy to optimise our downstream operations in Europe, we sold 100% of our interests in LUKOIL Poland, LUKOIL Baltija and LUKOIL Baltija R, with 230 filling stations that we owned in Poland, Lithuania and Latvia, to AMIC Energy Management GmbH.

In July 2015, we sold 100% of our interests in LUKOIL Eesti, with 37 filling stations in Estonia, to Aqua Marina AS, and we sold 100% of our interest in LUKOIL Ukraine, with 240 filling stations in Ukraine, to AMIC Energy Management GmbH in April 2015. In December 2014, we sold 100% of our interests in LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd. and LUKOIL Czech Republic s.r.o., with approximately 140 filling stations in Slovakia, Hungary and the Czech Republic, to Slovnaft Česká Republica, Spol. s.r.o. and Norm Benzinkút Kft, respectively.

We continue to consider different options for optimising our downstream operations in Europe, including spinning off or selling our European refineries, but no decision has been made in this respect.

Exports of Crude Oil and Refined Products from Russia

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

	Six months ended 30 June				
	2016		2015		
	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)	
Exports of crude oil to Customs Union Exports of crude oil beyond Customs Union	14,323 116,378	1,954 15,877	14,183 119,926	1,935 16,361	
Total crude oil exports Exports of refined products	130,701	17,831 9,370	134,109	18,296 10,403	

	Year ended 31 December					
	201	5	201	4	2013	
	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)	(mbls)	(thousand tonnes)
Exports of crude oil to Customs Union Exports of crude oil beyond Customs	28,235	3,852	27,920	3,809	34,935	4,766
Union	222,334	30,332	190,756	26,024	198,335	27,058
Total crude oil exports Exports of refined	250,569	34,184	218,676	29,833	233,270	31,824
products		20,446	_	23,377	_	23,419

During the first half of 2016, the volume of our crude oil exports from Russia decreased by 2.5%, compared to the first half of 2015, and we exported 43.6% of our total domestic crude oil production (43.1% during the first half of 2015) and 216 thousand tonnes of crude oil purchased from our affiliates and third parties (794 thousand tonnes during the first half of 2015). The period to period decrease in crude oil exports was a result of lower domestic production.

In 2015, following the amendments in tax legislation in the Russian oil industry, we increased our exports of crude oil and decreased our refined products exports. The volume of our crude oil exports from Russia increased by 14.6% in 2015, compared to 2014, and we exported 40.3% of our domestic crude oil production (34.8% in 2014) and 1,581 thousand tonnes of crude oil purchased from our affiliates and third parties (862 thousand tonnes in 2014).

During the first half of 2016, the volume of our refined products exports from Russia decreased by 9.9%, compared to the first half of 2015, due to higher domestic sales volumes driven by favourable net prices for domestic sales relative to net prices for exports, and decreased refining volumes. In 2015, the volume of our refined products exports from Russia decreased by 12.5% compared to 2014. Primarily, we export diesel fuel, fuel oil and gasoil. These products accounted for approximately 75% of our exported refined products volumes during the six months ended 30 June 2016 and approximately 77% in 2015.

We use the Transneft infrastructure for most of our crude oil exports. Nevertheless, during the first half of 2016, we exported 4,091 thousand tonnes through our own infrastructure (3,689 thousand tonnes during the first half of 2015). In 2015, we exported 7,599 thousand tonnes through our own infrastructure (5,617 thousand tonnes in 2014). All the volume of crude oil exported that bypassed Transneft was sent to destinations outside the Customs Union.

We exported 600 thousand tonnes of light crude oil through the ESPO pipeline in the first half of 2016 (795 thousand tonnes in the first half of 2015) and 1,519 thousand tonnes in 2015 (1,499 thousand tonnes in 2014). This allowed us to preserve the premium quality of crude oil and thus enabled us to increase the efficiency of exports and achieve higher netbacks, compared to exports to traditional Western markets.

During the first half of 2016, our revenue from export of crude oil and refined products from Russia both to Group companies (including LITASCO, our primary marketing vehicle for international sales of crude oil and refined products) and third parties amounted to RUB 307 billion and RUB 186 billion, respectively (RUB 395 billion for crude oil and RUB 239 billion for refined products during the first half of 2015). In 2015, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to RUB 691 billion and RUB 440 billion, respectively (RUB 716 billion for crude oil and RUB 581 billion for refined products in 2014).

Power Generation

Our power generation business covers the generation and distribution of electrical energy and heat produced at power plants. This sector provides energy both for our own needs (to support our exploration and production and refining, marketing and distribution operations) and for external power and heat customers in Russia and internationally. Our power generation business sector is mainly comprised of LUKOIL-Volgogradenergo, LUKOIL-Kubanenergo, LUKOIL-Astrakhanenergo, LUKOIL-Rostovenergo, LUKOIL-Stavropolenergo, LUKOIL-Ecoenergo, our Rostov heating network, our on-site supporting facilities at our oil and gas fields in Russia and at our refineries in Russia and Bulgaria, and power generators in Romania.

Our total output of electrical energy was 9.0 billion kWh during the first half of 2016, 17.8 billion kWh in 2015 and 17.1 billion kWh in 2014. Our total output of heat energy was approximately 7.2 million Gcal during the first half of 2016, 12.8 million Gcal in 2015 and 14.1 million Gcal in 2014.

Results of Operations

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

Zo16201520152014RevenuesSales (including excise and export tariffs) Operating expenses		Six months ended 30 June		Year ended 31 December	
Revenues Sales (including excise and export tariffs)		2016	2015	2015	2014
Sales (including excise and export tariffs) 2,516,633 2,917,271 5,749,050 5,504,856 Costs and other deductions (226,953) (211,509) (446,719) (368,505) Cost of purchased crude oil, gas and products (164,364) (147,162) (297,977) (215,198) Selling, general and administrative expenses (93,125) (81,213) (168,669) (146,550) Depreciation, depletion and amortisation (155,956) (165,521) (350,976) (293,052) Taxes other than income taxes (202,277) (271,054) (522,620) (467,732) Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance osts (21,469) (22,486) (48,224) (29,727) Query share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479		(millions	of rubles, exc	ept per share d	amounts)
Costs and other deductions (226,953) (211,509) (446,719) (368,505) Cost of purchased crude oil, gas and products (1,215,030) (1,477,705) (2,891,674) (2,781,856) Transportation expenses (164,364) (147,162) (297,977) (215,198) Selling, general and administrative expenses (93,125) (81,213) (168,669) (146,550) Depreciation, depletion and amortisation (155,956) (165,521) (350,976) (293,052) Taxes other than income taxes (202,277) (271,054) (522,620) (467,732) Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479)					
Operating expenses (226,953) (211,509) (446,719) (368,505) Cost of purchased crude oil, gas and products (1,215,030) (1,477,705) (2,891,674) (2,781,856) Transportation expenses (93,125) (81,213) (166,669) (146,550) Depreciation, depletion and amortisation (155,956) (165,521) (350,976) (293,052) Taxes other than income taxes (202,277) (271,054) (522,620) (467,732) Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (27,659) (42,334) (100,335) (103,303) <td></td> <td>2,516,633</td> <td>2,917,271</td> <td>5,749,050</td> <td>5,504,856</td>		2,516,633	2,917,271	5,749,050	5,504,856
Cost of purchased crude oil, gas and products Transportation expenses					
Transportation expenses					(368, 505)
Selling, general and administrative expenses (93,125) (81,213) (168,669) (146,550) Depreciation, depletion and amortisation (155,956) (165,521) (350,976) (293,052) Taxes other than income taxes (202,277) (271,054) (522,620) (467,732) Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (27,659) (42,334) (100,335) (103,303) Deferred income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779)					
Depreciation, depletion and amortisation (155,956) (165,521) (350,976) (293,052) Taxes other than income taxes (202,277) (271,054) (522,620) (467,732) Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (27,659) (42,334) (100,335) (103,303) Deferred income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period attributable to non-controlling interests (272) (916) (1,610) 1,4		(164, 364)	(147, 162)	(297,977)	(215,198)
Taxes other than income taxes (202,277) (271,054) (522,620) (467,732) Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period attributable to non- controlling interests (272) (916) (1,610) 1,449 </td <td>Selling, general and administrative expenses</td> <td>(93,125)</td> <td>(81,213)</td> <td>(168, 669)</td> <td>(146,550)</td>	Selling, general and administrative expenses	(93,125)	(81,213)	(168, 669)	(146,550)
Excise and export tariffs (228,769) (296,458) (575,509) (807,401) Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to non-controlling interests (272) (916) (1,610) 1,449	Depreciation, depletion and amortisation	(155,956)	(165, 521)	(350,976)	(293,052)
Exploration expenses (4,552) (14,783) (29,177) (12,228) Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL (272) (916) (1,610) 1,449 </td <td>Taxes other than income taxes</td> <td>(202,277)</td> <td>(271,054)</td> <td>(522,620)</td> <td>(467,732)</td>	Taxes other than income taxes	(202,277)	(271,054)	(522,620)	(467,732)
Profit from operating activities 225,607 251,866 465,729 412,334 Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to non-controlling interests (272) (916) (1,610) 1,449	Excise and export tariffs	(228,769)	(296,458)	(575,509)	(807,401)
Finance income 7,342 8,567 17,763 10,999 Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (75,48) (8,556) (164,123) (95,874) Profit before income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL 105,664 168,695 292,745 394,076	Exploration expenses	(4,552)	(14,783)	(29,177)	(12,228)
Finance costs (21,469) (22,486) (48,224) (29,727) Equity share in income of affiliates 5,778 6,475 7,047 19,888 Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes 135,387 212,387 389,104 484,855 Current income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non-controlling interests (272) (916) (1,610) 1,449	Profit from operating activities	225,607	251,866	465,729	412,334
Equity share in income of affiliates	Finance income	7,342	8,567	17,763	10,999
Foreign exchange (loss) gain (74,323) (23,479) 110,912 167,235 Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes 135,387 212,387 389,104 484,855 Current income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL 105,664 168,695 292,745 394,076	Finance costs	(21, 469)	(22,486)	(48,224)	(29,727)
Other expenses (7,548) (8,556) (164,123) (95,874) Profit before income taxes 135,387 212,387 389,104 484,855 Current income taxes (27,659) (42,334) (100,335) (103,303) Deferred income taxes (29,723) (43,692) (96,359) (90,779) Profit for the period 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL 105,664 168,695 164,123) 1449	Equity share in income of affiliates	5,778	6,475	7,047	19,888
Profit before income taxes. 135,387 212,387 389,104 484,855 Current income taxes. (27,659) (42,334) (100,335) (103,303) Deferred income taxes (2,064) (1,358) 3,976 12,524 Total income tax expense (29,723) (43,692) (96,359) (90,779) Profit for the period. 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non-controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL 105,664 168,695 168,695 168,695	Foreign exchange (loss) gain	(74,323)	(23,479)	110,912	167,235
Current income taxes	Other expenses	(7,548)	(8,556)	(164,123)	(95,874)
Deferred income taxes (2,064) (1,358) 3,976 12,524 Total income tax expense (29,723) (43,692) (96,359) (90,779) Profit for the period 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non- controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL Image: control interest inte	Profit before income taxes	135,387	212,387	389,104	484,855
Total income tax expense (29,723) (43,692) (96,359) (90,779) Profit for the period 105,664 168,695 292,745 394,076 (Profit) loss for the period attributable to non- controlling interests (272) (916) (1,610) 1,449 Profit for the period attributable to LUKOIL Image: control in the period attributable to LUKOIL Image: control in the period attributable to LUKOIL Image: control in the period attributable to LUKOIL	Current income taxes	(27,659)	(42,334)	(100,335)	(103,303)
Profit for the period.105,664168,695292,745394,076(Profit) loss for the period attributable to non- controlling interests.(272)(916)(1,610)1,449Profit for the period attributable to LUKOIL	Deferred income taxes	(2,064)	(1,358)	3,976	12,524
(Profit) loss for the period attributable to non- controlling interests	Total income tax expense	(29,723)	(43,692)	(96,359)	(90,779)
controlling interests(272)(916)(1,610)1,449Profit for the period attributable to LUKOIL		105,664	168,695	292,745	394,076
Profit for the period attributable to LUKOIL					
	controlling interests	(272)	(916)	(1,610)	1,449
shareholders					
	shareholders	105,392	167,779	291,135	395,525

The analysis of the principal financial indicators from the financial statements is provided below.

Sales Revenues

The following table sets forth our sales revenues by type of product and market for the periods indicated.

	Six months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
Crude oil		(millions	of rubles)	
Export and sales on international markets other than				
Customs Union countries	605,638	742,902	1,340,778	1,218,581
Export and sales to Customs Union countries	27,768	28,099	49,177	60,550
Domestic sales	44,744	75,232	145,688	128,431
	678,150	846,233	1,535,643	1,407,562
Refined products				
Export and sales on international markets				
Wholesale	1,215,661	1,465,805	2,909,618	2,810,780
Retail	149,974	154,625	328,721	371,618
Domestic sales				
Wholesale	104,366	114,019	244,404	269,735
Retail	171,920	166,177	360,283	343,800
	1,641,921	1,900,626	3,843,026	3,795,933
Petrochemicals				
Export and sales on international markets	18,962	17,089	34,490	32,231
Domestic sales	18,094	9,394	28,248	10,346
	37,056	26,483	62,738	42,577
Gas and gas products				
Export and sales on international markets	44,285	48,859	100,097	83,025
Domestic sales	17,820	18,831	38,229	42,405
	62,105	67,690	138,326	125,430
Sales of energy and related services				
Sales on international markets	6,525	4,209	12,516	7,585
Domestic sales	30,678	29,420	58,237	54,922
	37,203	33,629	70,753	62,507
Other				
Exports and sales on international markets	37,302	23,982	57,430	38,660
Domestic sales	22,896	18,628	41,134	32,187
	60,198	42,610	98,564	70,847
Total sales	2,516,633	2,917,271	5,749,050	5,504,856

Sales Volumes

The following table sets forth our sales volumes by type of product and market for the periods indicated.

	Six months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
Crude oil		(mb	ls)	
Export and sales on international markets other than				
Customs Union countries	247,967	243,033	474,999	339,445
Export and sales to Customs Union countries	14,162	13,018	24,174	34,194
Domestic sales	25,413	37,808	79,457	81,260
	287,542	293,859	578,630	454,899
Crude oil		(thousand	tonnes)	
Export and sales on international markets other than		X	,	
Customs Union countries	33,829	33,156	64,802	46,309
Export and sales to Customs Union countries	1,932	1,776	3,298	4,665
Domestic sales	3,467	5,158	10,840	11,086
	39,228	40,090	78,940	62,060
Refined products		(thousand	tonnes)	
Export and sales on international markets				
Wholesale	48,221	49,019	100,952	91,088
Retail	2,021	2,175	4,501	5,772
Domestic sales				
Wholesale	5,169	4,790	10,247	11,596
Retail	4,486	4,501	9,562	9,771
	59,897	60,485	125,262	118,227
Total sales volume of crude oil and refined products	99,125	100,575	204,202	180,287

Realised Average Sales Prices

The following table sets forth our average realised sales prices for the periods indicated.

		Six months ended 30 June		Year ended 31	December
	-	2016	2015	2015	2014
Average realised price international	-				
Crude oil (excluding Customs	(RUB/				
Union countries)	barrel)	2,442	3,057	2,883	3,590
Crude oil (Customs Union	(RUB/				
countries)	barrel)	1,961	2,158	2,034	1,771
Refined products					
	(RUB/				
Wholesale	tonne)	25,210	29,902	28,822	30,858
	(RUB/				
Retail	tonne)	74,208	71,092	73,033	64,383
Crude oil (excluding Customs					
Union countries)	(\$/barrel)	34.76	53.26	46.31	93.43
Crude oil (Customs Union					
countries)	(\$/barrel)	27.97	37.60	33.37	46.09
Refined products					
Wholesale	(\$/tonne)	358.82	520.97	472.81	803.13
Retail	(\$/tonne)	1,056.22	1,238.60	1,198.09	1,675.68
Average realised price within Russia					
	(RUB/				
Crude oil	barrel)	1,761	1,990	1,834	1,580
Refined products					
-	(RUB/				
Wholesale	tonne)	20,191	23,804	23,851	23,263
	(RUB/				
Retail	tonne)	38,324	36,923	37,679	35,185

Six month period ended 30 June 2016 compared to six month period ended 30 June 2015

Operating revenues

Overview

During the first half of 2016, our revenues decreased by RUB 401 billion, or by 13.7%, compared to the first half of 2015. Our revenues from crude oil sales decreased by RUB 168 billion, or by 19.9%, and our revenues from sales of refined products decreased by RUB 259 billion, or by 13.6%. The main reason for the decrease in revenues was the decrease in international hydrocarbon prices, partially offset by the effect of ruble devaluation on our revenues denominated in other currencies.

Sales of crude oil

Our international crude oil sales revenue decreased by 18.5%, or by RUB 137 billion, in the first half of 2016. Our international sales volumes (beyond the Customs Union) increased by 673 thousand tonnes, or by 2.0%, compared to the first half of 2015, as a result of increased volumes of crude oil trading. Our average international ruble realised crude oil prices decreased by 20.1% compared to the first half of 2015.

Our realised domestic crude oil sales price decreased by 11.5% compared to the first half of 2015, while our domestic sales volumes decreased by 1,691 thousand tonnes, or by 32.8%, following the decrease in production in Russia. As a consequence, in the first half of 2016, our domestic sales revenue decreased by 40.5%, or by RUB 30 billion.

In the first half of 2016, our revenue from crude oil export from Russia both to Group companies and third parties amounted to RUB 307 billion (RUB 395 billion RUB in the first half of 2015).

Sales of refined products

In the first half of 2016, our revenue from the wholesale of refined products outside Russia decreased by RUB 250 billion, or by 17.1%, compared to the first half of 2015, which was largely price driven. During the first half of 2016, our U.S. dollar and ruble average realised prices decreased by 31.1% and 15.7%, respectively. At the same time, compared to the first half of 2015, our sales volumes did not change significantly.

During the first half of 2016, our U.S. dollar realised retail prices outside Russia decreased by 14.7%, while our ruble realised prices increased by 4.4%, compared to the first half of 2015, due to devaluation of the ruble. Our sales volumes decreased by 7.1% in the first half of 2016, as a consequence of the sale of our retail networks in Eastern Europe. As a result, our international retail revenue decreased by RUB 5 billion, or by 3.0%, compared to the first half of 2015.

During the first half of 2016, our revenue from the wholesale of refined products on the domestic market decreased by 8.5%, or by RUB 10 billion. Our average realised prices decreased by 15.2%, but our sales volumes increased by 7.9% in the first half of 2016.

During the first half of 2016, our revenue from retail sales of refined products in Russia increased by RUB 6 billion, or by 3.5%. Our average domestic retail prices increased by 3.8%, while our retail volumes did not change significantly.

In the first half of 2016, our revenue from export of refined products from Russia both to Group companies and third parties amounted to RUB 186 billion (RUB 239 billion in the first half of 2015).

Sales of petrochemical products

In the first half of 2016, our revenue from sales of petrochemical products increased by RUB 11 billion, or by 39.9%, largely due to the increase in domestic output after production resumed at our petrochemical plant in the Stavropol region of Russia in April 2015, following a fire in February 2014, which had limited the plant's operations.

Sales of gas and gas products

Compared to the first half of 2015, sales of gas and gas refined products decreased by RUB 6 billion, or by 8.3%, mainly as a result of the decrease in sales prices.

Natural gas sales revenue decreased by RUB 3 billion, or by 8.1%, in the first half of 2016.

Gas products revenue decreased by RUB 3 billion, or by 8.4%, compared to the first half of 2015.

Sales of energy and related services

During the first half of 2016, our revenue from sales of electricity, heat and related services increased by RUB 4 billion, or by 10.6%. In Russia, the increase was largely due to the commissioning of a CCGT unit with a 135 MW capacity at the Group's power plant in the Stavropol region of Russia in March 2015 and the full six months of its operation in the first half 2016. Our international revenue increased as a result of the significant increase in volumes of electricity sales in Sicily, Italy.

Other sales

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

During the first half of 2016, revenue from other sales increased by RUB 18 billion, or by 41.3%. The non-petrol revenue of our retail network increased by RUB 3 billion, or by 21.1%. In the first half of 2016, revenue from transportation services abroad increased by RUB 5 billion, or by 78.5%. In the first half of 2016, our other sales also included revenue from sales of diamonds in the amount of RUB 11 billion (RUB 5 billion in the first half of 2015).

Operating expenses

Operating expenses include the following:

	Six month 30 Ju	
	2016	2015
	(millions of rubles)	
Hydrocarbon extraction expenses	107,671	103,978
Own refining expenses	45,254	43,172
Refining expenses at third party refineries	421	1,078
Expenses for crude oil transportation to refineries	23,228	20,120
Power generation and distribution expenses	18,889	18,633
Petrochemical expenses	6,602	4,793
Other operating expenses	24,888	19,735
Total operating expenses	226,953	211,509

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

Compared to the first half of 2015, our operating expenses increased by RUB 15 billion, or by 7.3%, in the first half of 2016, largely as a result of inflation in Russia and the effect of the ruble devaluation on the ruble value of foreign subsidiaries' expenses.

Hydrocarbon extraction expenses

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

In the first half of 2016, our extraction expenses increased by RUB 4 billion, or by 3.6%, compared to the first half of 2015.

In the first half of 2016, our average hydrocarbon extraction expenses increased from RUB 251 per boe in the first half of 2015 to RUB 270 per boe, or by 7.5%. In Russia, average hydrocarbon extraction expenses increased by 13.0% to RUB 234 per boe in the first half of 2016. The increase in domestic expenses was driven by higher costs of materials and services and a shift towards more cost-intensive projects, which benefit from tax exemptions, as well as the devaluation of the ruble.

At the same time, our average hydrocarbon extraction expenses decreased from \$4.40 per boe in the first half of 2015 to \$3.85 per boe in the first half of 2016, or by 12.5%. In Russia, average hydrocarbon extraction expenses decreased by 8.0% to \$3.35 per boe in the first half of 2016.

Own refining expense

During the first half of 2016, our own refining expenses increased by RUB 2 billion, or by 4.8%, compared to the first half of 2015.

Despite lower production volumes, refining expenses at our domestic refineries increased by 12.1%, or by RUB 2 billion, in the first half of 2016, as a result of increase in consumption and costs of additives and commissioning of new units at our refineries in Nizhny Novgorod and Volgograd.

Refining expenses at our refineries outside Russia did not change significantly in the first half of 2016, compared to the first half of 2015. The effect of ruble devaluation and commissioning of the heavy residue processing complex at our Bulgarian refinery were offset by lower overhaul expenses at our Italian refinery.

Expenses for crude oil transportation to refineries

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

During the first half of 2016, our expenses for crude oil transportation to refineries increased by RUB 3 billion, or by 15.4%, largely as a result of the increase in transportation tariffs, international refining volumes and the effect of the ruble devaluation.

Petrochemical expenses

In the first half of 2016, operating expenses of our petrochemical plants increased by RUB 2 billion, or by 37.7%, due to the increase in domestic production volumes after production resumed at our petrochemical plant in the Stavropol region of Russia in April 2015, following a fire in February 2014, which had limited the plant's operations.

Other operating expenses

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

In the first half of 2016, other operating expenses increased by RUB 5 billion, or by 26.1%, largely as a result of the increased cost of transportation services provided to third parties, non-petrol sales of our retail network and the increase in the ruble value of other operating expenses of our foreign subsidiaries.

Cost of purchased crude oil, gas and products

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

In the first half of 2016, the cost of purchased crude oil, gas and products decreased by RUB 263 billion, or by 17.8%, following the decrease in hydrocarbon prices. Crude oil purchases in the first half of 2016 also included RUB 74 billion related to 5,143 thousand tonnes of compensation crude oil received from Iraq's state-owned South Oil Company for the West Qurna-2 project (RUB 95 billion related to 4,769 thousand tonnes of compensation crude oil in the first half of 2015).

In the first half of 2016 we recognised a RUB 34 billion net loss from hedging, compared to a RUB 26 billion net loss in the first half of 2015.

Transportation expenses

In the first half of 2016, our transportation expenses increased by RUB 17 billion, or by 11.7%, compared to the first half of 2015. The increase was mainly due to increases in our refined products transportation expenses in Russia (driven by higher tariffs), refined products and crude oil transportation expenses outside Russia (driven by the ruble devaluation) and gas transportation expenses both in Russia (due to higher volumes of gas transportation from the Yu. Korchagin field in the Caspian Sea) and outside Russia (due to higher gas transportation volumes related to an increase in gas production, as well as the ruble devaluation).

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (except for production staff costs of extraction entities, refineries and power generation entities), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses. Our selling, general and administrative expenses are roughly equally split between our domestic and international operations.

In the first half of 2016, our selling, general and administrative expenses increased by RUB 12 billion, or by 14.7%, compared to the first half of 2015. In Russia, expenses increased by RUB 7 billion, or by 16.2%, as a result of inflation and higher accruals within our share-based compensation programme. Internationally, our expenses increased by RUB 5 billion, or by 13.0%, compared to the first half of 2015. A decrease in selling expenses denominated in local currencies, as a result of the sale of our retail

networks in Eastern Europe, was offset by the effect of the ruble devaluation on the expenses of our foreign subsidiaries.

Depreciation, depletion and amortisation

In the first half of 2016, our depreciation, depletion and amortisation expenses decreased by RUB 10 billion, or by 5.8%, compared to the first half of 2015. The effect of a higher depreciation rate of upstream assets following the decrease in hydrocarbon proved reserves was offset by the decrease of expenses related to the West Qurna-2 project. Our depreciation, depletion and amortisation expenses for the first half of 2016 and 2015 included RUB 24 billion and RUB 57 billion, respectively, related to the West Qurna-2 field. Other international subsidiaries' depreciation, depletion and amortisation increased as a result of the effect of the ruble devaluation.

Taxes other than income taxes

The following table sets forth our taxes other than income taxes paid in Russia and internationally for the periods indicated.

	Six months ended 30 June	
	2016	2015
In Russia	(millions of rubles)	
Mineral extraction taxes	174,811	245,369
Social security taxes and contributions	11,835	10,850
Property tax	9,266	8,732
Other taxes	1,097	1,102
Total in Russia	197,009	266,053
International		
Social security taxes and contributions	3,159	2,794
Property tax	564	749
Other taxes	1,545	1,458
Total internationally	5,268	5,001
Total	202,277	271,054

In the first half of 2016, our taxes other than income taxes decreased by RUB 69 billion, or by 25.4%, compared to the first half of 2015. This was largely driven by the decrease in the mineral extraction tax rate in Russia.

In the first half of 2016, application of the reduced rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to a RUB 26 billion mineral extraction tax reduction (RUB 37 billion in the first half of 2015).

Excise and export tariffs

The following table sets forth our expenses incurred related to excise and export tariffs in Russia and internationally for the periods indicated.

	Six month 30 Ju	
	2016	2015
In Russia	(millions o	f rubles)
Excise tax on refined products	40,182	25,673
Crude oil export tariffs	62,364	119,823
Refined products export tariffs	24,686	64,174
Total in Russia	127,232	209,670
International		
Excise tax on refined products	101,317	85,757
Crude oil export tariffs	21	28
Refined products export tariffs	199	1,003
Total internationally	101,537	86,788
Total	228,769	296,458

In the first half of 2016, export tariffs decreased by RUB 98 billion, or by 52.8%, due to the sharp decrease in export duty rates for crude oil and refined products in Russia, magnified by the decrease in export volumes. The volumes of crude oil exports beyond the Customs Union decreased by 3.0%, and the volumes of refined products exports decreased by 9.9%, compared to the first half of 2015. The increase in excise tax expenses in Russia was driven by increase in rates, while international excise expenses increased due to the ruble devaluation.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation and crude oil production and marketing in Kazakhstan. Currently, our largest affiliates are Tengizchevroil, an exploration and production company operating in Kazakhstan; Bashneft-Polus, an exploration and production company that develops the Trebs and Titov oilfields in Timan-Pechora, Russia; and Shakh-Deniz Midstream and Caspian Pipeline Consortium, midstream companies in Azerbaijan and Kazakhstan. Caspian Investment Resources Ltd, an exploration and production company operating in Kazakhstan, was one of our major affiliates until we sold our 50% interest to a Sinopec group company in the third quarter of 2015.

In the first half of 2016, our equity share in income of affiliates decreased by RUB 1 billion, or by 10.8%, compared to the first half of 2015.

Foreign exchange loss

In the first half of 2016, foreign exchange loss mostly related to revaluation of U.S. dollar and euro net monetary positions of our Russian subsidiaries that mostly consist of accounts receivables and loans to our foreign subsidiaries.

During the first half of 2016, the ruble-U.S. dollar exchange rate decreased from 72.88 rubles per U.S. dollar on 1 January to 64.26 rubles per dollar on 30 June, resulting in a RUB 74 billion foreign exchange loss. During the first half of 2015, the ruble-U.S. dollar exchange rate changed less significantly (from 56.26 rubles per U.S. dollar on 1 January to 55.52 rubles per dollar on 30 June), resulting in a RUB 23 billion foreign exchange loss.

Income taxes

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

In the first half of 2016, our total income tax expense decreased by RUB 14 billion, or by 32.0%, compared to the first half of 2015. At the same time, our profit before income taxes decreased by RUB 77 billion, or by 36.3%.

In the first half of 2016, our effective income tax rate was 22.0%, compared to 20.6% in the first half of 2015.

Year ended 31 December 2015 compared to year ended 31 December 2014

Total Operating Revenues

Overview

During 2015, our revenues increased by RUB 244 billion, or by 4.4%, compared to 2014. Our revenues from crude oil sales increased by RUB 128 billion, or by 9.1%, and our revenues from sales of refined products increased by RUB 47 billion, or by 1.2%. The main reason for this increase was the increase in sales volumes. At the same time, the sharp decline in international hydrocarbon prices was offset by the effect of the devaluation of the ruble against the euro and the U.S. dollar.

Sales of crude oil

In 2015, our international crude oil sales revenue increased by 10.0%, or by RUB 122 billion, compared to 2014. Our international sales volumes (beyond the Customs Union) increased by 18,493 thousand tonnes, or by 39.9%, compared to 2014, as a result of the increase in crude oil exports from Russia, increased volumes of crude oil trading and increased production from the West Qurna-2 field. That increase was partially offset by the sharp decrease in the international crude oil prices that halved compared to 2014. Nevertheless, as a result of the sharp ruble devaluation, international crude oil prices expressed in rubles only decreased by 21.4%.

Our average realised domestic crude oil price increased by 16.0%, compared to 2014. The significant increase in exports from Russia was offset by a decrease in the throughput at our domestic refineries and an increase of crude oil purchases in Russia. Thus, our domestic sales volumes decreased relatively insignificantly by 246 thousand tonnes, or by 2.2%. As a consequence, our domestic sales revenue increased by 13.4%, or by RUB 17 billion, compared to 2014.

In 2015, our revenue from crude oil export from Russia both to Group companies and third parties amounted to RUB 691 billion (RUB 716 billion in 2014).

Sales of refined products

Our revenue from the wholesale of refined products outside Russia increased by RUB 99 billion, or 3.5%, in 2015 compared to 2014. Our U.S. dollar and ruble average realised prices decreased by 41.1% and 6.6%, respectively, in 2015 compared to 2014. Those decreases were offset by an increase in sales volumes by 10.8% as a result of higher volumes of trading.

In 2015, our ruble realised retail prices outside Russia increased by 13.4% and sales volumes decreased by 22.0%, which resulted in the decrease in retail revenue by RUB 43 billion, or by 11.5%, compared to 2014.

In 2015, our revenue from the wholesale of refined products on the domestic market decreased by 9.4%, or by RUB 25 billion. Our average realised prices for refined products in Russia increased by 2.5% and our sales volumes decreased by 11.6%, compared to 2014. The decrease in sales volumes was due to lower domestic production in 2015.

In 2015, our revenue from retail sales in Russia increased by RUB 16 billion, or by 4.8%, compared to 2014. Our average domestic retail prices increased by 7.1%, while retail volumes decreased by 2.1%.

In 2015, our revenue from export of refined products from Russia both to Group companies and third parties amounted to RUB 440 billion (RUB 581 billion in 2014).

Sales of petrochemical products

In 2015, our revenue from sales of petrochemical products increased by RUB 20 billion, or by 47.4%, largely due to the increase in sales volumes by 44.1% after production resumed at our petrochemical plant in the Stavropol region of Russia in April 2015, following a fire in February 2014, which had limited the plant's operations.

Sales of gas and gas products

In 2015, sales of gas and gas refined products increased by RUB 13 billion, or by 10.3%, compared to 2014.

Natural gas sales revenue increased by RUB 16 billion, or by 28.4%, as a result of an increase in international gas production by the Group. Gas products revenue decreased by RUB 3 billion, or by 4.7%, compared to 2014.

Sales of energy and related services

In 2015, our revenue from sales of electricity, heat and related services increased by RUB 8 billion, or by 13.2%, compared to 2014. In Russia, the increase was due to the commissioning of a CCGT unit with a 135 MW capacity at the Group's power plant in the Stavropol region of Russia in March 2015. Internationally, the increase was a result of our acquisition of ISAB Energy, a power generating company in Italy, in the third quarter of 2014 and of the ruble devaluation.

Other sales

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

In 2015, revenue from other sales increased by RUB 28 billion, or by 39.1%, compared to 2014. The non-petrol revenue of our retail network increased by RUB 4 billion, or by 14.3%. Since the second quarter of 2014, we increased the volume of rendering crude oil extraction services in Russia by RUB 3 billion, or by 63.4%, compared to 2014. Revenue from transportation services increased by RUB 6 billion, or by 75.4%. In 2015 and 2014, our other sales also included revenue from sales of diamonds in the amount of RUB 11 billion and RUB 1 billion, respectively.

Operating Expenses

The following table sets forth a breakdown of our operating expenses for the periods indicated.

	Year ended 31 December		
	2015	2014	
	(millions o	f rubles)	
Hydrocarbon extraction expenses	217,174	173,809	
Own refining expenses	94,449	84,816	
Refining expenses at third party refineries	2,604	2,900	
Expenses for crude oil transportation to refineries	41,698	39,220	
Power generation and distribution expenses	36,292	32,430	
Petrochemical expenses	10,993	7,036	
Other operating expenses	43,509	28,294	
Total operating expenses	446,719	368,505	

The method of allocation of operating expenses above differs from the approach used in preparing the data for Note 32 "*Segment information*" to our audited annual consolidated financial statements included elsewhere in this prospectus. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

In 2015, our operating expenses increased by RUB 78 billion, or by 21.2%, compared to 2014, largely as a result of inflation in Russia and the effect of the ruble devaluation on the ruble value of our foreign subsidiaries' expenses.

Hydrocarbon extraction expenses

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

In 2015, our extraction expenses increased by RUB 43 billion, or by 24.9%, compared to 2014, largely as a result of the impact of the ruble devaluation on the ruble value of expenses of our foreign subsidiaries and the scale-up of our operations at the West Qurna-2 field. In 2015 and 2014, our extraction expenses included production expenses related to the West Qurna-2 project in the amount of RUB 47 billion and RUB 26 billion, respectively. Our domestic expenses also increased driven by higher costs of materials and services.

Our average hydrocarbon extraction expenses increased from RUB 214 per boe in 2014 to RUB 258 per boe in 2015, or by 20.6%. In Russia, average hydrocarbon extraction expenses increased by 11.0% to RUB 218 per boe in 2015.

In U.S. dollar terms, our average hydrocarbon extraction expenses decreased from \$5.56 per boe in 2014 to \$4.25 per boe in 2015, or by 23.6%. In Russia, average hydrocarbon extraction expenses decreased by 29.7% to \$3.60 per boe in 2015.

Own refining expenses

In 2015, our own refining expenses increased by RUB 10 billion, or by 11.4%, compared to 2014.

Despite the decrease in production volumes, refining expenses at our domestic refineries increased by 6.9%, or by RUB 3 billion, as a result of increased overhaul costs.

Refining expenses at our refineries outside Russia increased by RUB 7 billion, or by 15.5%, compared to 2014, as a result of the euro appreciation to the ruble.

Refining expenses at third party refineries

Along with our own production of refined products, we refine crude oil at third party refineries both in Russia and abroad.

In 2015, refining expenses at third party refineries decreased by 10.2%, or by RUB 0.3 billion, compared to 2014, as a result of a two-fold decrease in volumes of refining at third party refineries, partially offset by the ruble devaluation.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to the delivery of the Group's own crude oil to refineries for further processing.

Our expenses for crude oil transportation to refineries increased by RUB 2 billion, or by 6.3%, compared to 2014. The decrease in crude oil refining volumes in Russia and in supplies of our own crude oil to the Group's refineries abroad was offset by the increase in ruble value of transportation costs incurred internationally.

Power generation and distribution expenses

In 2015, power generation and distribution expenses increased by RUB 4 billion, or by 11.9%, compared to 2014, largely as a result of the effect of the ruble devaluation on our international expenses and overhauls at one of our power plants in the Krasnodar region of Russia.

Petrochemical expenses

In 2015, operating expenses of our petrochemical plants increased by RUB 4 billion, or by 56.2%, compared to 2014, due to the increase of domestic production volumes after production resumed at our petrochemical plant in the Stavropol region of Russia in April 2015, following a fire in February 2014, which had limited the plant's operations.

Other operating expenses

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

In 2015, other operating expenses increased by RUB 15 billion, or by 53.8%, compared to 2014, largely as a result of the increased cost of non-petrol sales of our retail network, an increase in expenses related to production of diamonds and the increase of the ruble value of other operating expenses of our foreign subsidiaries.

Cost of Purchased Crude Oil, Gas and Products

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

The cost of purchased crude oil, gas and products increased by RUB 110 billion, or by 3.9%, compared to 2014. The sharp decrease in hydrocarbon prices was offset by the effect of the ruble devaluation and the increase in crude oil and refined products trading volumes. Crude oil purchases in 2015 also included RUB 185 billion related to 10,467 thousand tonnes of compensation crude oil received from Iraq's state-owned South Oil Company for the West Qurna-2 project (RUB 81 billion related to 4,337 thousand tonnes of compensation crude oil in 2014).

In 2015, we recognised a RUB 83 billion net gain from hedging, compared to a RUB 72 billion net gain in 2014.

Transportation Expenses

In 2015, our transportation expenses increased by RUB 83 billion, or by 38.5%, compared to 2014, as a result of the increase in domestic transportation tariffs and higher volumes of crude oil transportation driven by increased crude oil trading and exports from Russia, as well as the effect of the ruble devaluation.

Our actual transportation tariffs related to crude oil and refined products deliveries to various exports destinations, weighted by volumes transported, changed in 2015 compared to 2014 as follows: crude oil pipeline tariffs increased by 8.2% and railway tariffs for refined products transportation increased by 3.4%.

Selling, General and Administrative Expenses

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

In 2015, our selling, general and administrative expenses increased by RUB 22 billion, or by 15.1%, compared to 2014. The increase was triggered by inflation in Russia and the effect of the ruble devaluation on the expenses of our foreign subsidiaries.

Depreciation, Depletion and Amortisation

Our depreciation, depletion and amortisation expenses increased by RUB 58 billion, or by 19.8%, compared to 2014. These expenses for 2015 and 2014 included RUB 127 billion and RUB 114 billion, respectively, related to the West Qurna-2 field. The depreciation, depletion and amortisation expenses for our international subsidiaries increased in 2015 as a result of the effect of the ruble devaluation.

Taxes Other than Income Taxes

The following table sets forth our taxes other than income tax expenses in Russia and internationally for the periods indicated.

	Year er 31 Dece	
	2015	2014
In Russia	(millions o	f rubles)
Mineral extraction taxes	470,013	420,946
Social security taxes and contributions	21,183	17,462
Property tax	18,364	16,874
Other taxes	2,459	3,810
Total in Russia	512,019	459,092
International		
Social security taxes and contributions	5,812	4,506
Property tax	1,916	1,268
Other taxes	2, 873	2,866
Total internationally	10,601	8,640
Total	522,620	467,732

In 2015, our taxes other than income taxes increased by RUB 55 billion, or by 11.7%, compared to 2014, largely driven by the increase in the mineral extraction tax rate in Russia.

In 2015, application of the reduced rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to a RUB 72 billion mineral extraction tax reduction (RUB 83 billion in 2014).

Excise and Export Tariffs

The following table sets forth our expenses incurred related to excise and export tariffs in Russia and internationally for the periods indicated.

2015	2014
2013	2014
In Russia (millions of ruble	es)
Excise tax on refined products	,093
Crude oil export tariffs	3,109
Refined products export tariffs112,871230),145
Total in Russia	1,347
International	
Excise tax on refined products	5,098
Crude oil export tariffs	57
Refined products export tariffs2,172	7,899
Total internationally194,288153	3,054
Total	7,401

In 2015, our export tariffs decreased by RUB 263 billion, or by 44.5%, compared to 2014, due to the sharp decrease in export duty rates for crude oil and refined products, partially offset by the ruble devaluation. Compared to 2014, the volumes of crude oil export beyond the Customs Union increased by 16.6% while the volumes of the refined products exports decreased by 12.5%. The increase in international excise expenses was due to the ruble devaluation.

Exploration Expenses

In 2015, our exploration expenses increased by RUB 17 billion, or by 138.6%, mostly as a result of the increase in the amount of dry hole write-offs, compared to 2014. In 2015, we charged to expense RUB 25 billion related to dry holes, primarily related to our offshore projects in Romania. In 2014, dry hole write-offs amounted to RUB 9 billion, primarily related to our offshore projects in West Africa.

Equity Share in Income of Affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation and crude oil production and marketing in Kazakhstan. Currently, our largest affiliates are Tengizchevroil, an exploration and production company operating in Kazakhstan; Bashneft-Polus, an exploration and production company that develops the Trebs and Titov oilfields in Timan-Pechora, Russia; and Shakh-Deniz Midstream and Caspian Pipeline Consortium, midstream companies in Azerbaijan and Kazakhstan. Caspian Investment Resources Ltd, an exploration and production company operating in Kazakhstan, was one of our major affiliates until we sold our 50% interest to a Sinopec group company in the third quarter of 2015. The Zeeland refinery in The Netherlands was accounted for as an equity affiliate under US GAAP, but it is now accounted for using the proportionate consolidation method under IFRS.

In 2015, our equity share in income of affiliates decreased by RUB 13 billion, or by 64.6%, compared to 2014, largely as a result of the decrease in income of our upstream affiliates in Kazakhstan.

Other Expenses

Other expenses include the financial effects of disposals of assets, impairment losses, revisions of estimates and other non-operating gains and losses. In 2015, other expenses increased by RUB 68 billion, or by 71.2%, largely as a result of a higher amount of impairment losses, compared to 2014. See "—*Additional information on losses on disposal, impairments and other write-offs*" for more information on our losses on disposal and impairment of assets in 2015 and 2014.

Income Taxes

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

In 2015, our total income tax expense increased by RUB 6 billion, or by 6.1%, compared to 2014. At the same time, our profit before income taxes decreased by RUB 96 billion, or by 19.7%.

In 2015, our effective income tax rate was 24.8%, compared to 18.7% in 2014. The high level of the effective tax rate in 2015 was a result of non-deductible losses and write-offs.

Additional information on losses on disposal, impairments and other write-offs

The following table sets forth additional information on the Group's losses on disposal and impairment of assets and dry hole write-offs in 2015 and 2014.

	Year ended 31 December	
	2015	2014
	(millions of	rubles)
Impairment losses included in Other expenses		
Impairment losses in Exploration and Production segment	124,613	57,765
Impairment losses in Refining, Marketing and Distribution segment	45,695	17,572
Other write-offs in Exploration and Production segment	16,742	7,563
Total impairment losses included in Other expenses	187,050	82,900
Dry hole write-offs in our offshore projects included in Exploration expenses	24,816	9,227
Impairment losses included in <i>Equity share in income of affiliates</i> Foreign exchange gain reclassified from other comprehensive income after	2,568	-
the sale of Caspian Investment Resources Ltd included in Other expenses	(36,931)	_
Total losses and gains	177,503	92,127
Deferred tax effect	(16,373)	(4,574)
Total losses and gains (after tax)	161,130	87,553

The total effect of the above losses and gains on profit for the year attributable to LUKOIL shareholders amounted to losses of RUB 161 billion in 2015 and RUB 88 billion in 2014.

In 2015, the total amount of impairment losses and other write-offs in our exploration and production segment (excluding dry hole write-offs) was RUB 141 billion, of which RUB 67 billion, RUB 38 billion, RUB 10 billion and RUB 26 billion related to our projects in Africa, West Siberia, other regions of Russia and other regions outside Russia, respectively. In 2015, the total amount of impairment losses in our refining, marketing and distribution segment was RUB 46 billion, of which RUB 27 billion and RUB 19 billion related to our international subsidiaries and our subsidiaries in Russia, respectively. Dry hole write-offs in 2015 primarily related to our offshore projects in Romania.

In 2014, the total amount of impairment losses and other write-offs in our exploration and production segment (excluding dry hole write-offs) was RUB 65 billion, of which RUB 24 billion related to the Tsentralno-Astrakhanskoe gas-condensate field in the Volga region of Russia, RUB 14 billion related to other projects in Russia, RUB 20 billion related to upstream projects outside Russia and RUB 7 billion related to write-offs of signing bonuses in Ghana, Sierra Leone and Cote d'Ivoire. Dry hole write-offs in 2014 primarily related to our offshore projects in West Africa.

Reconciliation of profit from operating activities to EBITDA (operating)

	Six months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
		(millions o	f rubles)	
Profit from operating activities	225,607	251,866	465,729	412,334
Add back: Depreciation, depletion and amortisation	155,956	165,521	350,976	293,052
EBITDA (operating)	381,563	417,387	816,705	705,386

EBITDA (operating) is a non-IFRS financial measure. See "Presentation of Financial and Other Information—Non-IFRS Financial Measures (Unaudited)" for more information.

Liquidity and Capital Resources

	Six months ended 30 June		Year er 31 Dece	
	2016	2015	2015	2014
		(millions o	of rubles)	
Net cash provided by operating activities Net cash used in investing activities Net cash provided by (used in) financing activities	344,478 (258,515) 37,267	383,103 (290,868) (89,562)	848,972 (525,722) (253,063)	651,416 (578,374) 30,143

Operating Activities

Our primary source of cash flow is funds generated from our operations. In the first half of 2016, net cash generated from operations decreased by RUB 39 billion, or by 10.1%, compared to the first half of 2015, mainly as a result of the decrease in profit for the period. In 2015, net cash generated from operations increased by RUB 198 billion, or 30.3% compared to 2014, largely as a result of changes in working capital. In 2014, cash flows from operating activities were negatively affected by an increase of receivables for cost recovery related to the commencement of cost compensation for the West Qurna-2 project. Following the commencement of shipments of compensation crude oil, changes of this receivable do not affect significantly our cash flows from operating activities.

Investing Activities

In the first half of 2016, net cash used in investing activities decreased by RUB 32 billion, or by 11.1%, compared to the first half of 2015, mostly due to a decrease in capital expenditures. In the first half of 2016, our capital expenditures, including non-cash transactions, totalled RUB 241 billion, which was 20.8% lower than in the first half of 2015.

In 2015, net cash used in investing activities decreased by RUB 53 billion, or by 9.1%, mostly due to higher proceeds from the sale of financial assets and equity method affiliates by RUB 93 billion, compared to 2014. In 2015, our capital expenditures, including non-cash transactions, totalled RUB 607 billion and did not change significantly from 2014.

The following table sets forth our capital expenditures for the periods indicated.

	Six months 30 June		Year ei 31 Dece	
	2016	2015	2015	2014
		(millions o	f rubles)	
Capital expenditures, including non-cash				
transactions				
Exploration and production				
Russia	141,281	144,125	292,488	327,956
International	66,863	98,482	195,877	135,211
Total exploration and production	208,144	242,607	488,365	463,167
Refining, marketing and distribution				
Russia	24,639	43,533	83,640	105,411
International	7,535	15,964	25,285	36,049
Total refining, marketing and distribution	32,174	59,497	108,925	141,460
Corporate and other				
Russia	692	1,497	5,160	4,519
International	437	1,243	4,755	1,960
Total corporate and other	1,129	2,740	9,915	6,479
Total capital expenditures	241,447	304,844	607,205	611,106

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In the first half of 2016, capital expenditures in the exploration and production segment decreased by RUB 34 billion, or by 14.2%, compared to the first half of 2015. The decrease was largely in our international segment and related to the completion of the current stage of the West Qurna-2 project and of exploratory drilling in Cameroon and Romania.

In 2015, capital expenditures in the exploration and production segment increased by RUB 25 billion, or by 5.4%, compared to 2014. The decrease in capital expenditures in Russia was offset by the increase in international capital expenditures as result of the ruble devaluation.

The decrease in capital expenditures in the refining, marketing and distribution segment in Russia in the first half of 2016, compared to the first half of 2015, was due to the completion of upgrades at our Russian refineries. The decrease in the international segment in the first half of 2016 was a result of the completion of construction of a heavy residue processing complex at our Bulgarian refinery in 2015.

The decrease in capital expenditures in the refining, marketing and distribution segment in Russia in 2015, compared to 2014, was mainly due to approaching the completion of construction of a catalytic cracking unit at our refinery in Nizhny Novgorod in 2015. Outside Russia, the decrease in our refining, marketing and distribution capital expenditures was mainly the result of the completion of construction of a heavy residue processing complex at our Bulgarian refinery in 2015.

The tables below show our exploration and production capital expenditures in new production regions for the periods indicated.

	Six months 30 Ju	
	2016	2015
	(millions og	f rubles)
West Siberia (Pyakyakhinskoye field)	13,333	17,084
Caspian region (Russian projects)	16,324	14,949
Timan-Pechora (Yaregkoye field)	12,072	5,873
Iraq	11,696	21,422
Uzbekistan	26,276	27,560
Nigeria	5,050	10,077
Romania	660	11,721
Cameroon	259	8,034
Total	85,670	116,720

	Year ei 31 Dece	
	2015	2014
	(millions o	f rubles)
West Siberia (Pyakyakhinskoye field)	30,225	20,084
Caspian region (Russian and international projects)	67,988	58,248
Ghana	1,602	12,046
Cote d'Ivoire	1,910	6,418
Iraq	44,881	54,738
Uzbekistan	54,507	32,213
Romania	20,933	7,275
Cameroon	7,987	_
Nigeria	21,556	-
Total	251,589	191,022

We did not make significant investments in the acquisition of licences in the first half of 2016, in 2015 or in 2014.

Financing Activities

In the first half of 2016, net movements of short-term and long-term debt generated an inflow of RUB 110 billion, compared to an outflow of RUB 30 billion in the first half of 2015. In 2015, net movements of short-term and long-term debt generated an outflow of RUB 94 billion, compared to an inflow of RUB 107 billion in 2014.

See Note 18 "Long-term debt" to our audited annual consolidated financial statements included elsewhere in this prospectus for information about our indebtedness.

Off Balance Sheet Arrangements

We are engaged in ongoing capital projects with respect to exploration and development, production, transportation and refining. As of 30 June 2016, the capital commitments of the Group relating to construction and acquisition of property, plant and equipment totalled RUB 472 billion. Of this amount, RUB 238 billion relates to capital commitments under production sharing agreements and other upstream projects outside Russia, RUB 11 billion represents capital commitments in our refining, marketing and distribution segment outside Russia, and capital commitments in Russia amounted to RUB 223 billion. We disclose these capital commitments, as well as our operating lease obligations set out below, as off balance sheet items.

Contractual Obligations

The following table displays our total contractual obligations as of 30 June 2016 with respect to our short-term debt and long-term debt, as well as our operating leases.

		Second half of					
	Total	2016	2017	2018	2019	2020	After
			(mi	llions of rub	les)		
On balance sheet							
Short term debt	65,159	61,369	3,790	-	-	-	-
Long-term bank loans and borrowings	436,448	14,117	31,562	113,249	59,415	65,549	152,556
6.356% Non-convertible U.S. dollar bonds,							
maturing 2017	32,129	-	32,129	-	-	-	-
3.416% Non-convertible U.S. dollar bonds,							
maturing 2018	96,124	-	-	96,124	-	-	-
7.250% Non-convertible U.S. dollar bonds,	20.442				20.442		
maturing 2019	38,442	_	_	-	38,442	_	_
6.125% Non-convertible U.S. dollar bonds,	(1172					(4 172	
maturing 2020	64,173	_	-	-	-	64,173	-
6.656% Non-convertible U.S. dollar bonds,	22 120						22 120
maturing 2022 4.563% Non-convertible U.S. dollar bonds,	32,129	_	_	_	_	_	32,129
maturing 2023	96,124						96,124
Capital lease obligations	3,951	325	704	771	749	828	574
Capital lease obligations	5,951	525	704	//1	/+/	020	574
Total	864,679	75,811	68,185	210,144	98,606	130,550	281,383
Off balance sheet							
Operating lease obligations	168,129	18,450	23,847	14,585	9,705	8,877	92,665
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For more information on our short-term debt, see Note 17 "Short-term borrowings and current portion of long-term debt" to our audited annual consolidated financial statements and Note 15 "Short-term borrowings and current portion of long-term debt" to our unaudited condensed interim consolidated financial statements, each included elsewhere in this prospectus.

The weighted-average interest rate on long-term loans and borrowings from third parties was 5.32% per annum as of 30 June 2016 and 3.77% per annum as of 31 December 2015. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. As of 30 June 2016, approximately 15% of total long-term loans and borrowings from third parties are secured by shares of an associated company, export sales and property, plant and equipment. For more information on our long-term loans and borrowings, please see Note 18 "*Long-term debt*" to our audited annual consolidated financial statements, and Note 16 "*Long-term debt*" to our unaudited condensed interim consolidated financial statements, each included elsewhere in this prospectus.

For more information about our operating lease obligations, see Notes 5 "*New standards and interpretations not yet adopted*" and 28 "*Operating lease*" to our audited annual consolidated financial statements and Note 24 "*Operating lease*" to our unaudited condensed interim consolidated financial statements, each included elsewhere in this prospectus.

Quantitative and Qualitative Disclosures about Market Risks

Interest Rate Risk

We are exposed to changes in interest rates, primarily associated with our variable rate short-term and long-term borrowings. We do not utilise any interest rate swaps or other derivatives to hedge against the risk of changes in interest rates on our variable rate debt. To mitigate this risk, we monitor market conditions, take measures to improve our debt structure by balancing fixed and variable interest rates, control the need for additional debt financing and refinancing and extend the term of our debt obligations. For information on our material long-term borrowings, please refer to Note 18 "*Long-term debt*" to our audited annual consolidated financial statements included elsewhere in this prospectus.

Utilising the actual interest rates in effect and the balance of our variable rate debt as of 31 December 2015, and assuming a 10% change in interest rates and no change in the balance of debt outstanding, the potential effect on our annual interest expense would not be material to our results of operations. See Note 36 "*Capital and risk management*" to our audited annual consolidated financial statements included elsewhere in this prospectus for more information about interest rate risk.

Foreign Currency Risk

The countries in which our principal operations are located have been subject to hyperinflation, and during the last 10 years, the local currencies have been subject to large devaluations. As a result, we are subject to the risk that the local currencies may suffer future devaluation that may subject us to losses, depending on our net monetary position. Because we have operations in a number of countries, we are required to conduct business in a variety of foreign currencies and, as a result, we are subject to foreign exchange rate risk on cash flows related to sales, expenses, financing and investment transactions. The impacts of fluctuations in foreign currency exchange rates on our geographically diverse operations are varied.

The exchange rate of the ruble to the U.S. dollar produces the greatest impact on our transaction results, since a substantial part of our revenue is either denominated in U.S. dollars or is correlated to some extent with U.S. dollar crude oil prices, while most of our costs are incurred in Russia and are denominated in rubles. Therefore, a devaluation of the ruble against the U.S. dollar generally causes our revenues to increase in ruble terms, and *vice versa*. We recognised a net foreign exchange loss of RUB 74.3 billion for the first half of 2016, compared to a net loss of RUB 23.5 billion for the first half of 2015. We recognised net foreign exchange gains of RUB 110.9 billion in 2015 and RUB 167.2 billion in 2014.

We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign currency exchange rate exposures.

See Note 36 "*Capital and risk management*" to our audited annual consolidated financial statements included elsewhere in this prospectus for more information about foreign currency risk, including a sensitivity analysis showing the impact of a strengthening or weakening of the main currencies used in the Group's operations (the ruble, U.S. dollar and euro) as of 31 December 2015 and 2014, as well as the carrying amounts of the Group's assets and liabilities denominated in foreign currencies as of 31 December 2015 and 2014 and 1 January 2014.

Commodity Derivative Instruments

We participate in certain petroleum products trading activity. Our derivative activity is limited to these trading activities and hedging of commodity price risks. Currently, this activity involves the use of futures and swap contracts together with purchase and sale contracts that qualify as derivative instruments. We maintain a system of controls over these trading activities that includes policies covering the authorisation, reporting and monitoring of derivative activity. We account for these activities as not intended for hedging and do not use hedge accounting. We account for these activities at fair value. Resulting realised and unrealised gains or losses are presented as profit or loss on a net basis. Unrealised gains and losses are carried as assets or liabilities in the consolidated statement of financial position.

The fair value of derivative contracts outstanding and recorded on the consolidated statement of financial position was a net liability of RUB 2.3 billion as of 30 June 2016, a net asset of RUB 30.8 billion as of 31 December 2015 and a net asset of RUB 56.3 billion as of 31 December 2014. Financial results from commodity derivatives are included in the consolidated statement of profit or loss and other comprehensive income in "*Cost of purchased crude oil, gas and products*". In the first half of 2016, we recognised a net loss of RUB 34 billion from hedging, compared to a net loss of RUB 26 billion in the first half of 2015. In 2015, we recognised a net gain of RUB 83 billion from hedging, compared to a net gain of RUB 72 billion in 2014.

See Note 35 "*Fair value*" to our audited annual consolidated financial statements included elsewhere in this prospectus for more information about our commodity derivative contracts.

Critical Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used. See Note 3 "Summary of significant accounting policies" and Note 4 "Use of estimates and judgments" to our audited annual consolidated financial statements included elsewhere in this prospectus for descriptions of the Group's major accounting policies and the related estimates and judgments.

Successful Efforts Accounting for Oil and Gas Activities

Accounting for oil and gas activities is subject to special accounting rules that are unique to the oil and gas industry. Property acquisitions, successful exploratory wells, all development costs (including development dry holes and the Group's share of operators' expenses during the development stage of production sharing and risk service contracts) and support equipment and facilities are capitalised. Artificial stimulation and well work-over costs are included in operating expenses as incurred.

For individually significant undeveloped properties, management periodically performs impairment tests based on exploration and drilling efforts to date. For undeveloped properties that individually are relatively small, management exercises judgment and determines a periodic property impairment charge as required that is reported in loss on disposals and impairments of assets.

For exploratory wells, drilling costs are temporarily capitalised, or "suspended", on the balance sheet, pending a judgmental determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort. If a judgment is made that the well did not encounter potentially economic oil and gas quantities, the well costs are expensed as a dry hole and are reported in exploration expense. Exploratory wells that are judged to have discovered potentially economic quantities of oil and gas and that are in areas where a major capital expenditure would be required before production could begin, remain capitalised on the balance sheet as long as additional exploratory appraisal work is under way or firmly planned. There is no periodic impairment assessment of suspended exploratory well costs. Management continuously monitors the results of the additional appraisal drilling and seismic work and expenses the suspended well costs as dry holes when it judges that the potential field does not warrant further exploratory efforts in the near term.

Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

Proved Oil and Gas Reserves

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. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Group's plans.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas liquids including condensate and natural gas that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. 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. The proved reserves include volumes which are recoverable up to and after licence expiry dates. Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licences in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a licence is subject to renewal at the initiative of the licensee provided that further exploration, appraisal, production or remediation activities are necessary and provided that the licensee has not violated the terms of the licence. Since the law applies both to newly issued and old licences and the Group has currently renewed over 50% of its licences, management believes that licences will be renewed upon their expiration for the remainder of the economic life of each respective field.

Asset Retirement Obligations

Under various laws, contracts, permits and regulations, we have legal obligations to remove tangible equipment and restore the land or seabed at the end of operations at production sites. Our largest asset retirement obligations relate to wells and oil and gas production facilities and pipelines. We record the fair value of liabilities related to our legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the

passage of time and the related asset is depreciated using the unit-of-production method. Estimating the future asset retirement obligations costs necessary for this accounting calculation involves significant estimates and judgments by management. Most of these obligations are many years in the future and the contracts and regulations often have vague descriptions of what removal practices and criteria will have to be met when the removal event actually occurs. Asset removal technologies and costs are constantly changing, as well as political, environmental, safety and public relations considerations.

New Accounting Standards and Interpretations Not Yet Adopted

Certain new or amended accounting standards and interpretations were not yet effective as of 31 December 2015 or as of 30 June 2016, and accordingly, were not applied in preparing our audited annual consolidated financial statements or our unaudited condensed interim consolidated financial statements, respectively, each included elsewhere in this prospectus. See Note 5 "*New standards and interpretations not yet adopted*" to our audited annual consolidated financial statements included elsewhere in this prospectus that may impact our operations.

BUSINESS

Overview

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). We carry out geological exploration work in nine countries and have proved hydrocarbon reserves and production in six countries. Most of our hydrocarbon reserves are conventional, which results in low cost base of hydrocarbon reserve development and production. Furthermore, we have well developed and diversified downstream assets located in Russia and abroad.

Our revenues and profit attributable to LUKOIL shareholders for the six months ended 30 June 2016 were RUB 2,517 billion and RUB 105 billion, respectively, compared to RUB 2,917 billion and RUB 168 billion for the six months ended 30 June 2015, respectively. Our revenues and profit attributable to LUKOIL shareholders in 2015 were RUB 5,749 billion and RUB 291 billion, respectively, compared to RUB 5,505 billion and 396 billion in 2014, respectively.

As of 31 December 2015, as audited by Miller and Lents, our proved hydrocarbon reserves were 16,558 mmboe, including 12,585 mmbls (1,717 million tonnes) of crude oil and 23,838 bcf (3,973 mmboe) of gas. As of the same date, our probable hydrocarbon reserves were 6,760 mmbls, including 5,252 mmboe (717 million tonnes) of crude oil and 9,050 bcf (1,508 mmboe) of gas. For more information about these estimates, see "*Presentation of Reserves and Resources*".

We are involved in geological exploration activities in Russia, Iraq, Mexico, Norway, Romania, Uzbekistan and the continental shelf of West Africa (Cameroon, Ghana and Nigeria).

We currently produce crude oil in Russia, Azerbaijan, Egypt, Iraq, Kazakhstan and Uzbekistan. During the six months ended 30 June 2016, we produced (including our share in equity affiliates) 349.6 mmbls (47.4 million tonnes) of crude oil and natural gas liquids, including 310.7 mmbls (42.0 million tonnes) in Russia and 38.9 mmbls (5.4 million tonnes) from our international projects. In 2015, we produced (including our share in equity affiliates) 749.2 mmbls (101.8 million tonnes) of crude oil and natural gas liquids, including 641.9 mmbls (86.7 million tonnes) in Russia and 107.3 mmbls (15.1 million tonnes) internationally. Our domestic crude oil production accounted for 16% of all Russian crude oil production for 2015, according to CDU TEK.

We currently produce gas in Russia, Azerbaijan, Kazakhstan and Uzbekistan. We produced (including our share in equity affiliates) 368.9 bcf (61.5 mmboe) of gas available for sale during the six months ended 30 June 2016, including 233.4 bcf (38.9 mmboe) in Russia and 135.5 bcf (22.6 mmboe) from our international projects. In 2015, we produced (including our share in equity affiliates) 715.1 bcf (119.2 mmboe) of gas available for sale, including 467.4 bcf (77.9 mmboe) in Russia and 247.8 bcf (41.3 mmboe) internationally.

We own oil refineries in Russia, Bulgaria, Italy and Romania, as well as a 45% interest in the Zeeland refinery in The Netherlands. During the six months ended 30 June 2016, we refined 236.2 mmbls (32.2 million tonnes) of hydrocarbon feedstock, including 146.1 mmbls (19.9 million tonnes) at our Russian refineries and 90.1 mmbls (12.3 million tonnes) at our international refineries (including our interest in the Zeeland refinery). We also refined 1.2 mmbls (0.2 million tonnes) of crude oil under contracts with international third party refineries. In 2015, we refined 472.7 mmbls (64.5 million tonnes) of hydrocarbon feedstock, including 306.8 mmbls (41.9 million tonnes) at our Russian refineries and 165.9 mmbls (22.6 million tonnes) at our international refineries (including our share in the Zeeland refinery). We also refined 6.6 mmbls (0.9 million tonnes) of crude oil under arrangements with international third party refineries.

We are also involved in gas processing, petrochemical and power generation businesses in Russia and internationally.

In 2015, we sold 579 mmbls (79 million tonnes) of crude oil and 126 million tonnes of refined and petrochemical products. Our revenues from international sales of crude oil and refined products accounted for 91% and 84% of our total revenues from sales of crude oil and refined products, respectively. A substantial part of our international sales relate to our global trading operations. In 2015, we acquired 321 mmbls (44 million tonnes) of crude oil and 70 million tonnes of refined products for refining, trading and marketing purposes.

As of 30 June 2016, we owned, leased and franchised 5,286 retail filling stations, including 2,546 in Russia. In 2015, we sold 9.6 million tonnes of refined products through our retail network in Russia and

4.5 million tonnes through our retail network outside Russia. We are also actively involved in end-customer sales of jet and bunker fuel in Russia and internationally.

Russian Upstream Operations

As of 31 December 2015, 94% of our proved crude oil reserves and 69% of our proved gas reserves were located in Russia, with West Siberia representing 52% and 55% of our total proved crude oil and gas reserves, respectively. West Siberia is the primary focus of our exploration and production activities in Russia. Among other important regions are Timan-Pechora and North Caspian.

In 2015, our operations in Russia accounted for 85% and 65% of our aggregate crude oil and gas production, respectively. Our subsidiaries and affiliates carried out hydrocarbon production at 458 fields in Russia during 2015.

By the end of 2016, we plan to start commercial production at the offshore V. Filanovsky oil field in North Caspian and the Pyakyakhinskoye oil and gas field in West Siberia. We expect the V. Filanovsky oil field to achieve its designed production level of approximately 120,000 barrels of oil per day in 2017, and the Pyakyakhinskoye oil and gas field to produce 11.0 mmbls (1.5 million tonnes) of crude oil and gas condensate, as well as approximately 18 mmboe (106 bcf) of gas, in 2017.

International Upstream Operations

As of 31 December 2015, our international upstream assets accounted for 6% and 31% of our proved crude oil and gas reserves respectively, with Iraq and Kazakhstan representing 91% of our international crude oil reserves and Uzbekistan representing 77% of our international gas reserves. Most of our international exploration efforts in 2015 were concentrated in Romania and West Africa. In 2015, our international upstream assets accounted for 15% and 35% of our crude oil and gas production, respectively.

Oil Refining

The total refining capacity of our refineries as of 30 June 2016 amounted to 601.8 mmboe (82.1 million tonnes) per year, including 368.7 mmboe (50.3 million tonnes) per year in Russia and 233.1 mmboe (31.8 million tonnes) per year outside Russia (including our 45% interest in the Zeeland refinery).

In Russia we own and operate four refineries, which are located in Perm, Volgograd, Ukhta and Nizhny Novgorod, as well as two mini-refineries in West Siberia. The throughput at our Russian refineries was 306.8 mmbls (41.9 million tonnes) in 2015. We have invested substantial capital to upgrade and expand our Russian refineries. In the first half of 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget. As a result, since 2014 we have been producing only high-octane gasoline, in the second quarter of 2016, we achieved 65% light product yield compared to 49% in 2010, and we have nearly halved our output of dark products to approximately 20% in the same time period.

Outside Russia, we own and operate refineries in Bulgaria, Romania and Italy and also own a 45% stake in the Zeeland refinery in The Netherlands. We sold our 99.58% interest in our refinery in Odessa, Ukraine in July 2013. The throughput at our international refineries was 165.9 mmbls (22.6 million tonnes) in 2015.

Petrochemicals

We own two petrochemical plants in southern Russia (Stavrolen and Saratovorgsintez) and one in Ukraine (Karpatneftechim). We also produce petrochemicals at our Burgas refinery in Bulgaria and ISAB refinery in Italy. In 2014, we suspended operations at our plant in Ukraine due to political instability and poor market conditions. See "*—Refining, Marketing and Distribution—Petrochemicals*" for more information.

Total combined output of marketable chemicals from our petrochemicals facilities was 1.1 million tonnes in 2015, and our products were sold in Russia and exported to more than 30 countries.

Gas Processing

We own and operate four gas processing plants in Russia: the Lokosovsky plant in West Siberia, the Korobkovsky plant in the Volgograd region, Permneftegazpererabotka (part of our Perm refinery since 2014) in the Perm region and the Usinsk plant in Timan-Pechora. These plants have a combined capacity

of 164.2 bcf (27.4 mmboe) of gas feedstock and 13.6 mmboe (1.9 million tonnes) of natural gas liquids per year.

During the six months ended 30 June 2016, our gas processing plants processed 67.7 bcf of gas feedstock and produced 6.8 mmboe of marketable natural gas liquids. In 2015, our gas processing plants processed 129.2 bcf of gas feedstock and produced 12.7 mmboe of marketable natural gas liquids.

Crude Oil and Refined Product Sales

We sell, both in Russia and internationally, crude oil that is not processed at our refineries. Our international sales include exports from Russia and sales outside of Russia of crude oil produced by our international projects, as well as sales of procured crude oil as part of our trading activity. Our international sales are primarily to customers in Europe.

During the six months ended 30 June 2016, we sold 25.4 mmbls (3.5 million tonnes) of crude oil in Russia, or 9% of our total crude oil sales, and 262.2 mmbls (35.7 million tonnes) of crude oil internationally, or 91% of our total crude oil sales. In 2015, we sold 79.5 mmbls (10.8 million tonnes) of crude oil in Russia, or 14% of our total crude oil sales, and 499.2 mmbls (68.1 million tonnes) of crude oil internationally, or 86% of our total crude oil sales. A substantial part of our international sales is represented by our trading activities. During the six months ended 30 June 2016 and in 2015, we acquired 88.8 mmbls (12.1 million tonnes) and 138.0 mmbls (18.8 million tonnes) of crude oil internationally for trading purposes, respectively.

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil, lubricants and petrochemicals. During the six months ended 30 June 2016, we sold a total of 60.6 million tonnes of refined and petrochemical products through wholesale and retail channels. Of this amount, 10.0 million tonnes, or 16%, were sold in the domestic market, and 50.6 million tonnes, or 84%, were sold internationally. In 2015, we sold a total of 126.5 million tonnes, or 16%, in the domestic market, and 106.1 million tonnes, or 84%, internationally. A substantial part of our international sales relate to our global trading operations. During the six months ended 30 June 2016 and in 2015, we acquired 32.9 million tonnes and 70.2 million tonnes of refined products, respectively.

Retail Marketing

As of 30 June 2016, we owned, leased and franchised 5,286 retail filling stations, consisting of 2,546 in Russia, 245 in the CIS (excluding Russia), 2,209 in Europe and 286 in the United States. As of 31 December 2015, we owned, leased and franchised 5,556 retail filling stations, consisting of 2,544 in Russia, 245 in the CIS (excluding Russia), 142 in the Baltic countries, 2,336 in Europe and 289 in the United States. Most of the stations operate under the LUKOIL brand.

As part of our strategy aimed at optimising our downstream operations in Europe, we sold filling station networks in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Ukraine in the period from 2014 to first half of 2016.

During the six months ended 30 June 2016, we sold 4.5 million tonnes of refined products through our retail network in Russia and 2.0 million tonnes through our retail network outside Russia. In 2015, we sold 9.6 million tonnes of refined products through our retail network in Russia and 4.5 million tonnes through our retail network in Russia and 4.5 million tonnes through our retail network in Russia.

Power Generation and other operations

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally.

As of 31 December 2015, we had installed electric capacity of combined heating plants and hydropower plants of 4.3 GW and installed heating capacity of power plants and boiler plants of 9,627 Gcal/hour, excluding on-site supporting generating facilities. Our total output of electrical energy was 9.0 billion kWh during the first half of 2016 and 17.8 billion kWh in 2015. Our total output of heat energy was approximately 7.2 million Gcal during the first half of 2016 and 12.8 million Gcal in 2015.

We are also involved in production of diamonds at the Vladimir Grib field in the Arkhangelsk region of Russia. The production at the field was 1.85 million carats of diamonds in the first half of 2016 and 3.36 million carats of diamonds in 2015.

Competitive strengths

We believe the following competitive strengths support our sustainable development and differentiate us from our Russian and international peers:

Large conventional reserve base

As of 31 December 2015, our proved hydrocarbon reserves were 16.6 billion boe, ensuring reserve life of 19 years based on our annual production for 2015. Our subsidiaries and associates hold over 500 licences in Russia and participate in a number of upstream projects outside Russia. Most of our reserves and resources are attributed to the conventional category with approximately 50% of our reserves located in West Siberia, which is our core production region with well-developed infrastructure. The high concentration and conventional nature of our reserves enable us to achieve low development and lifting costs. We have a number of growth projects located in the West Siberia, North Caspian, Timan-Pechora and Perm regions, as well as outside of Russia, including Iraq and Uzbekistan.

High margin greenfields

The Russian Government has enacted tax benefits to incentivise the development of certain higher cost upstream projects in Russia. The tax benefits tend to result in much higher margins per barrel of production at our key strategic growth projects in the West Siberia, Timan-Pechora and North Caspian regions, relative to the standard tax regime, which is generally applied to the majority of brownfields in Russia.

By the end of 2016, we plan to start commercial production at the offshore V. Filanovsky oil field in North Caspian and the Pyakyakhinskoye oil and gas field in West Siberia. In addition, we continue to significantly expand production at the Yaregskoe oil field, our largest heavy oil field in Russia. The high productivity of these assets and special tax regime support the fast ramp-up of daily production rates as well as high margin and cash flow generation per barrel of production.

Technological leadership and extensive offshore expertise

In our operations we apply modern technologies to achieve higher efficiency. We are drilling sophisticated wells at our fields and applying advanced enhanced oil recovery methods. We are actively involved in development of heavy and tight oil reserves, which in some cases require unique technological solutions. We are pioneers in Russian offshore operations with a successful track record of safe and efficient work in the Baltic and Caspian Seas. We believe that our refining segment is one of the most advanced in Russia. In addition, we consider our technological expertise to be efficiently managed and developed by our subsidiary LUKOIL-Engineering and specialised research institutes.

High resilience to low oil price environment

Progressive tax rates under the standard tax regime and high correlation between the oil price and ruble to U.S. dollar exchange rate result in very low sensitivity of our upstream margin in Russia to oil price fluctuations under the standard tax regime. This contributes to a high resilience of our Russian upstream operations to low oil price environment.

Modernised refineries

In 2016, we completed our major refinery modernisation programme which we started more than five years ago. As a result, we enhanced our product slate in Russia, where we produce approximately two-thirds of our refined products. After completion of the refinery modernisation programme, we are now reducing capital expenditures in this segment. We consider our refining portfolio to be among the best in Russia, which results in higher than average refining margins. Our light product yield in Russia increased from 49% in 2010 to 65% in the second quarter 2016, refining depth increased from 75% in 2010 to 89% in the second quarter 2016 and Nelson Complexity Index increased from 6.2 in 2010 to 7.0 in 2015. We expect to enhance further our product slate in 2017.

High level of vertical integration

We operate a full chain of vertically integrated businesses from exploration and production of crude oil and gas to marketing and distribution of petroleum and gas products to end consumers. About two-thirds of the oil that we produce is refined at our eight refineries in Russia and Europe. We sell approximately one-third of the refined products that we produce through our small wholesale channels and our retail network of more than 5,000 filling stations around the world. The remaining two-thirds are sold through

our trading company that is active in over 90 countries, as well as through our aircraft and marine vessels refuelling companies. Our gas production business also benefits from the vertical integration of our gas processing and petrochemicals facilities, as well as our power generation and distribution facilities. We also own substantial transportation infrastructure that enables us to deliver our crude oil, gas and petroleum products to international markets more efficiently.

Our well-developed downstream segment helps us to enhance our profitability per barrel of production in the upstream segment and our resilience in volatile macroeconomic environments.

Flexible investment programme

With a flexible investment programme, we can better maintain free cash flow generation and a solid financial position in difficult macroeconomic conditions without jeopardising our strategic projects. Due to a well-balanced asset portfolio, strict capital discipline and ruble devaluation, we decreased our capital expenditures in U.S. dollar terms by more than one-third in the first half of 2016 compared to the first half of 2015 and by more than one-third in 2015 compared to 2014. With the recent completion of our major refinery modernisation programme, we decreased our downstream capital expenditures by more than half in U.S. dollar terms in the first half of 2016 and in 2015, in each case year on year, and we currently enjoy a better than average product slate in Russia (according to CDU TEK), as well as lower capital expenditures.

Solid financial position

We believe that we have established a solid financial track record and financial position. We have retained investment grade credit ratings since 2008, despite market turbulence and sovereign rating downgrades in Russia. Notwithstanding relatively low oil prices, our cash and cash equivalents amounted to RUB 347 billion as of 30 June 2016. Strict financial discipline, a strong balance sheet and low leverage relative to other global energy companies help to support sustainable development under various oil price scenarios.

Experienced management team

We have one of the most experienced executive management teams in the industry led by our founder and President, Vagit Alekperov. We were founded in 1992 by our key management and became the first vertically integrated oil company in post-Soviet Russia. Due to the extensive experience of our management, we were able to build effective relationships with key market players in Russia and internationally. Our management focuses on developing competitive advantages across all areas of our business to achieve a leading position among our peers.

Sustainable development

We aim to conduct our business in a sustainable way, seeking to strike a balance between socio-economic development and environmental sustainability. We share the principles of the United Nations Global Compact and the Social Charter of Russian Business, which is reflected in our efforts to promote sustainable economic growth and corporate social responsibility.

We are an active supporter of social projects across the regions of our operations. We make annual allocations to charity and sponsorship. We increased our allocations by 13% year on year in 2015, focusing on social investments in sports, support for indigenous and minority peoples in northern Russia, and the preservation of cultural and historic heritage.

Strategy

Strategic Objectives

Our strategy aims at creating shareholder value through pursuing attractive oil and gas investment opportunities in Russia and internationally, rigorous cost control and constant improvement of our efficiency and profitability, including through the application of sophisticated technologies. Adherence to key sustainability principles is an integral part of our strategy.

Our key strategic objectives include the following:

• *Efficient reserve replacement.* We seek to achieve a reserve replacement ratio greater than 100% at competitive cost and with balanced risk.

- Long-term sustainable growth of hydrocarbon production. We aim to manage our upstream portfolio to maintain balance and diversification across different regions and types of reserves, securing long-term sustainable hydrocarbon production growth organically and through acquisitions.
- *Focus on high margin upstream projects and efficiency.* We seek to prioritise investments in upstream projects with the highest returns and margins. We intend to accelerate development of high margin greenfield projects and brownfield projects located close to existing infrastructure, with relatively low cost per barrel. We also intend to continue increasing our efficiency in upstream projects by optimising our investments and lifting costs at our brownfield projects.
- Apply advanced technologies in upstream and downstream. We plan to continue developing our technological expertise (including drilling, enhanced oil recovery, offshore, refining and petrochemical technologies) to achieve higher operational efficiencies and enhance our competitive advantages.
- *Maintain advanced position in downstream segment in Russia.* With the completion of our major refinery upgrade programme in the first half of 2016, we believe our refining segment is one of the most advanced in Russia. We seek to maintain our advanced position in this segment and focus on increasing efficiency of our refineries, reducing operating costs and increasing the light product yield. We also aim to maximise retail sales of the oil products produced at our refineries in the adjacent regions with high sales potential.
- *Maximise positive effect of vertical integration.* We plan to develop the most dynamic and profitable businesses in our vertically integrated production chain to increase our profitability per barrel of hydrocarbon production and reduce our sensitivity to adverse macroeconomic changes.
- *Secure financial stability.* We strive to ensure financial stability in any macroeconomic environment through strict financial discipline, a flexible investment programme and low leverage.
- Adhere to high corporate governance standards. We intend to continue improving our corporate governance system based on international best practices. We believe that a top quality management team and optimal corporate structure will enable us to maximise our efficiency and create shareholder value.
- Adhere to key sustainability principles. We aim to support long-term economic growth, social stability, prosperity and progress in the regions where we operate, as well as caring for the environment and ensuring sustainable use of natural resources. We strive to minimise our environmental impact and to meet or exceed international safety standards.

History

We were established in November 1992 as a state-owned initially oil company, LangepasUraiKogalymneft (from which the "LUK" acronym derives). In line with the Russian Government's privatisation plan, we were converted into a joint stock company in 1993, and the Russian Government transferred to us 51% of the voting shares of 15 enterprises. The Russian Government transferred nine additional enterprises to us in 1995. Since 1995, we have carried out a share exchange programme to increase our shareholding in each of these 24 enterprises to 100%. In 1994, the Russian Government disposed of 51% of our share capital through an exchange of shares for vouchers tendered by private investors in Russia, sales to private investors in Russia for cash and the distribution of shares to employees. In 2002, we conducted an initial public offering and became the first Russian company to obtain a full listing on the London Stock Exchange when our ordinary shares and ADRs were admitted to the Official List. The Russian Government subsequently disposed of all our shares by selling the remaining 7.6% in 2004.

In July 2015, we changed our legal form and name from OAO LUKOIL, an open joint stock company, to PJSC "LUKOIL", a public joint stock company, in accordance with changes to the Civil Code of the Russian Federation.

Corporate Structure

Our operations in Russia are conducted primarily through:

- five principal production subsidiaries: LUKOIL-West Siberia, RITEK, LUKOIL-Perm, LUKOIL-Nizhnevolzhskneft and LUKOIL-Komi. We own 100% of each of these companies;
- four principal refining subsidiaries: LUKOIL-Permnefteorgsintez (the Perm refinery), LUKOIL-Volgogradneftepererabotka (the Volgograd refinery), LUKOIL-UNP (the Ukhta refinery) and LUKOIL-Nizhegorodnefteorgsintez (the Nizhny Novgorod refinery). We own 100% of each of these refineries; and
- eight wholly-owned regional marketing and distribution subsidiaries.

Our international operations are conducted through our subsidiary LUKOIL INTERNATIONAL GmbH (LUKOIL INTERNATIONAL). Our subsidiary LUKOIL Overseas Holding GmbH (LUKOIL Overseas) previously owned and operated our international exploration and production assets, but LUKOIL Overseas was merged into LUKOIL INTERNATIONAL as part of an internal restructuring in 2015. LUKOIL INTERNATIONAL also owns LITASCO SA (LITASCO), our wholly-owned trading subsidiary.

We divide our operations into three principal segments: exploration and production; refining, marketing and distribution; and corporate and other. These three segments are discussed below, except for non-material activities in the corporate and other segment. For more information about our segments, see Note 32 "Segment information" to our audited annual consolidated financial statements and Note 28 "Segment information" to our unaudited condensed interim consolidated financial statements, each of which are included elsewhere in this prospectus.

Exploration and Production

Overview

We are one of the largest publicly traded and vertically integrated oil and gas companies in the world in terms of proved hydrocarbon reserves and production, and we are the second largest producer of crude oil in Russia (according to CDU TEK). Our core producing areas in Russia are the West Siberia, Ural, Volga and Timan-Pechora regions, which had, as of 31 December 2015, an aggregate of 14,424 mmboe of proved and 6,500 mmboe of probable hydrocarbon reserves.

Our main exploration and production subsidiaries in West Siberia are LUKOIL-West Siberia, RITEK and LUKOIL-AIK. West Siberia is currently our main oil production region in Russia, which produced 45.3% of our crude oil in the first half of 2016. Crude oil production in West Siberia is declining due to natural depletion of reserves, increase in water cut and our decision to reallocate capital to higher return projects in other regions of Russia, in particular those benefiting from tax incentives. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Taxation" for more information about tax incentives.

Our main exploration and production subsidiary in the Ural region is LUKOIL-Perm. Our main exploration and production subsidiaries in the Volga region are LUKOIL-Nizhnevolzhskneft and RITEK. In Timan-Pechora, our main exploration and production subsidiary is LUKOIL-Komi.

Our primary international areas of focus are Iraq, Uzbekistan and Kazakhstan.

Licences

We must obtain licences from governmental authorities to explore for and produce oil and gas. As of 31 December 2015, we held 502 licences, of which 455 are either production or combined exploration and production licences and 47 are exploration licences. Exploration licences give the licence holder the non-exclusive right to explore for oil and gas in a defined area and generally have a term of five years. These licences do not give us the right to extract any hydrocarbons we find. However, if our exploration efforts are successful and we find hydrocarbon reserves, our exploration licences generally provide that we can obtain a production licence without auction or tender. Our licences were mainly issued prior to 2000. Our production licences generally have a term of 20 years and give us the exclusive right to extract oil and natural gas from fields in a defined area. Our combined exploration and production licences permit both exploration and production and generally have a term of 25 years.

Due to substantial changes to the relevant legislation in 2000, new exploration and production licences are issued for a period equal to the economic life of the relevant field. With respect to our original licences (those that pre-date such legislation), we routinely obtain extensions to the licences that have expired and to date,

none of our licence renewal applications have been denied. Approximately 16% of our subsoil use licences expire between 2017 and 2021, and the licences that need to be extended during the next 12 months do not comprise a material portion of our business or operations. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*" for more information on the risks relating to our licences. Our licences generally impose obligations on the licence holder to pay certain local and federal taxes and meet certain environmental requirements. Licences also generally require the licence holder to make various commitments, including extracting an agreed target amount of reserves annually, conducting agreed minimum drilling levels and other exploratory and development activities, protecting the environment in the licence area from damage, providing certain progress reports and geological data to the relevant authorities. Licence holders must also make payments for subsoil use pursuant to Russian law. Licences may be suspended or revoked if the licence holder fails to comply with their terms or to heed warnings from regulatory authorities. See "*Regulation of the Oil Industry in the Russian Federation—Subsoil Production Licences*".

Oil and Gas Reserves

At our request, Miller and Lents, independent reservoir engineers, has carried out an independent audit of our reserve estimates as of 31 December 2015. Unless otherwise specified, any information in this prospectus relating to our estimated crude oil and gas reserves is extracted or derived from the reserves reports prepared by Miller and Lents as of 31 December 2015, 2014 and 2013. See "*Presentation of Reserves and Resources*".

The process of estimating oil reserves is complex and inherently uncertain. We must project production rates and timing of development and analyse available geological, geophysical, production, engineering and economic data for each reservoir. The extent, quality and reliability of this data can vary. The accuracy of reserves data is also a function of the quality and quantity of other available data, engineering and geological interpretation and judgment. See "Summary Consolidated Financial and Other Information—Summary Reserves and Production Information". See also "Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—The crude oil and natural gas reserves data in this prospectus are only estimates and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates".

	N	:)	
	Oil		Total
Reserve Category	(mmbls)	Gas (bcf)	(mmboe)
PROVED		,	
Developed:			
Russia	8,019	5,607	8,954
Eurasia (excluding Russia)	217	2,431	622
Africa	10	0	10
Middle East	122	16	124
Undeveloped:			
Russia	3,848	10,897	5,663
Eurasia (excluding Russia)	129	4,856	939
Africa	0	0	0
Middle East	240	31	246
Total Proved	12,585	23,838	16,558
PROBABLE			
Russia	5,141	8,615	6,577
Eurasia (excluding Russia)	17	417	86
Africa	0	0	0
Middle East	94	18	97
Total Probable	5,252	9,050	6,760
POSSIBLE			
Russia	2,516	3,722	3,137
Eurasia (excluding Russia)	7	38	12
Africa	0	0	0
Middle East	65	10	67
Total Possible	2,588	3,770	3,216

The following table sets forth our total crude oil and natural gas reserves as of 31 December 2015.

(2) The above figures assume that all our production licences in Russia will be renewed in the ordinary course and that our fields would be produced until the economic limit of production has been reached. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*".

For further information on our estimated oil and gas reserves as of 31 December 2015, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Resource Base".

⁽¹⁾ Net oil and gas reserves include reserves that we do not beneficially own that are attributable to non-controlling interests in our consolidated subsidiaries and our equity share of reserves of our affiliated companies. For disclosure that excludes reserves attributable to non-controlling interests in our consolidated subsidiaries, see Table IV of "Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)", supplemented to our consolidated financial statements and notes thereto included elsewhere in this prospectus and presented in accordance with ASC No. 932 (formerly SFAS No. 69), "Disclosures About Oil and Gas Producing Activities".

The following tables set forth our Russian crude oil and gas reserves broken down by our major geographic production areas as of 31 December in each of 2015, 2014 and 2013.

				Net	Oil Reserv	ves			
-	31 D	ecember 2	015	31 D	ecember 2	014	31 D	December 2	013
_					(mmbls)				
-			Proved plus			Proved plus			Proved plus
	Proved	Probable	Probable	Proved	Probable	Probable	Proved	Probable	Probable
West Siberia	6,548	3,236	9,784	7,304	3,132	10,436	7,361	3,216	10,577
Ural Region	2,062	524	2,586	2,163	563	2,726	2,137	479	2,616
Volga Region	776	514	1,290	912	538	1,450	917	523	1,440
Timan-Pechora	2,289	791	3,080	2,410	748	3,158	2,247	657	2,904
Other	191	76	267	194	79	273	195	70	265
Total for Russia	11,866	5,141	17,007	12,983	5,060	18,043	12,857	4,945	17,802

				Net	Gas Reser	ves				
-	31 December 2015			31 D	31 December 2014			31 December 2013		
-					(bcf)					
-			Proved plus		Probable	Proved plus			Proved plus	
	Provea	Probable	Probable	Provea	Probable	Probable	Provea	Probable	Probable	
West Siberia	13,019	5,508	18,527	13,691	6,303	19,994	14,314	6,689	21,003	
Ural Region	915	192	1,107	839	479	1,318	894	441	1,335	
Volga Region	2,045	2,722	4,767	2,030	2,680	4,710	1,927	2,065	3,992	
Timan-Pechora	512	184	696	485	128	613	433	81	514	
Other	13	9	22	12	2	14	14	3	17	
Total for Russia	16,504	8,615	25,119	17,057	9,592	26,649	17,582	9,279	26,861	

Exploration and Production in Russia

Exploration and development activities

Our exploration drilling in Russia totalled approximately 115,000 metres during the six months ended 30 June 2016 and 167,000 metres in 2015. In Russia, we carried out 1,185 kilometres (741 miles) of 2D seismic exploration and 4,093 sq. km (1,599 sq. mi) of 3D seismic exploration during the six months ended 30 June 2016. We carried out 9,787 kilometres (6,117 miles) of 2D seismic exploration and 6,023 sq. km (2,353 sq. mi) of 3D seismic exploration in 2015. Our exploration and development costs in Russia totalled RUB 141 billion in the first half of 2016 and RUB 292 billion in 2015.

Our exploration and development expenditures relate to the development of our major greenfield projects in the Caspian, Timan-Pechora and West Siberia regions and maintenance of production from our brownfield projects primarily in West Siberia.

Production

The majority of our current production comes from our four core regions: West Siberia, Timan-Pechora, Volga (including the North Caspian area) and Ural. In Russia, our major oil producing subsidiaries are LUKOIL-West Siberia, RITEK, LUKOIL-Komi, LUKOIL-Nizhnevolzhskneft and LUKOIL-Perm. Our total Russian crude oil and natural gas liquids production (including our share in equity affiliates) was 310.7 mmbls (42.0 million tonnes) in the first half of 2016 and 641.9 mmbls (86.7 million tonnes) in 2015, representing 16.0% of all Russian crude oil production for 2015, according to CDU TEK.

In Russia we produced (including our share in equity affiliates) 233.4 bcf (38.9 mmboe) of gas available for sale in the first half of 2016, and 467.4 bcf (77.9 mmboe) in 2015.

As part of our cost optimisation strategy, we are using advanced reserve management techniques to increase production at our wells, and we are shutting down low production non-efficient wells. We believe that these efforts contribute to the efficiency of our upstream operations. The following table sets forth our daily crude oil and natural gas liquids production data (including our share in equity affiliates) in our main production areas in Russia for the periods indicated.

For the six months ended 30 June		For the year	ended 31 Dec	cember
2016	2016 2015		2014	2013
		(mbls/day)		
855	935	914	970	996
325	318	319	310	299
136	146	145	142	126
355	338	344	316	302
36	37	37	38	38
1,707	1,774	1,759	1,776	1,761
	ended 30 2016 855 325 136 355 36	ended 30 June 2016 2015 855 935 325 318 136 146 355 338 36 37	ended 30 June For the year 2016 2015 2015 855 935 914 325 318 319 136 146 145 355 338 344 36 37 37	ended 30 June For the year ended 31 Dec 2016 2015 2015 2014 (mbls/day) (mbls/day) (mbls/day) (mbls/day) (mbls/day) 855 935 914 970 310 325 318 319 310 136 146 145 142 355 338 344 316 36 37 37 38

Daily Crude Oil and Natural Gas Liquids Production⁽¹⁾

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

The following table sets forth our daily marketable gas production data (including our share in equity affiliates) in our main production areas in Russia for the periods indicated.

For the six months ended 30 June		For the year	ended 31 Dec	cember
2016	2015	2015	2014	2013
		(mboe/day)		
163	177	174	187	186
13	22	19	19	18
23	7	7	7	7
15	12	13	14	14
0	0	0	0	0
214	218	213	227	225
	ended 30 2016 163 13 23 15 0	For the six months ended 30 June 2016 2015 163 177 13 22 23 7 15 12 0 0	For the six months ended 30 June For the year 2016 2015 2015 (mboe/day) 163 177 174 13 22 19 23 7 7 15 12 13 0 0 0 0	For the six months ended 30 June For the year ended 31 Dec 2016 2015 2015 2014 (mboe/day) (mboe/day) 163 177 174 187 13 22 19 19 19 23 7 7 7 15 12 13 14 0 0 0 0

Daily Marketable Gas Production

West Siberia Operations

The West Siberia basin extends over an area of approximately 3.1 million sq. km (1.2 million sq. mi). The basin is bordered on the west by the Ural Mountains, on the south by the Kazakhstan plate and on the east by the Siberian plate, is open to the north and extends under the Kara Sea. Our West Siberia crude oil production operations accounted for 49.9% and 51.6% of our domestic crude oil production in the first half of 2016 and in 2015, respectively. Our core gas producing area in Russia is the Bolshekhetskaya depression in the Yamal-Nenets Autonomous District in West Siberia.

Our West Siberia production operations are mainly conducted through LUKOIL-West Siberia, a wholly-owned consolidated subsidiary that operates primarily through five crude oil production units and one natural gas production unit. Other subsidiaries operating in the region include LUKOIL-AIK, Tursunt and the West Siberia unit of RITEK.

In 2015, we discovered the Vareyskoye field in the Bolshekhetskaya depression of West Siberia, as well as 17 oil deposits, and we completed construction of 42 exploration wells with a success rate of 93%.

As of 31 December 2015, LUKOIL-West Siberia had proved crude oil reserves of 6,143 mmbls (838 million tonnes) and probable crude oil reserves of 3,003 mmbls (410 million tonnes). As of the same date, LUKOIL-West Siberia had proved natural gas reserves of 12,891 bcf (2,148 mmboe) and probable natural gas reserves of 5,453 bcf (910 mmboe).

LUKOIL-West Siberia produced 141.8 mmbls (19.1 million tonnes) of crude oil in the first half of 2016 and 304.6 mmbls (41.1 million tonnes) in 2015. Our largest oil producing fields in the region are Tevlinsko-Russkinskoe, Povkhovskoe and Vatyeganskoe, each producing approximately 100,000 barrels of crude oil per day in 2015.

Available for sale gas production by LUKOIL-West Siberia amounted to 182.2 bcf (30.4 mmboe) in the first half of 2016 and 389.9 bcf (65.0 mmboe) in 2015. Our largest gas producing field in the region is the Nakhodkinskoye field in the Bolshekhetskaya depression, which had proved gas reserves of 2.0 trillion cubic feet as of 31 December 2015. We produced 120.9 bcf (20.1 mmboe) of natural gas at the field in the first half of 2016 and 263.7 bcf (44.0 mmboe) in 2015.

In 2014, LUKOIL-West Siberia launched pilot production at the Imilorskoye field located in close proximity to our largest Tevlinsko-Russkinskoye field. As of 31 December 2015, recoverable reserves of the Imilorskoye field were estimated at 1,420 mmbls (194 million tonnes) of crude oil under the C1+C2 categories of the Russian system for classifying reserves. Crude oil production at the field was 1.7 mmbls (0.2 million tonnes) and 2.5 mmbls (0.3 million tonnes) for the six months ended 30 June 2016 and in 2015, respectively. The field is one of our main production growth drivers in West Siberia. By the end of 2016, we plan to start commercial production at the Pyakyakhinskoye field in the Bolshekhetskaya depression. The field is expected to produce 11.0 mmbls (1.5 million tonnes) of crude oil and gas condensate, as well as approximately 18 mmboe (106 bcf) of gas, in 2017. The field is one of our main production growth drivers in the start through the end 2021 due to its regional location. In the future, we also plan to start production at Khalmerpautinskoye and South-Messoyakhskoye gas condensate fields located in the same part of West Siberia.

We also effectively own 73.05% of LUKOIL-AIK, which produces crude oil from the Kogalymskoye field. As of 31 December 2015, LUKOIL-AIK's proved crude oil reserves were 273 mmbls (37 million tonnes) and probable crude oil reserves were 109 mmbls (15 million tonnes). LUKOIL-AIK's production was 7.4 mmbls (1.0 million tonnes) and 16.4 mmbls (2.2 million tonnes) of crude oil for the six months ended 30 June 2016 and in 2015, respectively.

We own 100% of RITEK, which has operations in the West Siberia, Ural, Volga and Tatarstan regions. As of 31 December 2015, RITEK had total proved crude oil reserves of 667 mmbls (91 million tonnes) and total probable crude oil reserves of 431 mmbls (59 million tonnes), of which RITEK's West Siberia operations had proved crude oil reserves of 125 mmbls (17 million tonnes) and probable crude oil reserves of 125 mmbls (17 million tonnes) and probable crude oil reserves of 119 mmbls (16 million tonnes). RITEK produced 3.5 mmbls (0.5 million tonnes) and 6.4 mmbls (0.8 million tonnes) of crude oil in West Siberia for the six months ended 30 June 2016 and in 2015, respectively.

Ural and Volga Regions

Our production of crude oil in the Ural and Volga regions accounted for approximately 25.9% of our domestic production in 2015. The Volga-Ural basin covers an area of approximately 700,000 sq. km (270,000 sq. mi), which includes the Russian cities of Volgograd, Astrakhan, Perm and Samara. The basin is a regional uplift of the east-central part of Russia and is bounded on the east by the Ural Mountains, on the south by the Pre-Caspian basin, and on the west by the Baltic basin.

We have three principal wholly-owned production subsidiaries operating in the Volga and Ural regions: RITEK, LUKOIL-Perm and LUKOIL-Nizhnevolzhskneft (which operates in the North Caspian region). Following our acquisition of the remaining 50% ownership in Kama-Oil in 2013, its assets were merged and fully consolidated by LUKOIL-Perm late in 2014.

As of 31 December 2015, RITEK, LUKOIL-Perm and LUKOIL-Nizhnevolzhskneft (together with their subsidiaries) had proved crude oil reserves of 2,815 mmbls (384 million tonnes) and probable crude oil reserves of 1,032 mmbls (141 million tonnes) in the Volga and Ural regions. As of the same date, they had proved gas reserves of 2,948 bcf (491 mmboe) and probable gas reserves of 2,909 bcf (485 mmboe). They produced 78.2 mmbls (10.7 million tonnes) of crude oil in the first half of 2016 and 159.0 mmbls (21.8 million tonnes) in 2015 in the regions.

North Caspian Operations

We hold licences to explore and develop certain areas in the northern part of the Caspian Sea. This is a strategic region for us as it is one of the main production growth drivers in the mid- and long-term. As of 31 December 2015, in this region our proved crude oil reserves were 446 mmbls (61 million tonnes) and probable crude oil reserves were 328 mmbls (45 million tonnes). As of the same date, our proved gas reserves were 1,826 bcf (304 mmboe) and probable gas reserves were 2,558 bcf (426 mmboe) in the region.

Geological exploration work carried out by the Group since 1995 led to the discovery of six large fields: the Yu. Korchagin field (discovered in 2000), the Khvalynskoye field (discovered in 2000), the 170th kilometre field (discovered in 2001), the Rakushechnoye field (discovered in 2001), the Yu. Kuvyikin field (discovered in 2002) and the V. Filanovsky field (discovered in 2005). LUKOIL-Nizhnevolzhskneft is our operating subsidiary for development and production in North Caspian.

In March 2005, we signed an equal participation joint venture agreement with KazMunayGaz, a state-owned oil and gas company of Kazakhstan, and formed the Caspian Oil & Gas Company joint venture for the development of the Khvalynskoye field. Each party has a 50% interest in the joint venture. Caspian Oil & Gas Company has prepared a feasibility study for a PSA in relation to the project, which is currently under review by Russian state authorities.

The Yu. Korchagin field was launched in 2010. As at 31 December 2015, the field had proved oil and gas reserves of 119 mmbls (16 million tonnes) and 59 bcf (10 mmboe), respectively, and probable oil and gas reserves of 27 mmbls (4 million tonnes) and 13 bcf (2 mmboe), respectively. Production at the field was 6.1 mmbls (0.8 million tonnes) and 12.8 mmbls (1.7 million tonnes) of crude oil in the first half of 2016 and in 2015, respectively. We are currently working on the second stage of field development, which we expect to have a positive impact on the field's production profile.

As of 31 December 2015, the V. Filanovksy field had proved oil reserves of 290 mmbls (40 million tonnes) and probable oil reserves of 245 mmbls (33 million tonnes). The first production well was drilled on the V. Filanovsky field in August 2016, and the second well was completed in September 2016. We plan to start commercial production at the field by the end of 2016, and we expect the field to achieve its designed production level of approximately 120,000 barrels of oil per day in 2017.

In July 2003, we established a joint venture with Gazprom and KazMunayGaz, a state-owned oil and gas company of Kazakhstan, to develop the Tsentralnaya geological structure in the Russian sector of the Caspian Sea, as authorised by the Russian Government pursuant to a treaty between Russia and Kazakhstan. Our share in the joint venture is 25%. In September 2016, the joint venture was granted a licence for geological exploration and production at the Tsentralnaya structure for 27 years with a seven-year geological exploration period. The Tsentralnoe field, located within the Tsentralnaya structure, was discovered in 2008 with recoverable reserves of 682 mmbls (93 million tonnes) of crude oil and gas condensate and 1,483 bcf (247 mmboe) of gas under the C1+C2 categories of the Russian reserves classification system.

We also own a 49.89% interest in the Caspian Oil Company (another 49.89% is owned by Rosneft and the remaining 0.22% is owned by Gazprom), which discovered a new field at the Zapadno-Rakushechnaya structure in the North Caspian region in 2008 and the Rybachye oil and gas condensate field in 2014.

Timan-Pechora Operations

Our production of crude oil in Timan-Pechora accounted for approximately 21.5% and 20.2% of our domestic production in the first half of 2016 and in 2015, respectively. The Timan-Pechora basin is Russia's third largest region in terms of crude oil reserves. It covers approximately 777,000 sq. km (300,000 sq. mi.) and is a triangular-shaped basin bounded on the east by the Ural Mountains and on the southwest by the Timan ridge and extending beneath the Barents Sea to the north. Timan-Pechora is an important production growth region for the Group.

Currently, our key assets in Timan-Pechora are held through LUKOIL-Komi. LUKOIL-Komi holds most of our exploration and development licences in the Komi Republic, which relate to fields generally located in the southern part of Timan-Pechora. As of 31 December 2015, LUKOIL-Komi had proved crude oil reserves of 2,227 mmbls (304 million tonnes) and probable crude oil reserves of 760 mmbls (104 million tonnes). In 2015, we discovered the Vostochno-Tedinskoye field in Timan-Pechora, and we completed construction of 12 exploration wells with a success rate of 83%. LUKOIL-Komi produced 62.4 mmbls (8.6 million tonnes) of crude oil in the first half of 2016 and 122.7 mmbls (17.0 million tonnes) in 2015.

The Denisovskaya depression in Timan-Pechora is an important greenfield region for us. It includes East-Lambeyshorskoe, Bayandyskoe, South-Bayandyskoe, Alabushina and other prospective fields and structures. We increased oil production from the Denisovskaya depression by 21% to 12 mmbls (1.6 million tonnes) in the first half of 2016, compared to the first half of 2015. In 2015, oil production was 22 mmbls (3.0 million tonnes) in the region.

Timan-Pechora contains most of our heavy oil reserves, which are concentrated at the Yaregskoye and Usinskoye fields. The fields are subject to special reduced tax rates due to the nature of their reserve base. This compensates for higher development and lifting costs at these fields compared to our conventional fields operating under the standard tax regime. Heavy oil fields are an important production growth factor for us. Production of crude oil at the Yaregskoye and Usinskoye fields was 11.7 mmbls (1.7 million tonnes) and 22.6 mmbls (3.3 million tonnes) in the first half of 2016 and in 2015, respectively.

We own a 25.1% interest in Bashneft-Polyus, a joint venture with PJSOC Bashneft. Bashneft-Polyus was created to develop the large Trebs and Titov oil fields in Timan-Pechora, and Bashneft-Polyus acquired a subsoil licence in May 2014. As of 31 December 2015, our interest in proved oil reserves of the fields was 62 mmbls (8 million tonnes). Our share in crude oil production from the fields was 2.1 mmbls (0.3 million tonnes) and 2.7 mmbls (0.4 million tonnes) in the first half of 2016 and in 2015, respectively. Crude oil produced at the fields is delivered to end customers through our transportation system in Timan-Pechora which includes a pipeline and a marine terminal at Varandey on the Barents Sea.

Other Operations

We also conduct exploration and production operations in Kaliningrad and Tatarstan through our wholly-owned subsidiaries LUKOIL-Kaliningradmorneft and RITEK's Tatarstan operations. As of 31 December 2015, LUKOIL-Kaliningradmorneft and RITEK's Tatarstan operations had 40 mmbls (5 million tonnes) and 150 mmbls (20 million tonnes), respectively, of proved crude oil reserves and 10 mmbls (1 million tonnes) and 62 mmbls (8 million tonnes) of probable crude oil reserves.

International Exploration and Production

Currently, our primary international areas of focus are Iraq, Kazakhstan, Uzbekistan and the continental shelf of West Africa (Ghana, Cameroon and Nigeria). We are participating in a total of 19 projects in 12 countries outside Russia, including nine geological exploration projects: two in Norway and one project each in Romania, Uzbekistan, Iraq, Ghana, Nigeria, Cameroon and Mexico. In 2014, 2015 and the first half of 2016, we decided to withdraw from our projects in Sierra Leone, Cote D'Ivoire and Saudi Arabia.

Exploration drilling at our international projects totalled 2,434 metres (7,986 feet) during the six months ended 30 June 2016 and 24,000 metres (78,000 feet) in 2015. Our share of 3D seismic exploration in our international projects was 196 sq. km (77 sq. mi) during the six months ended 30 June 2016 and 52 sq. km (20 sq. mi) in 2015. Our international exploration and development costs totalled RUB 67 billion in the first half of 2016 and RUB 187 billion in 2015.

The following tables set forth our share of the crude oil and gas reserves as of 31 December 2015, 2014 and 2013 at each of our international projects with proved and/or probable reserves:

	Percentage Interest as of 31 December		Our Sh	are of Net C)il Reserves (mmbls)	
	2015	31 Decen	ıber 2015	31 Decen	nber 2014	31 Decen	nber 2013
Area		Proved	Probable	Proved	Probable	Proved	Probable
Azerbaijan							
Shakh-Deniz	10%	27.3	8.3	28.1	10.7	14.0	-
Kazakhstan							
Caspian Investment Resources ⁽¹⁾	_	-	_	49.6	1.5	57.8	1.2
Karachaganak	13.5%	112.6	_	99.0	_	95.6	-
Kumkol	50%	5.9	_	16.2	_	19.1	-
Tengiz and Korolevskoye	5%	170.8	6.7	178.0	7.4	187.6	14.9
Uzbekistan							
Kandym-Khauzak-Shady	90%	8.2	-	6.5	0.1	5.7	0.2
Gissar	100%	21.7	2.0	28.4	0.1	27.8	-
Egypt							
Meleiha	24%	8.6	-	5.4	-	3.8	-
WEEM	50%	1.5	-	2.1	_	2.3	-
WEEM Extension	50%	0.2	-	0.1	_	0.1	-
Venezuela							
Junin-6 ⁽²⁾	-	_	_	_	_	5.6	9.3
Republic of Iraq							
West Qurna-2	75%	362.1	93.8	197.2	77.5	184.5	70.6
Total International		718.9	110.8	610.6	97.3	603.9	96.2

Percentage Interest as of 31 December		Our S	hare of Net	Gas Reserves	s (bcf)	
2015	31 Decen	nber 2015	31 Decen	nber 2014	31 Decen	nber 2013
	Proved	Probable	Proved	Probable	Proved	Probable
10%	700.8	292.6	716.0	323.2	309.2	-
-	_	_	26.6	0.1	30.7	0.1
13.5%	736.1	-	472.8	-	525.8	-
50%	1.9	-	5.4	_	5.2	-
5%	213.5	4.8	218.5	6.9	231.5	6.1
90%	4,316.1	_	4,288.0	55.0	3,799.1	149.0
100%	1,317.4	120.3	1,135.1	0.7	1,158.5	-
	,		,		,	
_	_	_	_	_	0.3	0.5
75%	47.9	17.6	26.1	12.2	-	-
	7,333.7	435.3	6,888.5	398.1	6,060.3	155.7
	Interest as of 31 December 2015 10% 	Interest as of 31 December 2015 31 December Proved 10% 700.8 10% 700.8 13.5% 736.1 50% 1.9 5% 213.5 90% 4,316.1 100% 1,317.4 75% 47.9	Interest as of 31 December 2015 Our S 31 December 2015 31 December 2015 Proved Probable 10% 700.8 292.6 10% 700.8 292.6 13.5% 736.1 - 50% 1.9 - 5% 213.5 4.8 90% 4,316.1 - 100% 1,317.4 120.3 - - - 75% 47.9 17.6	Interest as of 31 December 2015 Our Share of Net 31 December 2015 31 December 2015 Proved Probable Proved Probable 10% 700.8 292.6 716.0 - - 13.5% 736.1 50% 1.9 5% 213.5 4.8 218.5 90% 4,316.1 1,317.4 120.3 1,135.1 - - 75% 47.9 17.6 26.1	Interest as of 31 December 2015 Our Share of Net Gas Reserves 31 December 2015 31 December 2014 Proved Probable Proved 10% 700.8 292.6 716.0 323.2 - - - 266.6 0.1 13.5% 736.1 - 472.8 - 50% 1.9 - 5.4 - 5% 213.5 4.8 218.5 6.9 90% 4,316.1 - 4,288.0 55.0 100% 1,317.4 120.3 1,135.1 0.7 - - - - - 75% 47.9 17.6 26.1 12.2	Interest as of 31 December 2015Our Share of Net Gas Reserves (bcf)31 December 201531 December 201531 December 201431 December ProvedProvedProvedProbableProvedProved10%700.8292.6716.0323.2309.2 $ -$ 26.60.130.713.5%736.1 $-$ 472.8 $-$ 525.850%1.9 $-$ 5.4 $-$ 5.25%213.54.8218.56.9231.590%4,316.1 $-$ 4,288.055.03,799.1100%1,317.4120.31,135.10.71,158.5 $ -$ 0.375%47.917.626.112.2 $-$

(1) In August 2015, we completed the sale of our 50% interest in Caspian Investment Resources to a Sinopec group company.

(2) In December 2014, we completed the sale of our 20% interest in the National Oil Consortium (the NOC) to Rosneft. Prior to that, we held an 8% interest in the Junin-6 field through the NOC's 40% interest a joint venture with PDVSA, a Venezuelan state-owned oil company.

In 2015, our international crude oil production (including our share in the crude oil produced by equity affiliates) accounted for approximately 15% of our total crude oil production and our international production of gas available for sale accounted for approximately 35% of our total production of gas available for sale.

The following tables set forth our share of the average daily crude oil production and natural gas production available for sale in each of the years ended 31 December 2015, 2014 and 2013 at each of our international projects currently in production.

	Percentage	8 Our bhare of On Froduction (mois per day)						
	Interest as of 31 December 2015	Six months ended 30 June		Year ended 31 December		nber		
Area		2016	2015	2015	2014	2013		
Azerbaijan								
Shakh-Deniz	10%	4.3	4.2	3.9	3.8	3.9		
Kazakhstan								
Caspian Investment Resources ⁽²⁾	50%	_	21.0	13.2	22.8	26.0		
Karachaganak	13.5%	28.8	28.9	27.7	26.1	28.4		
Kumkol	50%	7.2	10.0	9.2	12.5	17.2		
Tengiz and Korolevskoye	5%	31.6	31.0	29.7	29.2	29.6		
Uzbekistan								
Kandym-Khauzak-Shady	100%	0.4	0.3	0.3	0.2	0.3		
Gissar	100%	2.0	2.2	2.4	2.0	2.3		
Egypt								
Meleiha	24%	4.8	2.6	3.3	2.2	1.9		
WEEM	50%	2.3	2.4	2.5	2.1	2.4		
WEEM Extension	50%	0.1	0.2	0.2	0.1	0.1		
Republic of Iraq								
West Qurna-2	75%	132.4	167.1	201.6	114.4	0.0		
Total International		213.9	269.9	294.0	215.4	112.1		

	Percentage Interest as of	Our	Share of Ga Sale	s Production (mmcf per da		r
	31 December 2015	Six months ended 30 June		Year ended 31 Decemb		mber
Area		2016	2015	2015	2014	2013
Azerbaijan						
Shakh-Deniz	10%	83.1	80.6	76.7	71.6	70.1
Kazakhstan						
Caspian Investment Resources ⁽²⁾	50%	-	12.3	7.5	12.1	11.0
Karachaganak	13.5%	109.0	96.2	91.9	83.8	90.8
Kumkol	50%	2.5	3.2	3.2	3.3	6.0
Tengiz and Korolevskoye	5%	48.8	46.9	44.1	44.7	45.1
Uzbekistan						
Kandym-Khauzak-Shady	90%	360.8	298.8	325.5	256.3	307.7
Gissar	100%	140.1	130.4	129.8	97.6	91.1
Total International		744.3	668.4	678.7	569.4	621.8

(1) Production figures include imputed volumes based on our share of revenues attributable to cost and profit of oil volumes and the weighted average commodity prices at the point of sale.

(2) In August 2015, we completed the sale of our 50% interest in Caspian Investment Resources to a Sinopec group company.

Azerbaijan

Shakh-Deniz. The Shakh-Deniz gas field is the largest natural gas field in Azerbaijan. It is located in the South Caspian Sea and covers approximately 860 sq. km. We hold a 10% interest in a PSA to develop the Shakh-Deniz field. BP is the operator of the project and has a 28.8% interest in the PSA. Our other partners are Turkish Petroleum (19%), Petronas (15.5%), State Oil Company of the Azerbaijani Republic (SOCAR) (10%), National Iranian Oil Company (10%) and SGC Upstream (6.7%). Gas is currently produced under Stage 1 of Shakh-Deniz development, which, according to Azerbaijan's State Statistics Committee, produced 9.9 bcm (350 bcf) of gas in 2015. Gas from the project is supplied to the domestic market in Azerbaijan and is also shipped through the Baku-Tbilisi-Erzurum Pipeline (also known as the South Caucasus Pipeline) through Georgia to Turkey, while condensate is shipped through the Baku-Tbilisi-Ceyhan pipeline. In December 2013, the consortium signed the final construction contract with engineering, construction and service company KBR Inc. for Stage 2 development of the Shakh-Deniz gas field. Work on the contract began in January 2014 and is expected to be completed in 2018. Stage 2 of the project is estimated to produce 16 bcm (565 bcf) of gas per year. In August 2015, a Group company entered into a 12-year credit-facility agreement with a consortium of banks to borrow \$1 billion (RUB 64 billion) in connection with Stage 2 development.

Kazakhstan

We participate in a number of projects in Kazakhstan through different subsidiaries, including LUKARCO and LUKOIL Overseas Karachaganak B.V.

Karachaganak. The Karachaganak field was discovered in 1979 and has been operating under a PSA by the Karachaganak Petroleum Operating (KPO) joint venture since 1997. The term of the PSA is 40 years. We have a 13.5% interest in the joint venture. Our partners are Shell (29.25%), ENI (29.25%), Chevron (18%) and the Republic of Kazakhstan, which acquired a 10% stake in KPO in late 2012 for \$2.0 billion cash and \$1.0 billion non-cash consideration, through its state-owned oil and gas company KazMunayGaz, in connection with the settlement of a cost recovery dispute between the consortium members, KPO and the Republic of Kazakhstan. Shell and ENI jointly manage the operations for KPO.

LUKARCO. LUKARCO, which became our wholly-owned subsidiary in 2009, owns a 5% share in Tengizchevroil, a joint venture which develops the Tengiz and Korolevskoe fields in Kazakhstan, and a 12.5% share in CPC, a pipeline project in the Caspian region which is used to transport crude oil produced in Kazakhstan to a marine terminal near the Russian city of Novorossiysk on the Black Sea for further shipment to international markets. See "*—Transportation—Crude Oil Transportation—Pipelines*" for more information about our participation in the CPC.

Kumkol. The Kumkol field was discovered in 1984 and commenced production in May 1990. The northern part of the field, known as Kumkol North, is defined by a separate licence issued in 1995 for a 25-year term. We have a 50% interest in Turgai Petroleum, which owns a 100% interest in and is the operator of Kumkol North. Our partner is CNPC, which owns the remaining 50% interest. The agreement relating to this project was entered into in April 1996 for a term expiring on 20 December 2020. Production at Kumkol North commenced in September 1995. In order to reduce oil transportation

costs, a separate consortium formed by Turgai Petroleum and PetroKazakhstan constructed the 176.1-kilometre (109.4-mile) long Kumkol-Dzhusaly oil pipeline system connecting the field to the Dzhusaly oil loading terminal, where crude oil is delivered by rail to the CPC pipeline for export. Crude oil from this field is also supplied to the Shymkent refinery for subsequent sale of petroleum products in Kazakhstan and other CIS countries.

Tengiz and Korolevskoye. The Tengiz field was discovered in 1979 and has been operated under a project agreement by the Tengizchevroil joint venture since 1993. The joint venture also operates the Korolevskoye field. LUKARCO, our wholly-owned subsidiary, holds a 5% interest in the project. The project agreement has a term of 40 years. Our partners in this project include Chevron (50%), Exxon Mobil (25%) and KazMunayGaz (20%). Crude oil and other products (dry gas, propane, butane and sulphur) are transported to world markets via pipeline, railway and tankers.

In July 2016, Tengizchevroil announced it has received approval from the joint venture partners on the final investment decision for the Future Growth Project (FGP) and Wellhead Pressure Management Project (WPMP), which is the next expansion of oil production at the Tengiz field. FGP envisages an expansion in crude oil production capacity by approximately 12 million tonnes per year (260,000 bpd) to approximately 39 million tonnes per year (850,000 bpd), and the purpose of WPMP is to keep the existing Tengiz plants operating at full capacity.

Caspian Investment Resources. In August 2015, we sold our 50% interest in Caspian Investment Resources to a Sinopec group company for \$1,067 million. Prior to the sale, we participated in four projects in Kazakhstan (Arman, Buzachi Operating, Kazakhoil-Aktobe and KarakudukMunai) through our interest in Caspian Investment Resources.

Romania

Trident (block EX-30). In July 2010, we won a tender for exploration and development of the Trident block in the Romanian sector of the Black Sea, together with PanAtlantic Energy Group (formerly Vanco Overseas Energy Group). Prior to November 2012, LUKOIL Overseas and PanAtlantic Energy Group owned 80% and 20%, respectively, of the consortium to develop these blocks. In November 2012, LUKOIL Overseas and PanAtlantic Energy Group transferred 8% and 2%, respectively, of their ownership interests in the consortium to Romgaz, the national gas company of Romania, in accordance with the terms of the concession agreement entered between the companies and the National Agency for Mineral Resources of Romania. The block is located in the Black Sea at depths ranging from 90 to 1,000 metres. The distance to the coastline is 60-100 kilometres, and the nearest town on the coast is Sulina. The licence area covers over 1,000 sq. km. In 2015, we completed construction of an exploration well and discovered a gas field.

Uzbekistan

Kandym-Khauzak-Shady. In June 2004, we signed a PSA with Uzbekneftegaz on the Kandym-Khauzak-Shady project for the production of natural gas in the Bukharo-Khivinsky Region in south-western Uzbekistan, including the Khauzak-Shady, Kandym and Kungradskiy licence areas. We have a 100% interest in the PSA, however, under the PSA, Uzbekneftegaz is entitled to royalties based on production from the project. The PSA was amended in 2015 and 2016 to extend the term by seven years (until 2046) and to make certain adjustments to improve the economic indicators of the project, respectively. We commenced commercial production of natural gas and gas condensate in the Khauzak-Shady area in 2007 and at the Western Shady section at the end of 2011. In May 2015, we began production tests of two gas treatment plants with a combined capacity of 77.7 bcf (2.1 bcm) of gas per year at the Northern Shady site and the Kuvachi-Alat field in Uzbekistan, as part of the Kandym Early Gas project, the initial stage of developing the Kandym group of six gas condensate fields. In April 2016, we commenced construction of the Kandym gas processing complex with an annual capacity of 268.0 bcf (8.1 bcm) of gas.

Southwest Gissar and Ustyurt. In March 2008, we purchased 100% of SNG Holdings, Ltd., whose wholly-owned subsidiary has a 100% interest in a PSA for fields in Southwest Gissar and the Ustyurtsky region in Uzbekistan. The 36-year PSA covers seven fields in Southwest Gissar, two of which are already producing oil and gas condensate. The PSA also includes a five-year licence for exploration in central Ustyurt and additional exploration in the Southwest Gissar contract territory. The other party to the PSA is Uzbekneftegaz, acting as the authorised agent for the Uzbek government. In 2013, we began an expansion project at Southwest Gissar, which involves the construction of a comprehensive gas treatment unit with capacity for 4.8 bcm of gas per year, as well as engineering communications, electric substations

and other facilities. In 2015, we launched new wells and a compressor booster station at the Gissar field, and production of marketable gas from the project increased by 33% to 47.4 bcf (7.9 mmboe), as compared to 2014.

Aral Sea. In September 2005, we entered into an agreement with a consortium including Uzbekneftegaz (the Uzbek national oil company), Petronas Carigali Overseas (Malaysia), CNPC (China) and Korea National Oil Corporation. Pursuant to the agreement, the consortium signed a 35-year PSA in August 2006 with the government of Uzbekistan on the exploration and development of oil and gas fields in the Uzbek sector of the Aral Sea. The contract area covers approximately 18,300 sq. km (7,066 sq. mi). Originally, all members of the consortium held equal 20% shares in the PSA. We, Uzbekneftegaz and CNPC each purchased an additional 6.6% share in the PSA when Petronas Carigali Overseas exited the project in 2011, and an additional 6.6% share in the PSA when Korea National Oil Corporation exited the project in 2013. Between 2007 and 2015, the consortium carried out a total of 2,940 km of 2D and 780 sq. km of 3D seismic work and drilled six prospecting and exploration wells. The prospecting well WAEx-1, drilled in 2010, resulted in the discovery of the West Aral multilayer gas condensate field. The geological model of the West Aral field was updated after the completion of a prospecting well at the Meros structure at the end of 2015.

Gulf of Guinea

We own interests in exploration, development and production projects in the Gulf of Guinea in Ghana, Cameroon and Nigeria.

We own a 38% stake in an offshore exploration project at the Tano block in Ghana. The other parties to the project agreement in Ghana are the state oil company Ghana National Petroleum Corp. (10%), Fueltrade Ltd (2%) and HESS Ghana Exploration Ltd (50%). The Tano block with area of 2,009 sq. km is located in the western part of Ghana's territorial waters in the Gulf of Guinea, near the coast of Cameroon, 80 km from the shoreline. Sea depth at the block ranges from 1,600 to 3,000 metres. The project is based on an oil agreement, which came into force in July 2006 for a period of 30 years. Seven hydrocarbon fields have been discovered at the block, five with oil and two with gas. The results of 3D seismic and exploration drilling are now being studied in order to update geological models of the fields. Interpretation of broadband seismic data in 2015 clarified the structure of the resource base at the previously discovered Pecan, Almond and Beech fields, as well as identifying four new prospects, which are scheduled to be assessed in 2016.

In 2015, we acquired a 37.5% interest in the development of the Etinde site as part of a PSA from Britain's Bowleven plc. The Etinde site is located off the coast of Cameroon in the Gulf of Guinea and has a total area of approximately 2,300 sq. km. The project partners are LUKOIL (30% interest), New Age (African Global Energy) Ltd (30% interest, operator), Bowleven Plc (20% interest), and state-owned Societe Nationale des Hydrocarbures of Cameroon (20% interest). The licence to develop the Etinde area was issued on 29 July 2014 and is valid for 20 years.

In 2015, we also acquired an 18% interest in the hydrocarbons development and production project at the OML-140 deepwater block in Nigeria from Chevron. The 1,220 sq. km block is located in Nigerian territorial waters in the Gulf of Guinea, 135 km from the coast. Sea depth varies from 1,200 to 2,000 metres. The OML-140 block represents a small part of the Bonga Southwestand Aparo (BSWAp) field, the rest of which is located in the neighbouring OML-118 and OML-132 blocks. Participants at the three areas have signed an agreement on joint development of the field. The participants of block OML-140 block. Our effective stake in the BSWAp field, to be divided in proportion to their shares in the OML-140 block. Our effective stake in the BSWAp field is 1.5%. The field operator is Shell. The field has an area of 146 sq. km. In 2015, a 5,354 metre-deep well was drilled at the block and an oil deposit was discovered.

Egypt

Meleiha. The Meleiha block consists of four main oil fields located in the western desert of Egypt. We are responsible for 24% of the costs of the project. To cover our costs, we receive a percentage of the "profit oil" from the project. Our share of the "profit oil" from the project was 1.2 mmbls (0.2 million tonnes) in 2015. ENI Group is the operator of the project and owns a 76% interest. Oil is delivered to export via a 167-kilometre (104-mile) pipeline to the Al-Khamra oil terminal.

WEEM Block. The West Esh El Malahha (WEEM) is an oil and gas development concession in Egypt. We hold a 50% interest in the project and are responsible for 100% of its costs. To cover our costs, we

receive a share in the "profit oil" from the project. Our share in the "profit oil" from the project was 0.9 mmbls (0.1 million tonnes) in 2015. The other party to the concession agreement is EGPC.

WEEM Extension. In September 2009, we signed an agreement with Tharwa Petroleum for 50% of its share in the exploration and production of the WEEM Extension block, which adjoins the WEEM block. The concession agreement for this block was initially signed in August 2009 between the Government of Egypt, Ganoub El-Wadi Holding Petroleum Company and Tharwa Petroleum Company. Exploratory work on this block began in 2010 and included drilling two exploration wells, seismic works and detailing the structure. An additional development well was drilled on the block in 2014.

Iraq

West Qurna-2. In 1997, we signed a contract for a 68.5% interest in a development and production service contract relating to the development of the second stage of the West Qurna-2 oil field in Iraq. As a result of the political situation in Iraq, we delayed our performance of certain obligations under the agreement. In December 2002, the former government of Iraq purported to terminate the development and production service contract. In 2009, the Iraqi government held a tender process for the rights to develop the West Qurna-2 field in which we participated. In December 2009, we won the tender for the West Qurna-2 field as part of a consortium with Statoil. In January 2010, we entered into a development and production agreement with two of Iraq's state-owned companies (North Oil Company and South Oil Company) and Statoil. In May 2012, Statoil withdrew from the West Qurna-2 project and in January 2013, we signed a supplement agreement to the development and production service contract related to Iraq's West Qurna-2 field, which (among other things) transferred Statoil's 18.75% stake in the project to us (increasing our total stake in the West Qurna-2 project to 75%). We also agreed to reduce the project's target production level from 1.8 to 1.2 mmboe per day, as well to extend the period of target production level maintenance from 13 to 19.5 years and to prolong the total term of the contract from 20 to 25 years. North Oil Company owns the remaining 25% interest.

We launched the "Mishrif Early Oil" production phase at the West Qurna-2 field and reached the planned production of 120,000 bpd in March 2014. In accordance with our development and production service contract related to the West Qurna-2 oil field, we are compensated for our costs once this level of production has been achieved and maintained during any 90 days within a 120-day period. In June 2014, we met this threshold and accordingly, from the second quarter of 2014, started to receive cost compensation from the West Qurna-2 project. Our compensation oil production was 74 mmbls in 2015 at West Qurna-2 and 24 mmbls in the first half of 2016. As of 30 June 2016, total costs incurred were \$7.2 billion, and the value of compensation crude oil received was \$6.2 billion, in respect of the project. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We may not be able to realise opportunities in Iraq*" for a description of risks associated with West Qurna-2 project.

The following table summarises data on capital and operating costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee in respect of the project.

	Costs incurred ⁽¹⁾	Compensation crude oil received	Unrecovered costs	Remuneration fee
Cumulative at 31 December 2015 Change during the first half of 2016 Income tax	6,801 429 –	5,169 1,071	1,632 (642)	198 64 (54)
Cumulative at 30 June 2016	7,230	6,240	990	208

(1) Including prepayments.

Block 10. In October 2012, the Iraqi Government approved a geologic exploration, development and production contract for Block 10 located in the southern part of Iraq in the Di-Kar and Mutannah provinces. In June 2012, we, along with the Japanese INPEX Corporation, won a competitive bidding process to obtain a licence to operate in Block 10, which covers 5,500 sq. km. We are the operator of this project with a 60% interest and INPEX holds the remaining 40% interest.

Norway

In June 2013, we were awarded two licences in the Barents Sea, on the Norwegian continental shelf. We received a 20% interest in the block 708 project, which includes blocks 7130/4 (part) and 7130/7 and is operated by Sweden's Lundin Petroleum (who also owns a 40% interest in the project). Italy's Edison owns a 20% interest and each of Norway's North Energy and the United Kingdom's Lime Petroleum owns a 10% interest. We also received a 30% interest in the block 719 project, which includes blocks 7321/8 and 7321/9. The United Kingdom's Centrica owns a 50% interest and is the operator, and Norway's North Energy owns a 20% interest. In June 2016, we were awarded production licence PL858 in the Barents Sea with a 20% interest. Norway's Det Norske is the operator and was awarded a 40% interest, and Norway's Statoil and Petoro each were awarded a 20% interest.

Mexico

In July 2015, we acquired a 50% interest in a service contract operator (Lumex Operacion) for the Amatitlán block in Mexico. The other project participants are Petrolera de Amatitlán SAPI de CV (the operator, using the services of Lumex Operacion) and Marak Capital (50% of Lumex Operacion). The Amatitlán block has an area of 230 sq. km and is located 68 km from the city of Poza Rica in Veracruz State in Mexico. The project is being implemented under a service contract for the production of hydrocarbons, and the outputs are owned by PEMEX. Produced oil is shipped by road to the Soledad gathering system (30 km from the Amatitlán block). Operator services for hydrocarbon production are provided on a cost recovery basis. Sites for three appraisal wells were selected in 2015 based on the interpretation of 3D seismic data, logging data and estimation of the resource base.

Refining, Marketing and Distribution

The refining, marketing and distribution segment of our business comprises refining, petrochemicals, transport operations, marketing and trading of crude oil, natural gas and refined products and generation, transportation and sales of electricity, heat and related services.

Refining

We have oil refineries in Russia, Romania, Bulgaria, Italy and The Netherlands.

We own and operate four crude oil refineries in Russia, located in Perm, Volgograd, Ukhta and Nizhny Novgorod. These refineries, along with our mini-refineries in Urai and Kogalym in Russia, have a combined refining capacity of 368.7 mmboe (50.3 million tonnes) per year. Outside of Russia, we own and operate refineries in Bulgaria, Romania and Italy and also own a 45% interest in the Zeeland refinery in The Netherlands. Our international refineries have an aggregate refining capacity of 233.1 mmboe (31.8 million tonnes) per year. Our total refining capacity amounts to 601.8 mmboe (82.1 million tonnes) per year.

We refined 236.2 mmbls (32.2 million tonnes) of hydrocarbon feedstock during the six months ended 30 June 2016 at our refineries, including 146.1 mmbls (19.9 million tonnes) at our Russian refineries and 90.1 mmbls (12.3 million tonnes) at our international refineries (including our 45% interest in the Zeeland refinery). We also refined 1.2 mmbls (0.2 million tonnes) of crude oil under contracts with international third party refineries.

In 2015, we refined 472.7 mmbls (64.5 million tonnes) of hydrocarbon feedstock at our refineries, including 306.8 mmbls (41.9 million tonnes) at our Russian refineries and 165.9 mmbls (22.6 million tonnes) at our international refineries (including our 45% interest in the Zeeland refinery). We also refined 6.57 mmbls (0.9 million tonnes) of crude oil under contracts with international third party refineries.

The following table provides, for each of our refineries, our share of annual refining capacity and historical throughput for the periods indicated.

		Throughput						
	Annual Refining	Six months ended 30 June	Year end	ed 31 Decem	ber			
	Capacity	2016	2015	2014	2013			
		(n	nillion tonnes o	f crude oil)				
Refinery								
Russia								
Perm	13.1	6.0	11.1	12.7	12.8			
Volgograd	15.7	6.1	12.6	11.4	11.1			
Ukhta	4.0	1.3	3.4	4.0	4.0			
Nizhny Novgorod	17.0	6.4	14.6	17.0	17.1			
Mini refineries	0.5	0.1	0.2	0.2	0.2			
International								
Burgas ⁽¹⁾	9.8	3.2	6.6	6.0	6.4			
Petrotel ⁽²⁾	2.4	1.4	2.2	2.4	1.9			
ISAB ⁽³⁾	16.0	5.1	9.0	9.2	8.2			
Zeeland ⁽³⁾	3.6	2.6	4.8	3.7	4.6			
Total	82.1	32.2	64.5	66.6	66.3			

(1) As of 30 June 2016, we owned 99.82% of the Burgas refinery.

(2) As of 30 June 2016, we owned 99.72% of the Petrotel refinery.

(3) As of 30 June 2016, we owned 45% of the Zeeland refinery.

We have invested substantial capital to upgrade and expand our Russian refineries. In the first half of 2016, we successfully completed a major multi-year refinery modernisation programme within our expected timeframe and budget. With the completion of this programme, we believe that our refining segment is one of the most advanced in Russia. In 2012, our refineries switched from Euro-4 to Euro-5 gasoline production, and in 2015 we increased the share of clean diesel fuel in our diesel output in Russia to over 95%. Over the course of the programme, we have substantially increased light product yield and reduced output of fuel oil and vacuum gasoil. These changes have had a significant positive impact on our refining margins. We expect to further enhance our product slate in 2017 by achieving optimal operating modes at our recently launched conversion facilities.

The following table provides historical metrics for our Russian refineries for the periods indicated.

	Six months ended 30 June	Year end	ber	
	2016	2015	2014	2013
Capacity (in millions of tonnes)	50	50	45	45
Light product yield (%)	64	59	56	54
Refining depth (%)	86	80	77	76
Nelson Complexity Index	7.0	7.0	6.6	6.5

Fuels exported from our Russian refineries meet the European Union specifications, giving us a competitive advantage over companies that produce lower-standard fuels, and all of our European refineries comply with the current European Union standards in terms of the products produced.

For the six months ended 30 June 2016, we spent RUB 22.5 billion on refining capital expenditures, including RUB 18.4 billion in Russia. In 2015, we spent RUB 73.3 billion on refining capital expenditures, including RUB 55 billion in Russia.

The following table sets forth our production of certain refined products in Russia for the periods indicated, expressed as a percentage of our total refined products production volume (excluding production from our mini-refineries).

	Six months ended 30 June	Year en	ded 31 Decen	ıber
	2016	2015	2014	2013
Product				
Gasoline	25.1%	22.4%	20.2%	19.9%
Fuel oil	14.3%	20.3%	22.7%	24.1%
Middle distillates	43.6%	39.8%	37.6%	36.7%
Vacuum gas oil	6.9%	9.0%	10.6%	10.0%
Lubricants	2.7%	2.1%	2.3%	2.6%
Other	7.4%	6.4%	6.6%	6.7%
Total in Russia	100%	100%	100%	100%

The following table sets forth our production of certain refined products outside Russia for the periods indicated, expressed as a percentage of our total refined products production volume.

	Six months ended 30 June	Year en	ded 31 Decen	nber
	2016	2015	2014	2013
Product				
Gasoline	29.3%	30.8%	30.1%	27.5%
Fuel oil	15.3%	15.4%	13.1%	14.2%
Middle distillates	46.0%	46.0%	45.4%	45.6%
Vacuum gas oil	3.0%	1.6%	2.7%	2.2%
Lubricants	0%	0%	0%	0%
Other	6.4%	6.2%	8.7%	10.5%
Total outside Russia	100%	100%	100%	100%

Russian Refineries

Perm. We own 100% of the Perm refinery, which we acquired in 1991 as part of the Russian Government's privatisation programme. The refinery was built in 1958 and currently has a refining capacity of 13.1 million tonnes per year. The refinery processes a blend of crude oils from the northern part of the Perm region and from West Siberia. It produces a range of products, including gasoline, jet fuel, diesel fuel, lubricants, fuel oil, fuel grade petroleum cokes and bitumen. The refinery's facilities include hydrocracking, catalytic cracking, delayed coking, catalytic reforming, isomerisation, bitumen production, delayed coking, lubricants production and hydrotreating units. In 2015, we completed a large-scale modernisation programme at the Perm refinery to increase refining depth and to increase the refinery's production of higher quality refined products, which included the construction of a delayed coking unit with 15.4 mmbls (2.1 million tonnes) annual capacity, a second unit for low-temperature condensation and separation of associated petroleum gas and an on-site power generating unit. We supply crude oil to the Perm refinery from our fields in West Siberia and from the Perm region through the Transneft pipeline network and local intra-field pipelines which feed into an on-site crude oil reservoir park. We transport products from the Perm refinery through the Perm-Andreevka-Ufa oil product pipeline and by rail, river-class tankers and trucks.

Volgograd. We own 100% of the Volgograd refinery, which we acquired in 1991 as part of the Russian Government's privatisation programme. The refinery was originally built in 1957 and currently has a refining capacity of 15.7 million tonnes per year. The refinery processes a light blend of West-Siberia and Lower-Volga crude oils. It produces a range of products, including gasoline, diesel fuel, electrode coke, lubricants and bitumen. The refinery's facilities include hydrocracking, isomerisation, catalytic reforming, coke calcination, delayed coking, bitumen production and hydrotreating units. The refinery also has gas

refining facilities with an annual capacity of 240,000 tonnes of natural gas liquids. A new delayed coking unit with 1.0 million tonnes annual capacity was brought into operation in December 2011. In late 2012, a new diesel fuel hydrotreatment unit with rated capacity of 22.0 mmbls (3.0 million tonnes) per year was put into operation, which made all of the refinery's gasoline and diesel fuel output compliant with Euro-5 environmental standards. In June 2015, we completed construction at the refinery of a crude oil distillation unit, with a capacity of 43.98 mmbls (6.0 million tonnes) per year. In May 2016, we completed construction of a complex for the deep refining of vacuum gas oil, with a capacity of 25.7 mmbls (3.5 million tonnes) per year, to allow the refinery to increase Euro-5 diesel fuel output by 13.2 mmbls (1.8 million tonnes) per year. We supply crude oil to our Volgograd refinery from our fields in West Siberia and the lower Volga region through the Transneft pipeline system. The Volgograd refinery transports its refined products by rail, river-class tankers and trucks.

Ukhta. We own 100% of the Ukhta refinery, which we acquired in 1999. The refinery was originally built in 1934 and currently has a refining capacity of 4.0 million tonnes per year. The refinery processes a blend of crude oils from Komi fields, including heavy crude oil from the Yaregskoye field. It produces a range of products including gasoline, diesel, fuel oil and bitumen. The refinery's facilities include primary petroleum processing, catalytic reforming, visbreaking, isomerisation, bitumen production and hydrotreating units. The refinery also has a tank car loading rack for light refined products. Upgrades of the Ukhta refinery have enabled it to commence production of automotive gasolines meeting Euro-5 requirements. The Ukhta refinery receives crude oil by pipeline and rail. Its refined products are shipped by rail.

Nizhny Novgorod. We own 100% of the Nizhny Novgorod refinery, which we acquired in October 2001. The refinery began operation in 1958 and currently has a refining capacity of 17.0 million tonnes per year. The refinery processes a blend of West Siberia and Tatarstan crude oils. The refinery's production includes gasoline (to Euro-5 standards), diesel fuel (to Euro-5 standards), fuel oil, vacuum gas oil, jet fuel, bitumen and lubricants. The refinery's facilities include catalytic cracking, visbreaking, isomerisation, catalytic reforming, hydrotreating, alkylation, bitumen production and lubricants production units. In December 2010, we launched production of a deep-refining complex (including catalytic cracking, alkylation and vacuum gas oil hydrotreatment units) at the refinery. In October 2015, we completed construction of a second catalytic cracking complex and a residual asphalt vacuum distillation unit, enabling the refinery to increase annual production of Euro-5 fuels by 8.1 mmbls (1.1 million tonnes). A dedicated pipeline connects the refinery directly to the Transnefteproduct system, which makes transportation costs comparatively less expensive than rail transport. The refinery manufactured 29.4 mmbls (4.0 million tonnes) of gasoline and 36.4 mmbls (5.0 million tonnes) of middle distillates in 2015.

Mini-refineries. We have two mini-refineries in Urai and Kogalym in West Siberia in Russia with a combined annual capacity of 450,000 tonnes. These mini-refineries refine a blend of local crudes and are each equipped with an atmospheric distillation unit, a catalytic reforming unit and a bitumen unit. The mini-refinery in Kogalym is also equipped with a hydrotreatment unit.

International Refineries

Burgas. We own 99.82% of the Burgas refinery in Bulgaria (LUKOIL Neftochim Burgas AD). In October 1999, we acquired, together with a local partner, a 58% interest in the Burgas refinery from the government of Bulgaria. In July 2000, we purchased our local partner's interest. Since 2002, we have been increasing our ownership interest in the Burgas refinery by buying stock from minority shareholders in an ongoing buy-back programme. The Burgas refinery was built in 1964 and has a refining capacity of 9.8 million tonnes per year. It produces a range of products, including gasoline (to Euro-5 standards), diesel fuel (to Euro-5 standards), jet fuel and fuel oil. The refinery's facilities include primary refining, catalytic cracking, visbreaking, catalytic reforming, thermocracking, hydrocracking, alkylation units and bitumen production. The refinery's complex also includes a petrochemicals plant and a polymerisation plant which produce petrochemical products. See "*—Petrochemicals*" for more information about the Burgas refinery's involvement in our petrochemicals operations.

In 2010, we completed upgrades to the refinery, which modernised the diesel fuel hydrotreating unit allowing the refinery to produce Euro-5 compliant fuel. In May 2015, we commissioned a heavy residue refining facility at Burgas, which included a hydrocracking unit with an annual capacity of 18.3 mmbls (2.5 million tonnes), enabling the refinery to increase production of light fuels and increase energy efficiency. Capital expenditures for our modernisation programme at the Burgas refinery were the largest part of the overall expenses of our European refineries in 2015.

The Burgas refinery is located 30 kilometres (19 miles) from a port terminal on the Black Sea. This location allows the refinery to receive crude oil shipments by sea, and also to ship its products by sea in addition to truck, rail and product pipelines.

Petrotel. We own 99.72% of the Petrotel refinery in Romania (PETROTEL-LUKOIL S.A.), which we acquired in a series of transactions from 1998 through 2002. The refinery was built in 1904 and has a refining capacity of 2.4 million tonnes. The Petrotel refinery produces a range of products, including diesel fuel and gasoline (both to Euro-5 standards), and adjusts its product mix to match demand. Most of the gasoline and diesel fuel produced by the refinery is marketed through LUKOIL's retail network in Romania; the excess is exported to supply LUKOIL's retail outlets in neighbouring countries. The refinery processes Urals blend crude oil, which is supplied via pipeline from the Black Sea port of Constanta. Petroleum products are shipped by rail and road. In 2009, we completed the reconstruction of a diesel fuel hydrotreatment unit, a catalytic cracking unit for hydrotreatment of gasoline and production of MTBE/TAME and the vacuum block of crude distillation unit. In addition, in 2009, we completed construction of a hydrogen production unit. In 2010, two new coke drums of a delayed coking unit were installed and in 2012, we launched propylene production with sulphur content below 5 ppm. Construction of an FCC flue gas treatment unit was completed in 2015.

ISAB. We originally acquired a 49% interest in ISAB in December 2008 and subsequently increased our share in ISAB to 60% in 2011 and to 80% in 2012. In December 2013, we consolidated a 100% stake in ISAB by purchasing the remaining 20% interest from ERG. The refinery was built in 1975 and has a total refining capacity of 16.0 million tonnes per year. The refinery complex consists of two oil refineries joined by a system of pipelines and integrated into a single operating complex, and also includes three jetties, storage tanks with a total capacity of 3.7 mcm and a 99 MW power station. ISAB mainly processes sour crudes, similar to the Urals blend, but the refinery has historically been supplied by the Black Sea, North and West Africa and Persian Gulf countries, as well as by our largest upstream project, West Qurna-2 in Iraq. Its production includes diesel fuel and gasoline (to Euro-5 standards) and fuel oil. The refinery is located at the centre of the Mediterranean petroleum products trade, and most of its products are exported, with most gasoline going to the United States and most of the diesel fuel produced going to European Union markets.

Zeeland. We own a 45% stake in the Zeeland refinery near Vlissingen, The Netherlands. We acquired our interest in TRN (which changed its name to Zeeland in 2011) in September 2009 pursuant to an agreement we signed with TOTAL S.A. in June 2009. TOTAL S.A. owns the remaining 55% stake in Zeeland, and we manage the refinery with TOTAL S.A. on a 50/50 basis. Construction of the TRN refinery was completed in 1973. It has a total refining capacity of 7.9 million tonnes per year (of which our share is 3.6 million tonnes per year) and a hydro-cracking unit that has a capacity of 3.5 million tonnes per year (of which our share is 1.5 million tonnes per year). Zeeland has the capability to process a variety of crude oil qualities, although it mainly processes heavy, sulphurous crude oils, and we have historically supplied crude oil to Zeeland from our production in Timan-Pechora. The refinery also has the capacity to import and process hydrocracker feedstocks such as straight run fuel oil and vacuum gas oil. The hydrocracker configuration at Zeeland is focused on producing premium quality middle distillates, including jet fuel, diesel fuel, solvents and lube base oil. The refinery's location allows it to receive crude oil from sea tankers and to ship refined products by inland waterways. Zeeland owns certain other assets, including a vessels terminal, a barge jetty and a minority interest (16.7%) in the Maasvlakte Oil Terminal in Rotterdam.

Gas Processing

We currently process our gas production at four facilities in Russia: the Korobkovsky gas processing plant (in the Volgograd region), gas processing facilities at the Perm refinery (in the Perm region), the Usinsk gas processing plant (in the Komi Republic) and the Lokosovsky gas processing plant (in the Khanty-Mansiysk Autonomous District). These gas processing plants have a combined capacity of 164.2 bcf (27.4 mmboe) of gas feedstock per year and 1,861 thousand tonnes (13.6 mmboe) of natural gas liquids per year. We own 100% of each of these processing plants. The Lokosovsky gas processing plant is currently our main gas processing facility in Russia. Its gas processing capacity is currently 75.6 bcf (12.6 mmboe) per year. Operations at the Lokosovsky gas processing plant were suspended following a fire in June 2016. We expect to complete the repair works and resume operations at the plant by the end of 2016.

During the six months ended 30 June 2016, our gas processing plants processed 67.7 bcf of gas feedstock and produced 6.8 mmboe of marketable natural gas liquids. In 2015, our gas processing plants processed 129.2 bcf of gas feedstock and produced 12.7 mmboe of marketable natural gas liquids.

The following table summarises our gas processing activities for the periods indicated:

	Year ended 31 December		
-	2015	2014	2013
Gas processing capacity (in mcm per year)	4,650	4,650	3,654
NGL processing capacity (in thousands of tonnes per year)	1,861	1,861	1,161
Processing of petroleum and wet gas (in mcm)	3,376	3,207	3,124
Processing of natural gas (in mcm)	284	14	6
NGL processing (in thousands of tonnes)	550	710	764
Marketable products			
NGL (in thousands of tonnes)	710	748	644
LPG (in thousands of tonnes)	927	791	906
Stable gas naphta (in thousands of tonnes)	100	136	127
Stripped gas (in mcm)	2,572	2,454	2,368
Isopentane (in thousands of tonnes)	—	43	36

Crude Oil Sales

Overview

We sell in Russia and internationally crude oil that is not processed at our refineries. Our international sales include exports from Russia and sales outside of Russia of crude oil produced by our international projects, as well as sales of procured crude oil as part of our trading activity. Our international sales are primarily to customers in Europe.

The table below sets forth our domestic and international crude oil sales for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June			
	2016		20	15
	(mmbls)	(billions of rubles)	(mmbls)	(billions of rubles)
Russia	25.4	44.7	37.8	75.2
International	262.1	633.4	256.1	771.0
Total	287.5	678.2	293.9	846.2

The table below sets forth our domestic and international crude oil sales for each of the years ended 31 December 2015 and 2014.

	Years ended 31 December			
	2015		20	14
		(billions of		(billions of
	(mmbls)	rubles)	(mmbls)	rubles)
Russia	79.5	145.7	81.3	128.4
International	499.2	1,389.9	373.6	1,279.1
Total	578.6	1,535.6	454.9	1,407.6

LITASCO

LITASCO, a wholly-owned subsidiary of LUKOIL INTERNATIONAL, is our primary marketing vehicle for international sales of crude oil and refined products. LITASCO's key functions include both marketing the Group's crude oil and products and trading with third parties. Trading with third parties allows LITASCO to increase the efficiency of LUKOIL system barrel sales and enables the Group to further expand its international operations.

In 2015, we exported from Russia over 85% of our total export volumes of crude oil and over 90% of our total export volumes of refined products through LITASCO (and its wholly-owned subsidiaries).

The Group uses derivative instruments in international petroleum products marketing and trading operations. The types of derivative instruments used include futures and swap contracts, used for hedging purposes, and purchase and sale contracts that qualify as derivative instruments. The Group maintains a system of controls over these activities that includes policies covering the authorisation, reporting and monitoring of derivative activities.

Through LITASCO (and its wholly-owned subsidiaries and branch offices) we:

- market our crude oil and refined products outside of Russia, including in the Baltic region of Eastern Europe, Western Europe, the Black Sea and Mediterranean regions, the Americas and Asia;
- supply crude oil to our international refineries, and supply refined products to our retail network in Europe;
- develop our international third-party crude oil and refined products trading platform to optimise our marketing efforts and sales; and
- are engaged in oil refining through management of the operations of ISAB and the Zeeland refinery.

Refined Products Sales

Overview

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil and lubricants. During the six months ended 30 June 2016, we sold a total of 59.9 million tonnes of refined products through wholesale and retail channels. Of this amount, 9.7 million tonnes, or 16.1%, of our refined products were sold in the domestic market, and 50.2 million tonnes, or 83.9%, were sold internationally. In 2015, we sold a total of 125.3 million tonnes of refined products through wholesale and retail channels, including 19.8 million tonnes, or 15.8%, in the domestic market, and 105.5 million tonnes, or 84.2%, internationally.

The table below provides information on our refined products sales for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June			
	2016		201	15
	(thousands of tonnes)	(millions of rubles)	(thousands of tonnes)	(millions of rubles)
Russia International	9,655 50,242	276,286 1,365,635	9,291 51,194	280,196 1,620,430
Total	59,897	1,641,921	60,485	1,900,626

The table below provides information on our refined products sales for each of the years ended 31 December 2015 and 2014.

	Years ended 31 December			
	2015		201	14
	(thousands of tonnes)	(millions of rubles)	(thousands of tonnes)	(millions of rubles)
Russia International	19,809 105,453	604,687 3,238,339	21,367 96,860	613,535 3,182,398
Total	125,262	3,843,026	118,227	3,795,933

We transport our refined products through Transnefteproduct's refined product pipeline as well as by ships, rail and trucks.

Refined Products Sales in Russia

In Russia, we sell refined products through wholesale and retail channels. We sold a total of 19.8 million tonnes of refined products domestically, including government-related sales, in 2015. These sales included 9.6 million tonnes through our retail network within Russia and 10.2 million tonnes through wholesale channels. See "*—Refining, Marketing and Distribution—Retail Marketing*" for more information about our domestic retail filling station network.

Our retail distribution system consists of a central office and regional distribution centres. Sales and distribution are managed centrally from our Moscow headquarters. Using data from internal sources on refined product production and projected demand from individual regions, the central sales and distribution office directs refineries to send refined products to regional distribution centres. The refinery then ships the product via the designated transport route to the regional distribution centre for onward distribution. The regional distribution centres receive instructions from the central selling and distribution centre on the destination of products. This centralised system helps us improve distribution efficiency by determining distribution according to regional demand and enables us to consider a greater number of markets for our products.

The Russian Government has the authority to direct us to deliver crude oil or refined products to certain government-designated customers, which may take precedence over market sales. Government-directed deliveries may take several forms. We may be directed to make deliveries to government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in general. Additionally, some of our oil production licences require us to sell crude oil which we produce to local government agencies. See "*Risk Factors—Risks Relating to the Russian Federation—The Russian Government can mandate deliveries of crude oil and refined products, including at less than market prices, which could materially adversely affect our relationships with other customers and, more generally, our business, financial condition and results of operations."*

International Refined Products Sales

Internationally, we sell refined products to third parties through wholesale and retail channels. In 2015, we sold a total of 105.5 million tonnes of refined products in the international market, 20.4 million tonnes of which were exported from Russia. Over that period, 4.5 million tonnes of refined products were sold through our retail network outside Russia and 101.0 million tonnes were sold through wholesale channels. See "—*Refining, Marketing and Distribution*—*Retail Marketing*" for more information about our international retail filling station network.

Retail Marketing

As of 30 June 2016, we owned, leased and franchised 5,286 retail filling stations, consisting of 2,546 in Russia, 245 in the CIS (excluding Russia), 2,209 in Europe and 286 in the United States. As of 31 December 2015, we owned, leased and franchised 5,556 retail filling stations, consisting of 2,544 in Russia, 245 in the CIS (excluding Russia), 142 in the Baltic countries, 2,336 in Europe and 289 in the United States. Most of the stations operate under the LUKOIL brand.

We have one of the largest retail networks in Russia, where we own or lease 2,301 filling stations (as of 30 June 2016). We also have a network of 245 franchised stations in Russia (which sell our products exclusively). Our franchise programme includes rigid quality control requirements (including those relating to LUKOIL corporate specifications and designs). Our retail network also includes 136 tank farm facilities in Russia with a total capacity of 2.23 mmcm.

In line with our strategy to optimise our downstream operations in Europe, we sold petrol station networks in Poland, Latvia and Lithuania in the first half of 2016, in Estonia in the third quarter of 2015, in Ukraine in the second quarter of 2015 and in Slovakia, Hungary and the Czech Republic in the fourth quarter of 2014.

We sell our gasoline and diesel in Russia and in certain countries in Western and Eastern Europe under our EKTO brand, which is an acronym from the Russian words for "ecological fuel". In Russia, LUKOIL holds the leading position in production and sales of European standards motor fuel. All of our refineries in Russia have exclusively manufactured Euro-5 compliant gasoline and diesel since 2012. In addition to automotive fuels, many of our retail filling stations provide car accessories and basic vehicle service, and increasingly offer goods such as fast food, convenience products and groceries.

The following table provides selected data on our retail filling stations.

	As of 31 December 2015			
	Russia	CIS and Europe	United States	Total
Owned/Leased Stations	2,297	1,925	263	4,485
Franchised Stations ⁽¹⁾	247	798	26	1,071
Total	2,544	2,723	289	5,556

(1) Stations owned by third-party dealers and subject to long-term contracts with pricing similar to retail pricing.

Outside Russia, we have retail operations in Azerbaijan, Belarus, Georgia, Moldova, Bulgaria, Finland, Italy, Serbia, Montenegro, Romania, Macedonia, Cyprus, Turkey, Belgium, The Netherlands, Luxembourg and Croatia, as well as in the United States.

Our optimisation programme in relation to our retail network is focused on the reduction of costs and improved efficiency.

In 2015, we optimised 12 filling stations and four tank farms in Europe and the CIS, including four filling stations sold, seven leased out and one closed down, and three tank farms sold and one closed down. In Russia, we optimised 45 filling stations and five oil depots, including 33 filling stations sold, 11 leased out and one closed down, and four oil depots sold and one suspended. Capital expenditures in our retail network in 2015 totalled RUB 13.3 billion in Russia and RUB 5.6 billion internationally.

Priority Marketing Channels

We promote petroleum products sales through priority high margin channels.

LUKOIL-BUNKER, a Group company, carries out refuelling of ships at Russian sea and river ports, as well as making wholesale deliveries of ship fuel. Our distribution structure enables service provision to customers in nearly all Russian seaports and inland waterways, as well as at locations outside Russia. LUKOIL-BUNKER has its own bunkering fleet and also leases modern tankers on a long-term basis. The LUKOIL-BUNKER fleet consists of 18 tankers with total deadweight in excess of 47.9 thousand tonnes. Marine bunkering volumes in 2015 were 2.5 million tonnes. We currently have bunkering business at ports in six regions of the Russian Federation. Most of the business is at ports on the Baltic, Barents and Black seas, and also on Russia's inland waterways.

LUKOIL-AERO, a Group company, supplies jet fuel (mainly into-plane refuelling) at airports in Russia and abroad (through another Group company, LUKOIL Aviation B.V.) using a network of its own subsidiaries or under contracts with third-party refuelling companies. LUKOIL-AERO sold 2.8 million tonnes of bunker fuel in 2015, including 1.7 million tonnes on retail (into-plane) basis. LUKOIL-AERO manages the allocation of all jet fuel produced at our Group refineries in Nizhny Novgorod, Volgograd, Perm and Ukhta. The main customers of LUKOIL-AERO for many years have been leading Russian airlines and civil aviation companies. In 2015, LUKOIL-AERO subsidiaries and affiliates provided into-plane refuelling at 29 airports in Russia.

We promote our premium motor fuels under the EKTO brand. Total EKTO fuel sales in Russia in 2015 were 4.9 million tonnes, which is 7% more than in 2014. In 2015, the share of EKTO fuel sales of our total retail sales of engine fuels in Russia was 51% (81% for diesel and 35% for gasoline), up from 47% in 2014. EKTO fuel sales outside Russia amounted to 1.7 million tonnes in 2015.

Petrochemicals

Our petrochemical operations are an important part of our business as they provide us with strategic benefits, including more diversified revenues and an additional source of petrochemical products necessary for our operations.

Our petrochemical operations are conducted through our three petrochemical plants in Russia and Ukraine, as well as our Burgas and ISAB refineries. In Russia, we own the Stavrolen and Saratovorgsintez petrochemical plants. The Stavrolen plant produces polyethylene, liquid pyrolysis

fractions, polypropylene, benzene and other products, and the Saratovorgsintez plant produces acrylonitrile and other organic synthesis products. Our Burgas refinery produces polypropylene and our ISAB refinery produces cumene.

We are building a gas chemical complex at our Stavrolen petrochemical plant to process gas from our Caspian fields. The complex is designed to process ethane and gas liquids into polyethylene, polypropylene and other petrochemical products. The first stage of the complex, with capacity of 2.2 bcm of gas per year, became operational in February 2016. In February 2014, a fire at the plant resulted in non-fatal injuries to 10 of our employees and suspension of production. See "*Environment, Health and Safety*—*Health and Safety*" for more information.

We own a 100% interest in Karpatneftechim Ltd., a petrochemicals plant in Ukraine. Karpatneftechim was established in 2000 and produces polyethylene, vinyl chloride, ethylene and other products. In September 2012, we suspended operations at Karpatneftechim due to unfavourable economic conditions in the petrochemical market. In April 2013, we signed a memorandum with the Ukrainian Government to implement various measures that would allow us to resume operations at Karpatneftechim at profitable production levels. Polyethylene production resumed in September 2013, production of branded PVC resumed in November 2013 and ethylene production was launched in December 2013. However, in February 2014, we again suspended operations at Karpatneftechim due to continued political instability in Ukraine. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition"*.

Total combined output of marketable chemicals from our petrochemicals facilities was 1.1 million tonnes in 2015, and our products were sold in Russia and exported to more than 30 countries.

Power Generation and Renewable Energy

Our power generation business covers the generation and distribution of electrical energy and heat produced at power plants. The sector provides energy both for our own needs (to support our exploration and production and refining, marketing and distribution operations) and for external power and heat customers in Russia and internationally.

As of 31 December 2015, we had installed electric capacity of combined heating plants and hydropower plants of 4.3 GW and installed heating capacity of power plants and boiler plants of 9,627 Gcal/hour, excluding on-site supporting generating facilities. Our total output of electrical energy was 9.0 billion kWh during the first half of 2016, 17.8 billion kWh in 2015 and 17.1 billion kWh in 2014. Our total output of heat energy was approximately 7.2 million Gcal during the first half of 2016, 12.8 million Gcal in 2015 and 14.1 million Gcal in 2014. Our power generation business sector is mainly comprised of LUKOIL-Volgogradenergo, LUKOIL-Kubanenergo, LUKOIL-Astrakhanenergo, LUKOIL-Rostovenergo, LUKOIL-Stavropolenergo, LUKOIL-Ecoenergo, our Rostov heating network, our on-site supporting facilities at our oil and gas fields in Russia and at our refineries in Russia and Bulgaria, and power generators in Romania.

Our core power generating assets are located in Southern Russia. As part of our obligations under a power delivery contract (PDC) with regard to the wholesale power market, between 2011 and 2015, we commissioned four gas turbine facilities in Southern Russia, with a total power generating capacity of 949 MW (59 MW more than our commitment under the PDC), including a 110 MW unit in Astrakhan in 2011, a 410 MW unit in Krasnodar in 2012, a 235 MW unit in Astrakhan in 2013 and a 135 MW unit at Stavrolen in 2015.

We also operate on-site supporting generating facilities with a total installed capacity of over 1,100 MW, including a combined heat and power plant at the Burgas refinery in Bulgaria, and a combined heat and power plant at the Perm refinery commissioned in 2015. These facilities are located mostly in West Siberia and the Republic of Komi. Our grids, distributors and service providers are concentrated around our generating assets and tied to the regions of our upstream and downstream operations. We are currently constructing power generating centres at the Yaregskoye and Usinskoye fields.

The Group's renewable energy assets are located in Russia, Romania and Bulgaria.

LUKOIL-Ecoenergo owns four hydroelectric power plants (HPPs) in Russia — the Tsimlyanskaya HPP (209 MW), in the Rostov region; Belorechenskaya HPP (48 MW) and Krasnopolyanskaya HPP (30.4 MW) in the Krasnodar territory and Maykopskaya HPP (9.44 MW) in the Republic of Adygeya. The aggregate capacity of our hydroelectric power plants is approximately 300 MW.

LUKOIL-Ecoenergo is also engaged in renewable energy projects in the field of wind and solar energy internationally. In 2015, we and the Italian ERG Renew signed an asset sharing agreement, according to which we consolidated a 100% interest in a land power wind farm in Romania (with installed capacity of 84 MW generating 211 GW hours per year). The electric power from wind power plants in Romania is fed into the national power grid, and we receive tradable green certificates, which significantly enhance the economics of our renewable energy projects. All electric power from our in-house generation is sold on an arm's length basis.

In addition, we have commissioned a 9 MW solar power plant in Romania and a 1.25 MW solar power plant in Bulgaria. Both solar plants are built on vacant land within our refinery sites.

Transportation

Crude Oil Transportation

We use the Transneft pipeline system, our own pipeline network, other pipelines, rail cars and tankers to transport the crude oil which we produce in Russia. We transport most of our crude oil production in West Siberia through the Transneft pipeline system. Substantially all of our crude oil production in the Ural and Volga regions is transported via Transneft or is exported by tankers. Crude oil produced in Timan-Pechora is transported through the Transneft pipeline as well as through our own pipeline to our Varandey terminal on the Barents Sea for further shipment to international markets.

Pipelines

Transneft. Most of our crude oil production is transported through the Transneft pipeline system. In 2015, we exported 194.9 mmbls (26.6 million tonnes) of crude oil, or 77.8% of our total crude oil exports in 2015, via Transneft. Transneft is a state-owned pipeline monopoly. The Russian Government regulates access to Transneft's pipeline network, and it is required to provide access on a non-discriminatory basis. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft's pipeline network in the prior quarter. Generally, a Russian oil company is given an allocation for export that equals approximately 40% of its crude oil so produced and delivered. Some Russian companies are able to obtain excess export quota through extra allocation from Transneft or by purchasing quota from other oil companies.

The FAS is responsible for setting Transneft's tariffs. The tariffs tend to increase annually in ruble terms. The overall cost of transporting crude oil through the Transneft pipeline system depends on the location of the fields in relation to the ultimate destination (including the length of the transport route and whether deliveries are for export or for domestic consumption). See "*Regulation of the Oil Industry in the Russian Federation—Crude Oil and Refined Product Transportation Regime*" for more information on crude oil transportation.

The crude oil that we transport through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. Our sales of crude oil that we transport through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as "Urals blend" crude oil. Therefore, the price we get for our oil may be lower than the price that we could get for our oil if we could transport it without blending. In July 2013, we began exporting light crude oil through Transneft's ESPO pipeline, which allows us to sell our light oil as "ESPO crude" (ESPO crude is sold at a premium to Urals blend). We exported 1.5 million tonnes of light crude oil through the ESPO pipeline in 2015, and according to press reports, total exports of light crude oil through the ESPO pipeline amounted to 30.4 million tonnes in 2015.

At LUKOIL-West Siberia's Uraineftegas production unit, we transport a high quality light low-sulphur crude oil directly from the production facilities to the Black Sea port of Tuapse via a dedicated Transneft pipeline network. This allows us to avoid the blending which occurs in the main Transneft system. The blend of light West-Siberian crudes is also transported to our Volgograd Refinery.

We also use a pipeline system we built in Timan-Pechora, linking our fields to our Varandey terminal on the Barents Sea. This enables us to achieve higher export netback prices (which are the prices we achieve for exports, minus export duties and transportation costs) from sales of crude oil produced in Timan-Pechora. This pipeline system is also used by our Bashneft-Polyus joint venture, which is developing the Trebs and Titov oil fields.

See "Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We depend on monopoly suppliers of crude oil and refined product transportation services and we have no control over

the infrastructure they maintain or the fees they charge" for more information about the risks related to our transportation of crude oil through the Transneft pipeline system.

Caspian Pipeline Consortium. LUKARCO, our wholly-owned subsidiary, has a 12.5% interest in the Caspian Pipeline Consortium (CPC) pipeline, which is a 1,510-kilometre (932-mile) oil pipeline connecting oil fields in West Kazakhstan to the CPC's marine export terminal at the Black Sea port of Novorossiysk in Russia. Other parties involved in the CPC are the Russian Government (24%), the Kazakh Government (19%), Chevron (15%), Rosneft-Shell Caspian Ventures (7.5%), Exxon Mobil (7.5%), CPC Company (Russia) (7%), ENI (2%), BG Group (2%), Kazakhstan Pipeline Ventures (1.75%) and Oryx (1.75%). The pipeline has a capacity of approximately 700,000 bpd (35.0 million tonnes per year). The CPC is currently expanding the pipeline's capacity to 1.345 million bpd (67.0 million tonnes per year). Crude oil produced from several of our projects, including our Karachaganak, Kumkol and Tengiz projects, is transported to the CPC terminal at Novorossiysk through the CPC pipeline, and we intend to use the pipeline to transport our crude oil produced in the Caspian Sea. For more information on our ownership interest in CPC through LUKARCO, see "*—Exploration and Production—International Exploration and Production—Kazakhstan—LUKARCO*".

The CPC operates a "quality bank" system, under which exporters who supply high-quality hydrocarbons receive a price premium, and those who supply lower-quality hydrocarbons receive a price discount, to the average blend transported through the CPC pipeline. The blend of oil transported through the CPC pipeline is referred to as "CPC blend", the price for which is quoted separately with a premium over Urals blend.

We expect that crude oil from the V. Filanovsky field will be transported through the CPC pipeline and that the "quality bank" system will allow us to obtain a premium relative to the Urals blend for the quality of the crude oil produced at the field.

International Pipelines. The Caspian Sea is land-locked. The export of oil from this region is therefore dependent on onshore pipelines. Currently, hydrocarbons are exported from the Caspian Sea via a northern route through Azerbaijan and Russia to the Russian Black Sea port at Novorossiysk and via a western route through Azerbaijan and Georgia to the Black Sea port at Supsa.

In 2003, the construction of the 176.1-kilometre (109.4-mile) long Kumkol-Djusali oil pipeline system and an oil-loading terminal at Djusali were completed in order to reduce oil transportation costs from the Kumkol project in Kazakhstan.

Terminals

Construction of a permanent sea terminal at Varandey on the Barents Sea was completed in 2008, and the sea terminal has the capacity to receive and reload up to 240,000 bpd (12.0 million tonnes per year). The project includes a stationary, ice-resistant loading terminal at sea, an underwater pipeline, a system of onshore reservoirs and an offshore transhipment base. We currently transport crude oil to the terminal by pipeline, and we ship crude oil from the terminal with ice-breaking shuttle tankers through the Barents Sea to a floating reservoir in the ice-free waters near Murmansk. The crude oil is then loaded onto long distance tankers, which transport it to international markets. Our Bashneft-Polyus joint venture also uses our infrastructure in Timan-Pechora, including our Varandey terminal.

In 2006, we completed construction of a terminal located in Vysotsk, Vyborg's outer harbour on the Baltic Sea. The current capacity of the terminal is 15.0 million tonnes per year, and it can handle crude oil, fuel oil, vacuum gas oil and diesel.

We also own an export terminal at the port of Svetly in the Kaliningrad region (with a total capacity of 4.0 million tonnes per year). The Svetly terminal primarily exports crude oil produced by OOO LUKOIL-Kaliningradmorneft, our subsidiary operating in the Kaliningrad region, as well as refined products.

In April 2012, our 50/50 Spanish joint venture opened a new oil product terminal (with a total capacity of 5.0 million tonnes per year and total reservoir capacity of 360 mcm) in the port of Barcelona, Spain.

In 2015, we completed the construction of a terminal for the transhipment and storage of bulk lubricants in Vienna, Austria, including a reservoir park and a mooring facility for river supplies of base oils to streamline our supply chain and reduce transportation costs.

Gas Transportation

In Russia, we mainly transport our gas through the UGSS, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. We are not able to sell our gas other than through the UGSS. The UGSS transports natural gas from fields in West Siberia and the Volga region towards the more heavily populated regions of European Russia, and onward to other CIS countries and Europe. Under Russian law, Gazprom is obliged to provide third-party access to the UGSS as long as there is spare transport capacity at the relevant time and place requested, the proposed gas shipments meet established quality and technical standards, input and output connections and quality control stations are available and customer demand exists at the relevant time. Historically, Gazprom has been able to deny third-party gas producers access to the UGSS, citing a lack of spare capacity. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We face several risks in connection with the implementation of our strategy to develop our natural gas operations.*"

In May 2014, we entered into a strategic partnership agreement with Gazprom whereby Gazprom agreed to accept all gas produced by our Group in the Bolshekhetskaya depression through 2024. In June 2015, we signed an additional agreement with Gazprom to accept the supply of gas through 2024 from our North Caspian fields to be commissioned in the future.

Refined Products Transportation

Transportation of refined products in Russia is carried out by railway transport as well as through the pipeline system of Transnefteproduct, a subsidiary of state-owned Transneft. We pay transportation fees to Transneft in order to transport our refined products through the Transnefteproduct network. The FAS is responsible for setting tariffs for the use of the Transnefteproduct network which tend to increase annually in ruble terms.

Corporate and other

We are developing the Vladimir Grib diamond field, which is located in the Arkhangelsk region in North-Western Russia. Open-pit mining methods are used for the development of the field. The mining and concentration complex includes a washing facility with a production capacity of approximately 4.5 million tonnes of ore per year and a 26 MW power plant. Production at the field was 1.85 million carats in the first half of 2016 and 3.36 million carats in 2015. Peak production is planned to be 4.5 million carats per year. We have developed an efficient supply value chain and sell produced diamonds into international markets.

Competition

The oil and gas industry is intensely competitive. We compete with other major Russian and international oil and gas companies. Many of our international competitors have substantially greater financial resources and have been operating in a market-based, competitive economic environment for much longer than we have.

The key activities in which we face competition are:

- acquisition of exploration and production licences at auctions or tenders conducted by governmental authorities;
- acquisition of other companies which may already own licences or existing hydrocarbon producing assets;
- implementation of foreign projects for prospecting and exploration and development of oil and gas fields;
- engagement of third party service providers whose capacity to provide key services may be limited;
- purchase of capital equipment that may be scarce;
- employment of qualified and experienced personnel;
- access to critical transportation infrastructure;
- acquisition of existing retail outlets or of sites for new retail outlets;
- acquisition of or access to refining capacity; and
- marketing and sale of crude oil, oil products and gas.

Rosneft is our primary competitor in Russia. In 2013, Rosneft acquired 100% of TNK-BP, and in October 2016, Rosneft acquired a 50.0755% stake in PJSOC Bashneft. These acquisitions have substantially increased its production volumes. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We compete with other oil and gas companies in all areas of our operations, including the acquisition of licences, exploratory prospects and producing properties and we may encounter competition from suppliers of alternative forms of energy sources*" for more information about the risks related to our ability to compete effectively with Russian and international oil and gas companies.

The integrated oil and gas industry is currently subject to several important influences which impact the industry's competitive landscape. In recent years, the oil and gas industry has experienced consolidation, as well as increased deregulation and integration in strategic markets. In addition, our ability to remain competitive will require, among other things, management's continued focus on reducing unit costs and improving efficiency, maintaining long-term growth in our reserves and production through continued technological innovation and our ability to capture new opportunities.

In addition to intense competition, oil and gas companies are also facing increasing demands to conduct their operations in a manner consistent with environmental and social goals. Investors, customers and governments are more actively following the oil industry's performance on environmental responsibility and human rights, including performance with respect to the development of alternative and renewable fuel resources.

As a result of these influences and other factors, we expect competition to intensify.

Credit Ratings

We are currently rated by three rating agencies: Moody's, Fitch and Standard & Poor's. Our ratings as of the date of this prospectus are as follows:

Moody's	<u>Fitch</u>	Standard & Poor's
Long term impliedBa1	Long termBBB-	Long termBBB-
Senior unsecuredBa1	Short term F3	Senior unsecuredBBB-
Outlook Negative	OutlookStable	OutlookStable

The notes are expected to be assigned a rating of BBB- by Fitch and BBB- by Standard & Poor's.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the notes. The ratings do not address the marketability of the notes or any market price. Any change in the credit ratings of the notes or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the notes. We recommend that you analyse the significance of each rating independently from any other rating. Each of Moody's, Fitch and Standard & Poor's is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's, Fitch and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Environment, Health and Safety

Environment

Our operations are subject to a number of environmental laws and regulations in Russia and each of the other countries in which we operate. These laws govern, among other things, air emissions, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As with our competitors, environmental liability risks are inherent in our operations. We have environmental liabilities due to past activities which have caused pollution of land, disturbance to land and generation of waste oils, sludge and drill cuttings. Additionally, we also have long-term obligations concerning the decommissioning of operational facilities and the remediation of soil or groundwater at certain of our facilities and liability for waste disposal or contamination on properties owned by others. Set forth below are key indicators of our environmental impact in Russia for the six months ended 30 June 2016 and for the years 2015, 2014 and 2013.

	Six months ended 30 June 2016	2015	2014	2013
Air emissions, thousand tonnes	280	540	656	736
Water consumption, mmcm	182	430	403	433
Waste water discharge, mmcm	0.5	1.6	1.7	2.3
Recycling and burial of production waste,				
thousand tonnes	400	957	1,437	1,315
Area of contaminated lands, ha	138	136	215	243
Number of accidents with environmental damage	15	29	87	66
Hazardous waste at the end of the period,				
thousand tonnes	833	912	846	865

We have undertaken significant efforts and have made significant expenditures to comply with environmental regulations. However, additional financial reserves or compliance expenditures could be required in the future due to changes in law, new information on environmental conditions or other unforeseen events, and those expenditures could have a material adverse effect on our business, financial condition or results of operations.

Russian legislation provides a basis for requiring those violating environmental regulations to remediate any environmental damage such violations have caused. Environmental authorities may impose fines for breaches of environmental and sanitation standards, and compensation also may be payable for any damage caused. We are committed to a long-term proactive policy to address environmental concerns and actively pursue policies which are designed to reduce pollution and its effects.

We allocate funds in the amounts necessary to minimise risks of environmental loss and to comply with all pertinent environmental regulations. Although our operating and capital expenditures on the prevention, control, abatement or elimination of air, water and solid waste pollution are often not incurred as separately identifiable transactions, they often form a part of larger transactions, such as normal maintenance expenditures. We also create provisions for future environmental remediation. We believe our provisions are sufficient, based upon known requirements, and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries, or that our competitive position will be adversely affected as a result.

We have also voluntarily developed and approved the "Concept of Operations Planning" for all of our group companies, based on the provisions of the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Our carbon portfolio includes 14 Russian projects aimed at the reduction of greenhouse gas emissions in our upstream, downstream and power generation business sectors, which resulted in a reduction in our greenhouse gas emissions by approximately 32 million tonnes over the first commitment period under the Kyoto Protocol from 2008 through 2012. In addition, we make an annual disclosure report on greenhouse gas emissions and energy efficiency through our participation in the Carbon Disclosure Project (CDP).

We consider environmental protection to be a top priority and have implemented a zero discharge principle at our offshore facilities. This principle is based on a total ban on the discharge of waste generated by our operations into the marine environment. The waste is collected in sealed containers and taken onshore for safe disposal and recycling. We follow the zero discharge principle in the course of our exploratory drilling and in operating discovered field, and we have conducted numerous research expeditions and ecological monitoring in every region of our operations, which have demonstrated the success of our observance of the zero discharge principle in containing pollution. In addition, we maintain complex monitoring of oil pollution in the Baltic, Black and Caspian seas. We receive detailed information on oil pollution of the sea, sea surface temperature, distribution of suspended matter, chlorophyll concentration, sea currents and meteorological parameters, and no spills of oil or petroleum products have been registered at our facilities in these regions.

In 2013, our Management Committee approved the LUKOIL Group Environmental Safety Programme for 2014-2018, aimed at improving our environmental monitoring system and minimising any negative environmental impacts caused by our operations, including reducing emissions into the atmosphere and preventing accidents. The programme involves the organisation of 640 environmental measures and is expected to cut greenhouse gas emissions by 100,000 tonnes, provide for the additional treatment of over

7.0 mmcm of discharge water and the utilisation of 321,000 tonnes of oil-containing wastes, and decrease water consummation by 8.0 mmcm. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations*".

Sustainable development

We are guided in our business by the principles of sustainable development and try to maintain a balance between socio-economic and ecological development. In 2008, we joined the United Nations Global Compact, a voluntary initiative to facilitate sustainable development and encourage business to adopt socially responsible policies. Our strategic priority objectives include the creation of a safe working environment for our employees, health protection of our personnel and local communities and environmental protection. As part of these objectives, we have developed a Health, Safety and Environment Management System, which includes compliance with fire safety and emergency response requirements in accordance with applicable Russian law and is based on the best Russian and global practices. We have also been certified for compliance with ISO 14001 and OHSAS 18001 standards.

Among the long-term objectives of our Health, Safety and Environment Policy are to:

- increase petroleum gas utilisation rate through the expansion of gas-processing and power-producing capacities;
- apply the zero-discharge principle for developing offshore fields;
- increase the output of environmentally friendly fuels compliant with the European standards;
- efficiently control the emission of greenhouse gases;
- introduce power efficient techniques and use alternative energy sources to ensure efficient management of natural resources;
- introduce cutting-edge techniques, equipment and materials and increase process control automation to bring under control and gradually reduce both the amount and toxicity of emissions, discharges of pollutants and waste;
- ensure continuous improvement of our compliance activities, including through increased reliability of process equipment, its safe and accident free operation, introduction of new technologies and automated emergency systems;
- ensure that the management, personnel, rescue services and units of our Group companies are prepared to take accident elimination, fire fighting and emergency response measures, as well as enhance preparedness and provide more advanced equipment to fire-fighting and rescue units;
- ensure more efficient development and implementation of programmes aimed at identifying and achieving the most critical health, safety and environment, occupational safety and emergency response objectives;
- reduce anthropogenic environmental load resulting from operation of newly commissioned facilities by ensuring better quality of front end and design documents; and
- exercise more efficient production control, corporate supervision and internal auditing to ensure compliance with the Health, Safety and Environment regulations at our sites based on cutting-edge information technologies, technical diagnostics and remote monitoring techniques in line with ISO 14001, ISO 17020 and OHSAS 18001 international standards.

Health and Safety

Ensuring safe and decent working conditions for our employees is a priority of our Group. As part of these objectives, we hold regular safety drills and training sessions at sea and river terminals, and at production, refining and storage sites, to ensure that our Group's special teams and equipment remain in a high state of readiness to deal with any oil or petroleum product leakages.

Set forth below are key indicators of occupational injuries involving our employees for the six months ended 30 June 2016 and for the years 2015, 2014 and 2013.

	Six months ended 30 June 2016	2015	2014	2013
Number of incidents resulting in loss of				
working hours	10	28	32	38
Number of accidents	10	24	11	28
Number of injuries	10	30	21	30
Number of fatalities	0	4	3	0
Lost time accident frequency rate	0.12	0.28	0.13	0.33

In February 2014, a fire at our Stavrolen petrochemical plant resulted in non-fatal injuries to 10 of our employees and suspension of production. The Russian technical supervisory authority conducted an investigation into the cause of the fire and found that it was caused by depressurisation of an aluminium heat exchanger. The commission recognised that the actions of the personnel during the accident were competent and timely. We completed the repair and maintenance works at the site and the production of ethylene and propylene was resumed in April 2015. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We are exposed to potential losses and liabilities arising from natural disasters, operational catastrophes or security breaches*".

Employees

We had an average of 106,200, 110,300 and 109,600 employees in 2015, 2014 and 2013, respectively. We believe that our relations with our employees are satisfactory.

We aspire to a system of human resource management that matches best global practices. In 2015, we carried out an optimisation of our organisational structure, eliminating inefficient lines of reporting and duplicative management functions. Staff appraisal is of central importance for efficiency management at our Group. We implemented "appraisal and development centre" technology in 2012 and conduct detailed annual employee appraisals. Since 2008, LUKOIL has been the official representative of the Russian Union of Industrialists and Entrepreneurs in the Tripartite Commission for Regulation of Social and Labour Relations, which is the most senior partnership organisation acting under the Labour Code of Russia.

Our Russian subsidiaries are party to various collective bargaining agreements with local trade unions. LUKOIL is also a party to an agreement with a trade union, which covers all of our Group's Russian entities. In 2015, this agreement was extended through the end of 2017. We believe that these various agreements preserve a high level of social and labour-related benefits for our company and that the social benefits guaranteed by such agreements represent some of our industry's best benefits available.

We also strive to cooperate with local communities to create jobs, provide training and education for local personnel and sponsor charitable activities and social programmes. For example, we are actively engaging the local population to perform work in connection with our West Qurna-2 project. Overall head count in Iraq during peak construction exceeded 11,000 workers, of which almost two-thirds were local personnel. Our 350-student training centre in Iraq provides education and advanced training for local personnel, most of whom are residents of adjacent towns in the Basra province. Upon graduating from the centre, students are seconded to various infrastructure projects in the West Qurna-2 field to work under the supervision of experienced engineers and technicians.

Insurance

The insurance industry in the Russian Federation and certain other areas where we have operations is still developing. Our management believes that we have adequate property damage coverage for our main production assets. In respect of third party liability for property and environmental damage arising from accidents on our property or relating to our operations, we have insurance coverage that is generally higher than insurance limits set by local legal requirements. Our management believes that we have adequate insurance coverage of the risks which could have a material effect on our business, financial condition or results of operations. However, there is a risk that we may not have adequate insurance coverage. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We do not carry insurance against all potential risks and losses and our insurance might be inadequate to cover all of our losses or liabilities*".

MANAGEMENT

Members of the Board of Directors and the Management Committee

The current members of our Board of Directors are as follows:

Name	Position at LUKOIL	Date of birth
ALEKPEROV, Vagit Yusufovich	Director, President and Chairman of the	1 September 1950
BLAZHEEV, Victor Vladimirovich	Management Committee Independent Non-Executive Director	10 January 1961
FEDUN, Leonid Arnoldovich	Director, Vice President for Strategic Development	5 April 1956
GATI, Toby Trister	Independent Non-Executive Director	27 July 1946
GRAYFER, Valery Isaakovich	Chairman of the Board of Directors	20 November 1929
IVANOV, Igor Sergeevich	Independent Non-Executive Director	23 September 1945
MAGANOV, Ravil Ulfatovich	Director, deputy Chairman of the Board of Directors, First Executive Vice President for Exploration and Production and	25 September 1954
MATZKE Dishard H	member of the Management Committee Non-Executive Director	26 Echrugery 1027
MATZKE, Richard H MOSCATO, Guglielmo Antonio Claudio	Non-Executive Director	26 February 1937 10 June 1936
MUNNINGS, Roger PICTET, Ivan	Independent Non-Executive Director Independent Non-Executive Director	3 August 1950 8 March 1944

The current members of our Management Committee who are not members of our Board of Directors are as follows:

Name	Position at LUKOIL	Date of birth
FEDOTOV, Gennady Stanislavovich KHAVKIN, Evgeny Leonidovich	Vice President for Economics and Planning Vice President and Chief of Staff of the Company	7 October 1970 1 January 1964
KHOBA, Lyubov Nikolaevna	Vice President and Chief Accountant	19 January 1957
KUKURA, Sergei Petrovich	First Vice President for Economics and Finance	31 October 1953
MASLYAEV, Ivan Alexeyevich	Vice President and General Counsel	21 May 1958
MATYTSYN, Alexander Kuzmich	Senior Vice President for Finance	7 August 1961
MOSKALENKO, Anatoly Alekseyevich	Vice President for Human Resources Management and Security	31 May 1959
NEKRASOV, Vladimir Ivanovich	First Vice President for Refining, Marketing and Distribution	31 March 1957
PASHAEV, Oleg Davidovich	Vice President for Coordination of Petroleum Products Marketing	13 July 1967
ROGACHEV, Denis Vladimirovich	Vice President for Procurements	11 May 1977
SHAMSUAROV, Azat Angamovich	Senior Vice President for Oil and Gas Production	11 April 1963
SUBBOTIN, Valery Sergeevich	Senior Vice President for Sales and Supplies	28 March 1974
VOROBYOV, Vadim Nikolaevich	Vice President for Oil Refining, Gas Processing and Petrochemicals	16 April 1961

The business address of our directors and members of our Management Committee is 11 Sretensky Boulevard, Moscow 101000, Russian Federation, which is our registered address.

Director Biographies

Vagit Yusufovich Alekperov

Mr. Alekperov has served as our President and as the Chairman of our Management Committee since 1993. He has also served as a member of our Board of Directors since 1993 and as the Chairman of the Supervisory Board of LUKOIL INTERNATIONAL GmbH since 2001. Since 2009, Mr. Alekperov has also served as a member of the Board of Directors of OOO NOC (National Oil Consortium). From 1993 to 2000, he also served as the Chairman of our Board of Directors. From 1990 to 1991, he served as Deputy Minister and then First Deputy Minister of the Ministry of Oil and Gas of the Soviet Union. In 1974, Mr. Alekperov earned a degree in engineering from the Azizbekov Institute of Oil and Chemistry in Azerbaijan. He also holds a doctorate degree in economics and is a fellow of the Russian Academy of Natural Science.

Victor Vladimirovich Blazheev

Mr. Blazheev has served as a member of our Board of Directors since 2009. He also serves as the Chairman of our Audit Committee and as a member of our Human Resources and Compensation Committee. In addition he has acted as Rector of Moscow State University of Law named after O.E. Kutafin since 2007. From 1994 to 2007, he was a lecturer and administrator occupying various positions at Moscow State University of Law. Mr. Blazheev graduated from the All Union Extramural Law Institute (AELI) in 1987 and completed a post-graduate programme at AELI/ Moscow Law Institute in the department of civil litigation in 1990. He holds a PhD degree in law.

Leonid Arnoldovich Fedun

Mr. Fedun has served as a member of our Board of Directors and member of our Strategy and Investment Committee since 2013. He has also been Vice President on Strategic Development of LUKOIL since 2012, and before that, from 1994 to 2012, he was Vice President and Head of the Department of Strategic Development and Investment Analysis of LUKOIL. From 1993 to 1994, he was General Director of OAO LUKoil-Consulting. From 2004 to 2014, Mr. Fedun was the Chairman of the Board of Directors of OAO Bank Petrocommerce. He has been the Chairman of the Board of Directors of ZAO IFD Kapital since 2003, a member of the Board of the IFD Kapital Charity Fund since 2013, the Chairman of the Board of Directors of OAO Football Club Spartak-Moscow since 2004, the Chairman of the Board of Spartak-Moscow's Football Club Veterans and Youth Giving Fund since 2008, and a member of the Board of Directors of ZAO Management Group since 2008. From 2012 to 2016, he was a member of the Board of Directors of OOO Liga-TV. Mr. Fedun has also been a board member of the Social Programmes Target Support Fund since 2008, a member of the management board of Russian Union of Industrialists and Entrepreneurs (All-Russia Public Association) since 2006 and a member of the management board of Russian Union of Industrialists and Entrepreneurs (All-Russia Association of Employers) since 2006. Mr. Fedun graduated from the M.I. Nedelin Higher Military Command School in Rostov in 1977 and is candidate of Philosophical Sciences (PhD).

Toby Trister Gati

Mrs. Gati has served as a member of our Board of Directors and member of our Strategy and Investment Committee since June 2016. Mrs. Gati served as Senior International Advisor at Akin Gump Strauss Hauer & Feld LLP from 1997 to 2016. She has been a member of the Board of Directors of the U.S.-Russia Business Council (USRBC) since 2008. Mrs. Gati has served as President of TTG Global LLC since April 2016. She is also a participant in the Valdai Discussion Club. Mrs. Gati received a Bachelor of Arts in Russian Literature and Language in 1967 from Penn State University, a Master of Arts in Russian Literature from Columbia University in 1970 and a Master of International Affairs and a certificate from the Harriman Institute, Columbia University in 1972.

Valery Isaakovich Grayfer

Mr. Grayfer has served as the Chairman of our Board of Directors since 2000 and has been a member of our Board of Directors since 1996. In addition, Mr. Grayfer served as the General Director of RITEK from 1992 until early 2010 and has served as the Chairman of the Board of Directors of RITEK since 2010. From 2007 to 2014, Mr. Grayfer was a member of the Board of Directors of OAO Kogalymnefteprogress. He also was a member of the Board of Directors of ZAO R-Vnedreniye from 1997 until 2011. He served as the General Director of OAO Nazymgeodobycha from 2006 to 2007. From 1985 to 1990, he served as Deputy Minister of the Ministry of Oil and Gas of the Soviet Union in charge of the Chief Tyumen Production Division for the oil and gas industry. Mr. Grayfer graduated from the I.M. Gubkin Moscow Oil Institute in 1952, where he earned a Ph.D. degree in science. He is a professor of the I.M. Gubkin Russian State University of Oil and Gas.

Igor Sergeevich Ivanov

Mr. Ivanov has served as a member of our Board of Directors since 2009. He also serves as Chairman of our Strategy and Investment Committee and as a member of our Audit Committee. He has served as a member of the International advisory board at UniCreditGroup since 2015 and as a member of the International advisory board at Universal Credit Rating Group Co., Limited since 2014. From 2013 to 2014, he was a member of the International advisory board at OOO Altimo. In 2013, he was a member of the Board of Directors of OAO Soyuz-Telefonstroy. Mr. Ivanov has served as a member of the Managing Directors' Board of Rissa Investments N.V. since 2013. From 2013 to 2015, he was a member of the Board of Directors of OJSIC Ingosstrakh. From 2012 to 2013, he was a member of the Board of Directors Directors of Directors of Directors Directors of Directors of Directors Directors Directors of Directors D

of ZAO INFRA Engineering. Mr. Ivanov has served as President of a non-profit partnership Russian International Affairs Council since 2011. Since 2005, Mr. Ivanov has served as a Professor of the Department of World Political Processes of the Moscow State Institute of International Relations. From 1993 to 1998, Mr. Ivanov acted as First Deputy Minister of Foreign Affairs of the Russian Federation and from 1998 to 2004 as Minister of Foreign Affairs of the Russian Federation. From March 2004 to July 2007, Mr. Ivanov acted as Secretary of the Security Council of the Russian Federation. Mr. Ivanov graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1969. He is corresponding member of the Russian Academy of Sciences and holds a doctorate degree in history. Mr. Ivanov also holds diplomatic rank of Ambassador Extraordinary and Plenipotentiary of the Russian Federation.

Ravil Ulfatovich Maganov

Mr. Maganov has served as a member of our Board of Directors and Management Committee since 1993 and as deputy Chairman of our Board of Directors since June 2016. He has also served as a First Executive Vice President for Exploration and Production since 2006. Mr. Maganov is a member of our Strategy and Investment Committee. Mr. Maganov has served as a member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH since 2000. From 2012 to 2015, he also was Chairman of the Supervisory Board of LUKOIL Overseas Holding GmbH (which was reorganised in 2015). He was also the Chairman of the Board of Directors of LUKOIL Overseas Holding Ltd. from 2008 to 2013. Mr. Maganov served as our First Vice President from 1994 to 2006 and as our Vice President from 1993 to 1994. He also served as the General Director of AOOT LUKOIL-Langepasneftegas, one of our subsidiaries, from May to November of 1993. Mr. Maganov worked in several capacities for Langepasneftegas from 1988 to 1993, including as General Director from 1991 to 1993. In 1977, he earned a degree in engineering from the I.M. Gubkin Moscow Institute of the Oil and Gas Industry.

Richard H. Matzke

Mr. Matzke has served as a member of our Board of Directors since 2011. He also served as a member of our Board of Directors from 2002 to 2009. He is a member of our Human Resources and Compensation Committee. Mr. Matzke has been a Director at Petro China Company Ltd. since 2014. He was President of Chevron Overseas Petroleum and a member of the Board of Directors of Chevron Corporation from 1989 to 1999 and served as a Vice Chairman of Chevron Corporation and Chevron-Texaco Corporation from 2000 until 2002. From 2010 to 2013, he was a member of the Board of Directors of Eurasia Drilling Company Ltd. Mr. Matzke has served as a member of the Board of Directors of PHI Inc. since 2001. Mr. Matzke graduated from Iowa State University in 1959, Pennsylvania State University in 1961, and St. Mary's College in California in 1977. He holds a master's degree in geology and a master's degree in business administration.

Guglielmo Antonio Claudio Moscato

Mr. Moscato has served as a member of our Board of Directors since 2011. He currently serves as a Member of our Strategy and Investment Committee. Mr. Moscato has served as Chairman and CEO of Gas Mediterraneo & Petrolio Srl since 2005. From 2012 to 2015, he was Chairman and CEO of GMP Environment Srl. From 2010 to 2014, he served as a member of the Board of Directors of Trevi S.p.A. Previously, Mr. Moscato held the positions of Chairman of the Board of Directors of ENI S.p.A and Chairman of the Board of Directors and Chief Executive Officer of AGIP S.p.A. Mr. Moscato graduated from Polytechnic University of Milan in 1961.

Roger Munnings

Mr. Munnings has served as a member of our Board of Directors since 2015. He also serves as the Chairman of our Human Resources and Compensation Committee. Mr. Munnings has been the Chairman of the Board of the Russo-British Chamber of Commerce since 2012. Previously, he was Chairman of KPMG's Global Energy and Natural Resources Practice from 1993 to 2008, President and Chief Executive Officer of KPMG Russia / CIS from 1996 to 2008 and a member of KPMG's International Council (the senior governance body of the audit, accounting and advisory firm) from 1998 to 2008. He has been a member of the Board of Directors of Sistema JSFC, a Russian based investment company, since 2010 and was a member of the Board of Directors of JSC SUEK, a Russian based coal mining company, from 2012 to 2013. Mr. Munnings received a Master's Degree in Philosophy, Politics and Economics from the University of Oxford in 1972, and he is a fellow of the Institute of Chartered Accountants in England and Wales.

Ivan Pictet

Mr. Pictet has served as a member of our Board of Directors since 2012. He also serves as a member of our Audit Committee. He served as a member of the UN Investments Committee of the UN Joint Staff Pension Fund Board from 2005 to 2015 and he was Chairman of this Committee from 2014 to 2015. From 1995 to 2014, he worked as a member of the International Advisory Board of Blackstone Group International Limited. He has been a member of AEA European Advisory Board since 2010. He was also a member of AEA Investors LP Global Advisory Board from 2011 to 2015. Mr. Pictet has been a member of the Board of Directors of Symbiotics since 2011 and Chairman of the Board of Directors of Symbiotics since 2015. He has been a member of the Board of Directors of PSA International S.A. since 2012. Mr. Pictet has been the President of the Fondation Pictet pour le Développement and President of the Fondation pour Genève since 2009. Mr. Pictet was managing partner of Pictet & Cie from 1982 to 2010 and its senior managing partner from 2005 to 2010. He earned a master's degree in economics from the School of Business Administration at the University of St. Gallen in 1970.

Potential Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors or the Management Committee of LUKOIL towards either LUKOIL or the Issuer and their private interests and/or other duties.

Additional Information About Our Directors

Interests of the Directors in Our Share Capital

The beneficial ownership interests of each director (including interests held through his or her connected persons and trusts, funds and other investment vehicles) in our share capital, the existence of which is known to such director, including through the exercise of reasonable diligence, whether or not such interests are held through another party, as of 30 September 2016, which is the most recent practicable date prior to the date of this prospectus, were as follows:

Name of Director	Ownership Interest
Vagit Yu. Alekperov	
Victor V. Blazheev	—
Leonid A. Fedun	
Toby T. Gati	—
Valery I. Grayfer	
Igor S. Ivanov	—
Ravil U. Maganov	0.38%
Richard H. Matzke	0.0003%
Guglielmo Moscato	—
Roger Munnings	
Ivan Pictet	

Each of the other members of our Management Committee who are not members of our Board of Directors owned less than 1% of our share capital as of 30 September 2016. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Certain insiders own significant amounts of shares in LUKOIL, giving them a substantial amount of control over our management and business*".

Director and Management Compensation

Our shareholders determine the compensation of our directors at each annual shareholders meeting. In addition to a basic sum, board members receive extra remuneration for assuming the responsibilities of the Chairman of our Board of Directors or a committee of our Board of Directors, for attending meetings of committees of the Board of Directors in person and transcontinental flights to attend meetings of the Board of Directors and its committees, and for participation in conferences and other events at the written request of the Chairman of the Board of Directors. Remuneration and reimbursements payable to our board members and members of the Audit Commission are determined by a decision taken at our general shareholders meeting. Remuneration of the Management Committee members consists of the following components:

- basic remuneration (salary as set out in the relevant employment contract);
- remuneration as set out in the relevant contract relating to service on the Management Committee;

- annual incentive bonuses;
- long-term incentive bonuses; and
- additional benefits of a social nature.

Total remuneration paid to members of the Board of Directors and the Management Committee for 2015 was RUB 2,364 million (approximately \$38.8 million).

On 4 December 2012, the Board of Directors approved a long-term incentive programme for employees of LUKOIL and its subsidiaries for the period from 2013 to 2017. The long-term incentive programme is based on assigned phantom shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned phantom shares and the amount of dividend per share. The second part is a bonus which is calculated upon completion of the programme, and its size depends on the number of assigned phantom shares and the difference between the share price at the beginning and at the end of the programme. Programme participants must use at least half of the bonus amounts they receive to acquire shares of LUKOIL. Approximately 19.0 million phantom shares have been assigned to employees participating in the 2013-2017 long-term incentive programme.

Board Practices

Members of our Board of Directors are elected at shareholders' meetings by cumulative voting. Directors serve until the next annual general shareholders meeting and may be re-elected an unlimited number of times. Our Board of Directors has the authority to make overall management decisions for us, except those matters reserved to our general shareholders meeting. The current term of office for each of our directors expires at our next annual general shareholders meeting, which will take place between 1 March and 30 June 2017.

We also maintain an Audit Committee of the Board of Directors. The Audit Committee analyses annual independent external audits of LUKOIL's statutory accounts and the Group's financial statements prepared in accordance with IFRS and prepares certain recommendations to the Board of Directors related to these audits. Its responsibilities include making recommendations for selection of the company's auditor, evaluating the auditor's report and determining whether the auditor meets the auditor independence and conflict of interest requirements. The Audit Committee is elected, where practical, from among the independent members of the Board of Directors and consists of at least three persons. Where it is not practical due to objective reasons, at least a majority of the members, and the chairman, of the committee must be independent directors, with the remaining members of the Committee being non-executive members of the Board of Directors (who are members of our Board of Directors but not members of our Management Committee). The Audit Committee members are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Victor Blazheev and the other committee members are Igor Ivanov and Ivan Pictet.

Our Human Resources and Compensation Committee of the Board of Directors provides recommendations to the Board of Directors in relation to candidates for members of the Management Committee and the position of the President of the Company, and evaluates all candidates for members of the Board of Directors and whether they meet professional qualification and independence requirements. The committee also considers and prepares recommendations for the Board of Directors to be used for making decisions on matters related to human resources and compensation of members of the company's management bodies and the Audit Commission. The Human Resources and Compensation Committee is elected, where practical, from among the independent members of the Board of Directors and consists of at least three persons. Where it is not practical due to objective reasons, at least a majority of the members, and the chairman, of the committee must be independent directors, with the remaining members of the committee being non-executive members of the Board of Directors (who are members of our Board of Directors but not members of our Management Committee). The members of the committee are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Roger Munnings and the other committee members are Victor Blazheev and Richard Matzke.

Our Strategy and Investment Committee of the Board of Directors prepares proposals for the Board of Directors for establishing priorities in our activities and in the development of our long-term development strategy. Its responsibilities also include making recommendations to the Board of Directors on the amounts of dividends and procedure for their payment. The Strategy and Investment

Committee is elected from among the members of our Board of Directors and consists of at least three persons. At least one member of the committee must be an independent director. The members of the committee are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Igor Ivanov and the other committee members are Leonid Fedun, Toby Gati, Ravil Maganov and Guglielmo Moscato.

Our shareholders appoint our President, who is also the Chairman of our Management Committee, for a term of five years. Our Board of Directors determines the principal terms and conditions of the President's employment. The President is responsible for the day-to-day management of our activities. Our Management Committee is determined annually by our Board of Directors and currently consists of 15 members. The President proposes the size of the Management Committee and candidates for membership of the Management Committee to our Board of Directors for approval. Members of our Management Committee serve until our Board of Directors confirms the new members of our Management Committee. The Management Committee is our collective executive body and, under the direction of its Chairman, is responsible for our day-to-day management.

Our Audit Commission verifies the accuracy of our financial reporting under Russian law and controls our financial and economic activity. Our Audit Commission consists of three members who are elected at each annual general shareholders meeting and serve until the following annual shareholders meeting. Members of our Audit Commission may be shareholders, but may not be members of our Board of Directors or Management Committee or our President. Remuneration payable to the members of our Audit Commission is approved at our general shareholders meeting. The Audit Commission has the right to call an extraordinary shareholders' general meeting and may conduct an audit of our financial and business records at any time. In addition it must conduct an audit if resolved at the general meeting of the shareholders or at the request of the Board of Directors or any shareholder or group of shareholders owning at least 10% of our voting shares. Currently the members of our Audit Commission are Pavel Suloev, Alexander Surkov and Ivan Vrublevsky.

Director Contracts

We have entered into contracts with the following directors:

- Vagit Yu. Alekperov
- Ravil U. Maganov
- Leonid A. Fedun

In June 2016, we entered into an employment contract with Mr. Alekperov governing the terms of his service as President of LUKOIL. The contract with Mr. Alekperov is for a term of five years and can be terminated early with one month's prior notice. If we terminate Mr. Alekperov's contract prior to its expiration in June 2021, we are obligated to pay him severance in an amount equal to 24 months of his base salary.

In March 1994, we entered into an employment contract with Mr. Maganov governing the terms of his service as First Vice President of LUKOIL. The contract with Mr. Maganov was amended several times between 2006 and 2014. Pursuant to the amendments to the contract made in October 2006, Mr. Maganov's position was changed from First Vice President to First Executive Vice President of LUKOIL. His contract has an indefinite term and may be terminated according to the Labour Code of the Russian Federation. Upon his termination by us, Mr. Maganov is entitled to severance in an amount equal to 12 months of his base salary. LUKOIL has also entered into an agreement with Mr. Maganov governing his membership on the Management Committee.

In July 1995, we entered into an employment contract with Mr. Fedun governing the terms of his service as Vice President and Head of the Department of Strategic Development and Investment Analysis of LUKOIL. The contract with Mr. Fedun was amended several times between 2006 and 2014. Pursuant to the amendments to the contract made in February 2012, Mr. Fedun's position was changed from Vice President and Head of the Department of Strategic Development and Investment Analysis to Vice President on Strategic Development of LUKOIL. The employment contract has an indefinite term and may be terminated according to the Labour Code of the Russian Federation. Upon its termination by us, Mr. Fedun is entitled to severance in an amount equal to 12 months' base salary.

Except as disclosed above, there are no contracts existing or proposed between any of our directors and the Group.

THE ISSUER

The Issuer was incorporated as a private company with limited liability (*Besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands on 16 August 2006 (with its statutory seat in Amsterdam). Its number at the trade register is 34254022.

The authorised share capital of the Issuer at incorporation was $\notin 90,000$ divided into 90,000 shares of par value $\notin 1$ each. As of 30 June 2016, 18,000 shares have been issued and are fully paid at par value. All of the issued shares are owned by LUKOIL Holding B.V., which is indirectly wholly owned by LUKOIL.

The Issuer has two directors: Mr. Konstantin Pavlovich Khorev and Mr. Jacques Patrice Wilhelmus Marcus Brulot.

Mr. Konstantin Pavlovich Khorev has served as a member of the management board of the Issuer since 2015. He also serves as a member of the management boards of other Dutch companies in the Group. From 2005 to 2015, Mr. Khorev worked in various positions in the Treasury department of LUKOIL. Mr. Khorev earned a degree in mathematics from the Moscow State University in Moscow in 2003 and a MSc degree in economics from the New Economic School in Moscow in 2015. He also holds a '*kandidat nauk*' degree (the Russian equivalent of a PhD degree) in mathematics.

Mr. Jacques Patrice Wilhelmus Marcus Brulot has served as a member of the management board of the Issuer since 2015. He also serves as a member of the management boards of other Dutch companies in the Group. From 1991 to 2015, Mr. Brulot gained executive level experience in the wholesale, retail, ICT, multimedia and banking industries, with a focus on the downstream petroleum market in The Netherlands from 2007 to 2013. Mr. Brulot holds a Master of Business in Economics from the University of Tilburg in The Netherlands and a postdoctoral in Controlling from the VU University of Amsterdam in The Netherlands. He is a member of the Dutch Association of Certified Controllers.

None of the Issuer's directors has or had any interest in any transaction effected by the Issuer during the current or immediately preceding financial year (or during an earlier financial year and remain in any respect outstanding or unperformed), which is or was unusual in its nature or conditions or significant to the Issuer's business. There are no potential conflicts of interest between any duties of the directors of the Issuer and the Issuer, and their respective private interests and/or their other duties.

The Issuer has 1 employee, Mr. Jacques Patrice Wilhelmus Marcus Brulot, one of the directors of the Issuer. The principal activity of the Issuer is to raise funds for LUKOIL.

The registered office of the Issuer is WTC Tower D, Level 9, Strawinskylaan 963, 1077 XX Amsterdam, The Netherlands, and its phone number is +31 20 578 8470. The business address of Mr. Konstantin Khorev and of Mr. Jacques Patrice Wilhelmus Marcus Brulot is WTC Tower D, Level 9, Strawinskylaan 963, 1077 XX Amsterdam, The Netherlands. Administrative services are provided to the Issuer by LUKOIL Accounting and Finance Limited of Rotunda Point, 11 Hartfield Crescent, London SW19 3RL, United Kingdom.

KPMG Accountants N.V., having its registered office at Laan van Langerhuize 1, 1186 DS Amstelveen, The Netherlands, was appointed to act as auditor of the Issuer for the years ended 31 December 2015 and 2014. KPMG Accountants N.V. is a member of the Koninklijk Nederlands Instituut van Registeraccountants (Royal Netherlands Institute of Registered Accountants).

Financial Statements

The Issuer's fiscal year ends on 31 December of each year. The Issuer's audited financial statements as of and for the years ended 31 December 2015 and 31 December 2014 were prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code and are included elsewhere in this prospectus.

ADDITIONAL INFORMATION REGARDING THE COMPANY

Principal Interests in LUKOIL

The following table sets forth details, in so far as is known to LUKOIL, as of 30 September 2016 (being the latest practicable date prior to the date of this prospectus), unless otherwise indicated, of all shareholders (other than directors and members of the Management Committee of LUKOIL but including nominee shareholders) that hold 5% or more of the share capital of LUKOIL. Other than Mr. Alekperov and Mr. Fedun, we do not believe that any single shareholder beneficially owns more than 5% of our ordinary shares.

Name of Shareholder ⁽¹⁾	ordinary share capital
National Settlement Depositary (nominee) ⁽²⁾	92.1319%

Per cent of issued

Certain Interested Party Transactions and Relationships

We engage in transactions with equity affiliates and other related parties in the ordinary course of business that include mainly the sale and purchase of crude oil and refined products. See also Note 30 *"Related party transactions"* to our audited annual consolidated financial statements and Note 26 *"Related party transactions"* to our unaudited condensed interim consolidated financial statements, each included elsewhere in this prospectus, for more information on our related party transactions.

None of our directors has or had any interest in any transaction effected by us during the current or immediately preceding three financial years (or during an earlier financial year and remain in any respect outstanding or unperformed), which is or was unusual in its nature or conditions or significant to our business except as disclosed in the following paragraphs.

Azat A. Shamsuarov is a member of LUKOIL's Management Committee and is also a member of the Board of Directors of Bashneft-Polyus, a joint venture with PJSOC Bashneft. In January 2012, we entered into a loan agreement with Bashneft-Polyus (as amended in March 2015 and March and June 2016) with the loan amount of RUB 19,171 million with the interest rate of the CBR key rate multiplied by 0.76 per annum, and the maturity date on 1 December 2020. The loan was granted in accordance with the terms of the joint venture for the development of the Trebs and Titov oil fields in Timan-Pechora. As of 30 September 2016, the outstanding amount (including interest) was RUB 18,973 million.

Leonid A. Fedun is member of LUKOIL's Board of Directors and his brother Andrey A. Fedun is a member of the Board of Directors of JSC Football Club "Spartak-Moscow". In February 2015, we entered into a sponsorship agreement with JSC Football Club "Spartak-Moscow" (as amended in September 2015) for the term until 31 December 2021 with the total sponsorship amount of RUB 12,272 million. Pursuant to the agreement, over 80% of our sponsorship payments are used for advertising LUKOIL. In the six months ended 30 June 2016 and in 2015, the aggregate amounts paid under the sponsorship agreement were approximately RUB 400 million and RUB 400 million, respectively.

Sergei A. Mikhailov was a member of LUKOIL's Board of Directors from 2003 until June 2016 and has also been a member of the Board of Directors of JSC Globalstroy-Engineering since 2008. We entered into a strategic agreement with JSC Globalstroy-Engineering for the ongoing provision of construction, engineering and technical services, which agreement was terminated in September 2015. In September 2013, following a competitive bidding process, we awarded JSC Globalstroy-Engineering a contract for the development of engineering documentation, the purchase of equipment and materials, construction and commissioning and the start-up of an ice-resistant stationary platform at V. Filanovsky field in the Caspian Sea, which contract expired in September 2016. From time to time, JSC Globalstroy-Engineering renders technical and repair services to LUKOIL in the ordinary course of business, and as of 30 June 2016, our capital commitment to JSC Globalstroy-Engineering amounted to RUB 10 billion.

In addition, Mr. Mikhailov and Alexander K. Matytsyn, a member of our Management Committee, were members of the Board of Directors of OJSC Bank Petrocommerce (which was merged into Otkritie

⁽¹⁾ For information on the beneficial ownership interests of our directors in LUKOIL, please see "Management—Additional Information About Our Directors—Interests of the Directors in Our Share Capital".

⁽²⁾ This includes 16.18% of shares owned by LUKOIL Investments Cyprus Ltd, our wholly-owned subsidiary. The ownership interest of LUKOIL Investments Cyprus Ltd has increased from 9.2% as of 30 September 2013 as part of an ordinary shares repurchase plan that we implemented in 2012 and completed in 2015. See also "Risk Factors—Risks Relating to the Russian Federation—A substantial amount of our shares is represented by ADRs, which may impede our ability to implement important business decisions".

Financial Corporation Bank in June 2015) from 2010 to 2014 and from 2011 to 2014, respectively. Moreover, Mr. Fedun, a member of our Board of Directors, was Chairman of the Board of Directors of OJSC Bank Petrocommerce from 2004 to 2014. In ordinary course of business, we have entered from time to time into various agreements with the bank, including bank account, foreign exchange, deposit and derivative agreements.

Mr. Mikhailov was a member of the Board of Directors of PanAtlantic Energy Group from 2011 to 2014, and PanAtlantic Energy Group is a joint venture partner in a number of our projects in Ghana and Romania.

Richard H. Matzke is a member of LUKOIL's Board of Directors and was also a member of the Board of Directors of Eurasia Drilling Company Ltd. (EDC) from September 2010 to September 2013. EDC provides exploration and development well drilling services to the Group, including platform drilling services in the Northern Caspian Sea for our Yu. Korchagin project. EDC entered into the onshore drilling and workover services business in December 2004 by acquiring substantially all of our onshore drilling assets and entered into the offshore drilling business by acquiring certain of our offshore drilling assets in December 2006. In 2011, we sold our Kaliningrad drilling services with EDC (as amended from time to time). The agreement is concluded for the term of 2013-2018. As of 30 June 2016, our capital commitment to EDC amounted to RUB 50 billion.

Valery I. Grayfer is the Chairman of LUKOIL's Board of Directors and was a member of the Board of Directors of JSC Kogalymnefteprogress from 2007 to 2014. In the ordinary course of business, JSC Kogalymnefteprogress renders services to LUKOIL.

Mark Mobius was a member of LUKOIL's Board of Directors from 2010 to June 2015 and is also a member of the Board of Directors of OMV Petrom S.A., which is a subsidiary of the Austrian company, OMV. In June 2013, LUKOIL entered into an agreement to purchase OMV's lubricant blending plant located in Austria, as well as an OMV subdivision that distributes refined products in nine European countries and the "Bixxol" brand name. The acquisition was completed in January 2014.

Litigation and Claims

Other than the proceedings described in the bulleted paragraphs directly following this paragraph, there are no and have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this prospectus, which may have, or have had in the recent past, significant effects on our Group's financial position or profitability:

On 27 November 2001, Archangel Diamond Corporation (ADC), a Canadian diamond development company, filed a lawsuit in the District Court of Denver, Colorado against OAO Arkhangelskgeoldobycha (AGD), a company in our Group, and LUKOIL (together, the Defendants). ADC alleged that the Defendants interfered with the transfer of a diamond exploration licence to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed total damages of approximately \$4.8 billion (RUB 308.4 billion as of 30 June 2016), including compensatory damages of \$1.2 billion (RUB 77.1 billion as of 30 June 2016) and punitive damages of \$3.6 billion (RUB 231.3 billion as of 30 June 2016). On 15 October 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. The Colorado Court of Appeals upheld this ruling on 25 March 2004. On 21 November 2005, the Colorado Supreme Court affirmed the lower courts' ruling that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration licence) was dismissed from the lawsuit. The Colorado Supreme Court found, however, that the trial court made a procedural error by not holding an evidentiary hearing before making its ruling concerning general jurisdiction regarding LUKOIL, which is whether LUKOIL had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. In a modified opinion dated 19 December 2005, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals (instead of the District Court) to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). The Colorado Court of Appeals declined to dismiss the case based on forum non conveniens and the case was remanded to the District Court. In June 2009, three creditors of ADC filed an Involuntary Bankruptcy petition putting ADC into bankruptcy. In November 2009, after adding a claim, ADC removed the case from the District Court to the U.S. Bankruptcy Court. On 28 October 2010, the U.S. Bankruptcy Court granted LUKOIL's Motion for Remand and Abstention and remanded the case to the District Court. On 20 October 2011, the District Court

dismissed all claims in the lawsuit against LUKOIL. ADC filed a notice of appeal on 17 April 2012. On 23 August 2012, the Court of Appeals affirmed the Denver District Court's dismissal for lack of jurisdiction. ADC filed a petition for Rehearing, which was denied on 20 September 2012. ADC filed a petition for Writ of Certiorari in the Colorado Supreme Court on 18 October 2012. We filed our response on 1 November 2012. On 1 July 2013, the Colorado Supreme Court denied ADC's petition for Writ of Certiorari, which we believe concludes this case.

- On 6 January 2012, ADC filed a lawsuit in the U.S. 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) notwithstanding ADC's appeal of the state court's decision. We filed a Motion to Dismiss. Further, discovery was stayed by the Magistrate Judge. ADC appealed the Magistrate's decision to stay discovery to U.S. District Court. The court hearing on both our Motion to Dismiss and ADC's appeal of the stay of discovery took place on 19 November 2013. On 18 December 2014, the U.S. District Court granted our Motion to Dismiss for lack of personal jurisdiction and the doctrine of *forum non conveniens*. ADC subsequently filed a notice of appeal in the U.S. Court of Appeals for the Tenth Circuit. On 9 February 2016, the U.S. Court of Appeals for the Tenth Circuit affirmed the dismissal of the case on the *forum non conveniens* grounds. On 23 February 2016, ADC filed a petition for rehearing and for "rehearing en banc". On 1 April 2016, the U.S. Court of Appeals for the Tenth Circuit denied ADC's petition both for rehearing and for "rehearing en banc". On 28 July 2016, ADC filed a petition for Writ of Certiorari to the U.S. Supreme Court.
- In June 2014, the prosecutors with the Ploesti Court of Appeals in Romania (the Prosecutor's Office) initiated a criminal investigation against a company in our Group, PETROTEL-LUKOIL S.A. (PLK), and its CEO based on alleged tax evasion and money laundering. The Prosecutor's office subsequently brought charges against PLK and its CEO on this basis and added charges against LUKOIL Europe Holdings B.V. (LEH), a company in our Group, for bad faith use of the company's credit and money laundering during 2008-2010. In connection with the investigation, the Romanian authorities carried out an inspection at the Petrotel refinery in October 2014, and as a precautionary measure, seized certain of PLK's stocks of fuel, raw materials, immovable assets and intercompany receivables. The preliminary investigation of the criminal case is ongoing, and tax audits of PLK have not revealed any material violations to date. Other Group companies operating in Romania, Lukoil Lubricants East Europe SRL and Lukoil Energy & Gas Romania SRL, and a number of Romanian legal entities not affiliated with the Group, are also part of the criminal investigation. The amount of the claims are not yet finalised, and at this stage we are not able to assess the probability of potential liabilities.
- In July 2015, the Prosecutor's Office brought additional charges against the CEO and several officers of PLK for bad faith use of the company's credit and money laundering, as well as similar charges against LEH and PLK for 2011-2014. On 3 August 2015, the Prosecutor's Office submitted a final indictment in respect of the additional charges (excluding the allegations of bad faith use of the company's credit in respect of PLK) to the district tribunal of Prahova in Romania (the Tribunal). Following a preliminary hearing by the Tribunal, the Prosecutor's Office revised the amount of damages claimed from \$2.2 billion (RUB 141.4 billion as of 30 June 2016) to \$1.5 billion (RUB 96.4 billion as of 30 June 2016). The amount of damages claimed is not final and may be revised by the Tribunal based on the evidence produced. On 15 December 2015, the Tribunal determined that there were irregularities in the final indictment and returned the criminal case to the Prosecutor's Office, and the Tribunal's determination was confirmed by the Ploesti Court of Appeal on 19 January 2016. The Prosecutor's Office submitted a new indictment to the Tribunal on 22 January 2016 based on the same allegations. On 18 April 2016, the preliminary hearing chamber of the Tribunal decided to hear the case on the merits, and the hearing on the merits is scheduled for 22 November 2016. At this stage we are not able to assess the probability of potential liabilities.
- LUKOIL Overseas Karachaganak B.V., a company in our Group, owns a 13.5% interest in Karachaganak Petroleum Operating joint venture, which operates the Karachaganak field in Kazakhstan under a PSA. LUKOIL Overseas Karachaganak B.V., together with other parties to the PSA, is involved in disputes with the Republic of Kazakhstan related to cost recovery and calculation of the "fairness index" in accordance with the PSA for 2010-2012. In February 2014 and in the first quarters of 2015 and 2016, the Republic of Kazakhstan, one of the joint venture partners, notified the other joint venture partners of claims for an estimated total amount of \$1.8 billion (RUB 115.7 billion as of 30 June 2016), of which the 13.5% interest currently owned by LUKOIL

Overseas Karachaganak B.V. is approximately \$243 million (RUB 15.6 billion as of 30 June 2016). The parties are currently negotiating a settlement of this dispute.

- On 5 November 2014, the FAS announced an investigation of various Russian oil companies, including LUKOIL and one of our subsidiaries, LUKOIL Rezervnefteprodukt. The investigation relates to increases in the wholesale prices of certain gasoline products traded on commodities exchanges in Russia and whether the trading of these products has been carried out in contravention of Russian antimonopoly legislation. There have been no formal charges brought against LUKOIL or OOO LUKOIL Rezervnefteprodukt, and at this stage we are not able to assess the probability of potential liabilities. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—If the FAS were to conclude that we had conducted our business in contravention of antimonopoly legislation, it could impose administrative sanctions on us*" for information about the FAS and Russian antimonopoly legislation.
- On 10 October 2016, the Commission for Protection of Competition in Bulgaria issued ruling No. 797/10.10.2016, finding violations of applicable antimonopoly laws by Lukoil Bulgaria EOOD (LBE), a company in our Group, as well as Petrol AD, Shell Bulgaria EAD, EKO Bulgaria AD, NIS Petrol EOOD and OMV Bulgaria OOD, in connection with concerted actions and/or anti-competitive agreements to fix petrol and diesel fuel retail market prices in Bulgaria. LBE and the other parties may object to this ruling in writing by 9 November 2016. If we are unable to successfully object to, appeal or otherwise challenge this ruling, this dispute may result in fines of up to €150 million (RUB 9.6 billion as of 30 June 2016) for LBE, calculated as a percentage of LBE's annual turnover for the year ended 31 December 2015.

We are also involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against us and are subject to uncertainty inherent in any litigation, we do not believe that the ultimate resolution of such matters will have a material adverse impact on our operating results or financial condition.

There are no and have been no governmental, legal or arbitration proceedings against the Issuer (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this prospectus, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

Other Information

LUKOIL's initial charter was registered with the Moscow Registration Chamber on 22 April 1993 with a registration number of 024.020, and the current version of the charter was registered with the Interdistrict Inspectorate of the Federal Tax Service No. 46 for the city of Moscow on 7 July 2011 under state registration number 9117746935308. Amendments to the charter were registered on 11 July 2012, 10 July 2013, 10 October 2013, 8 July 2014, 6 July 2015, 21 December 2015 and 4 July 2016. On 17 July 2002, LUKOIL was entered into the Unified State Registrar of Legal Entities under registration number 1027700035769. LUKOIL's registered address is 11 Sretensky Boulevard, Moscow 101000, Russian Federation, and our telephone number is +7 (495) 627 4444.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the notes which, subject to amendment, will be endorsed on each Definitive Note (as defined below) and will be attached and (subject to the provisions thereof) apply to the Global Notes.

The US\$1,000,000,000 4.750 per cent. notes due 2026 (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith) of LUKOIL International Finance B.V. (the "**Issuer**") were authorised by a written resolution of the board of directors of the Issuer dated 21 October 2016.

The Notes are constituted by a trust deed dated 2 November 2016 (the "Trust Deed") to be entered into between the Issuer, PJSC "LUKOIL" (the "Guarantor") and Citicorp Trustee Company Limited (the "Trustee", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor have entered into an agency agreement dated 2 November 2016 in relation to the Notes (the "Agency Agreement") with the Trustee and Citibank, N.A., London Branch, as principal paying agent (the "Principal Paying Agent" and, together with any other paying agents appointed under the Agency Agreement, the "Paying Agents") and as transfer agent (the "Transfer Agent") and Citigroup Global Markets Deutschland AG as registrar (the "Registrar"). The Registrar, Paying Agents and Transfer Agent are together referred to herein as the "Agents". Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Terms and Conditions shall have the respective meanings given to them in the Trust Deed.

1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US\$200,000 (the "**Minimum Denomination**") and integral multiples of US\$1,000 in excess thereof ("**authorised denominations**") and, **provided that** the Notes may be transferred only in amounts not less than the Minimum Denomination and integral multiples of US\$1,000 in excess thereof. Title to the Notes shall pass by registration in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar. The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances set forth in the Agency Agreement.

2. Guarantee and Status

(a) Guarantee

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed.

The Guarantor has undertaken in the Trust Deed that so long as any of the Notes remains outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or windingup of the Issuer.

(b) Status

The Notes constitute unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Subject to Condition 4, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors save those whose claims are preferred by any mandatory operation of law.

3. Register, Title and Transfers

(a) **Register**

The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers thereof. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(b) **Title**

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.

(c) Transfers

Subject to Conditions 3(f) and 3(g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3(d). Neither the part transferred nor the balance not transferred may be less than the applicable authorised denomination.

(d) Registration and delivery of Definitive Notes

Within five business days of the surrender of a Definitive Note in accordance with Condition 3(c) above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(e) No Charge

The registration of the transfer of a Note shall be effected without charge to the holder or transferee thereof, but against such indemnity from the holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) **Closed periods**

Noteholders may not require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note.

(g) Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreements. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified office of the Registrar in London.

4. Negative Pledge

- So long as any of the Notes remains outstanding (as defined in the Trust Deed):
- (a) neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary (as defined below) will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a "Security Interest") other than a Permitted Security Interest (as defined below) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined below):
 - (i) payment of any sum due in respect of any such Relevant Indebtedness;
 - (ii) any payment under any guarantee of any such Relevant Indebtedness; or
 - (iii) payment under any indemnity or other like obligation relating to any such Relevant Indebtedness;
- (b) each of the Issuer and the Guarantor will procure that no Person (other than the Guarantor) gives any guarantee of, or indemnity in respect of, any of the Issuer's or the Guarantor's Relevant Indebtedness to the holders thereof,

without in any such case at the same time or prior thereto procuring that the Notes or, as the case may be, the Guarantor's obligations under the Guarantee (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or (z) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

5. Covenants

(a) Mergers

The Guarantor shall not enter into or become subject to, and shall not permit the Issuer or any Principal Subsidiary to enter into or become subject to, any reorganisation (including, without limitation, any amalgamation, demerger, merger or corporate reconstruction) or to change its corporate structure if such a reorganisation or change would have a Material Adverse Effect.

(b) Payment of Taxes

So long as any amount remains outstanding hereunder, the Guarantor shall, and shall ensure that its Subsidiaries shall, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Guarantor or any Subsidiary, **provided**, **however**, **that** none of the Guarantor nor any of its Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP or other appropriate provision has been made or (y) if such failure to pay or discharge shall not have a Material Adverse Effect.

6. Interest

The Notes bear interest from the Issue Date (as defined below) at the rate of 4.750 per cent. per annum, payable in equal instalments semi-annually in arrear on 2 May and 2 November in each year, commencing on 2 May 2017.

The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event the Notes shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of the Notes up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period other than a semi-annual interest period ending on 2 May and 2 November in each year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

7. Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 November 2026.

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or, if a Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the Russian Federation or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 2 November 2016 and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) Redemption at the option of the Issuer

The Issuer may also choose to redeem the Notes prior to 2 November 2026, in whole or in part, on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, by paying a redemption price equal to the sum of:

- (i) 100% of the principal amount of the Notes to be redeemed, plus
- (ii) the Applicable Premium

plus accrued and unpaid interest thereon, if any, to the redemption date.

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) and (b) above and this paragraph (c). All Notes in respect of which any such notice of redemption is given under this Condition 7 shall be redeemed on the date specified in such notice in accordance with this Condition 7.

In these Conditions:

"Applicable Premium" means, with respect to a Note at any time, the excess of (a) the present value at such redemption date of such Note, plus any required interest payments that would otherwise be due to be paid on such Note from such redemption date through 2 November 2026, together with any accrued and unpaid interest as of such redemption date, if any, calculated using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points, over (b) the principal amount of such Note, provided that if the value of Applicable Premium at any time would otherwise be less than zero, then in such circumstances for the purposes of these Conditions the value of Applicable Premium will be equal to zero.

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 2 November 2026. The Issuer will obtain such yield to maturity from information compiled and

published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days (but not more than five business days) prior to the redemption date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); **provided, however, that** if the period from the redemption date to 2 November 2026 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to 2 November 2026 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

(d) Purchase

The Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(e) *Cancellation*

All Notes redeemed or purchased pursuant to this Condition 7 shall be cancelled forthwith and may not be held or resold. Any Notes so cancelled may not be reissued.

8. Payments

(a) Principal

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by U.S. Dollar cheque drawn on a bank in New York City, or by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Notes at the specified office of any Paying Agent.

(b) Interest

Payments of interest (other than interest due on redemption) shall be made by the Paying Agents by U.S. Dollar cheque drawn on a bank in New York City, or by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City not later than the due date for such payment.

(c) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) Payments on business days

If the due date for any payment of principal or interest under this Condition 8 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a U.S. Dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

(e) Record date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment. Any cheque will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) Agents

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor, acting together, reserve the right, with the written approval of the Trustee, to vary or terminate the

appointment of all or any of the Agents at any time and appoint additional or other payment or transfer agents, **provided that** they will maintain (i) a Principal Paying Agent and (ii) Paying Agents and a Transfer Agent having specified offices in at least one major European city approved by the Trustee, being London so long as the Notes are admitted to the Official List of the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market. Notice of any such change will be provided as described in Condition 17 below.

In this Condition, "**EEA Regulated Market**" means a "**regulated market**" as defined by Article 4(1)(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

9. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within The Netherlands or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

- (a) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantee by reason of its having some present or former connection with The Netherlands or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantee; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed pursuant to: (i) sections 1471-1474 of the United States Internal Revenue Code ("FATCA") or any associated regulations, administrative or other official guidance, along with any amendments thereto, (ii) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of (i) above; or
- (d) for any tax imposed on, or measured by, net income, or any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge; or
- (e) where the Noteholder fails to comply with a request from the Issuer or the Guarantor for any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with The Netherlands or the Russian Federation, if such compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the tax, levy, deduction or other governmental charge, and the Noteholder is able to comply with such requirements without undue hardship.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York City by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts or premium in respect of principal or interest (as the case may be) which may be payable under this Condition.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction (or payments on the Notes become subject to tax in the jurisdiction of a Paying Agent) other than (or in addition to) The Netherlands or the Russian Federation, respectively, references in these Conditions to The Netherlands

or the Russian Federation shall be construed as references to The Netherlands or (as the case may be) the Russian Federation and/or such other jurisdiction.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject to its rights under the Trust Deed to be indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable if any of the following events occurs and is continuing (each an "**Event of Default**"):

- (a) payment of principal or interest in respect of any of the Notes is not made within seven business days (in the case of principal) or fourteen business days (in the case of interest) of when the same ought to have been paid in accordance with these Conditions; or
- (b) a default is made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision contained in the Trust Deed, in the Notes or on its part to be performed or observed (other than the covenant to pay the principal and interest in respect of any of the Notes) and (except where the Trustee certifies in writing that, in its opinion, such default is not capable of remedy when no such notice as mentioned below shall be required) such default continues for the period of 45 days next following the service by the Trustee on the Issuer or the Guarantor of notice requiring such default to be remedied; or
- (c) any other present or future Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor, the relevant Principal Subsidiary (as the case may be) or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such Indebtedness, taking into account any applicable grace periods; **provided that**, either, (i) the individual amount of the relevant Indebtedness, guarantee or indemnity in respect of which the event mentioned above in this paragraph (c) has occurred and is continuing equals or exceeds US\$50,000,000 or (ii) the aggregate amount of the relevant Indebtedness, guarantee and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred and is continuing equals or exceeds US\$150,000,000 or, in the case of an amount specified in (i) or (ii) above, its equivalent (as reasonably determined by the Trustee) (on the basis of the middle spot rate for the relevant currency against the U.S. Dollar as quoted by any leading bank on the day on which such calculation is made); or
- (d) an effective resolution is passed or an order of a court of competent jurisdiction is made that the Issuer or the Guarantor be wound-up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders; or
- (f) an encumbrancer takes possession or a receiver is appointed of the whole or (in the opinion of the Trustee) a material part of the assets or undertaking of the Issuer, the Guarantor or any Principal Subsidiary and such possession or appointment is not discharged or rescinded within 120 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) **provided that** at all times during such period the Issuer, the Guarantor or such Principal Subsidiary, as the case may be, is contesting such possession or appointment in good faith; or

- (g) a distress, execution or seizure before judgment is levied or enforced upon or sued upon or sued out against a part of the property of the Issuer, the Guarantor or any Principal Subsidiary which is (in the opinion of the Trustee) material in its effect upon the operations of the Issuer, the Guarantor or such Principal Subsidiary (as the case may be) and is not stayed or discharged within 120 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned); or
- (h) the Issuer, the Guarantor or any Principal Subsidiary (i) through an official action of the board of directors of the Issuer, the Guarantor or such Principal Subsidiary (as the case may be) announces its intention not or (ii) is unable to pay all or (in the opinion of the Trustee) any material part of its debts as and when they fall due; or
- (i) proceedings shall have been initiated against the Issuer, the Guarantor or any Principal Subsidiary for its liquidation, insolvency, bankruptcy or dissolution under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 120 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) unless, and for so long as, the Trustee is satisfied that it is being contested in good faith and diligently; or
- (j) the Issuer, the Guarantor or any Principal Subsidiary shall initiate or consent to proceedings for its liquidation, insolvency, bankruptcy or dissolution relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into any general composition with, its creditors; or
- (k) a moratorium is agreed or declared in respect of any Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or (in the opinion of the Trustee) a material part of the assets, licences or shares of the Issuer, the Guarantor or any Principal Subsidiary; or
- (1) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect to at least the same extent as at the date of issue of the Notes; or
- (m) any event occurs which under the laws of The Netherlands, the Russian Federation or, in the case of a Principal Subsidiary, the jurisdiction of its incorporation (if different), has an analogous effect to any of the events referred to in paragraphs (d) to (k) above,

and, except in the case of (a) above, the Trustee shall have certified in writing to the Issuer that the event is, in its opinion, materially prejudicial to the interests of the Noteholders.

Upon any such notice being given to the Issuer, the Notes will immediately become due and repayable at their principal amount together with interest incurred to such date.

11. Prescriptions

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

12. Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13. Meetings of Noteholders, Modification and Waiver

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be

two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, and to vote on a resolution other than an Extraordinary Resolution will be two or more persons holding or representing not less than 10 per cent. in principal amount of the notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vi) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

(b) Modification and Waiver

The Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantor, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, **provided that** such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided as described in Condition 17 below.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may rely without liability to Noteholders on any report, confirmation or certificate or any advice of the Auditors, the Chief Accountant of the Guarantor, or any expert considered by the Trustee to be of good repute, whether or not addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise.

16. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

17. Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices will be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in any English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, failing whom the Guarantor, shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantor and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. Arbitration

(a) Any dispute or difference of whatever nature howsoever arising between the Issuer or, as the case may be, the Guarantor and any Noteholder (subject to Condition 14) under, out of or in connection with the Notes or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Notes or the Trust Deed or the Guarantee and any non-contractual obligations arising out of or in connection with any of them) (each a Dispute) shall (regardless of the nature of the Dispute) be referred to and finally settled by arbitration in accordance with the LCIA Rules (the Rules) as at present in force (which Rules are deemed to be incorporated by reference into this Condition 20(a)) by a panel of three arbitrators appointed in accordance with the Rules.

(b) The seat of arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of the arbitration shall be English. The appointing authority for the purposes set forth in the Rules shall be the LCIA Court. Any award given by the arbitrator shall be final and binding on the parties to the Dispute and shall be in lieu of any other remedy.

21. Governing Law, Consent to Enforcement and Waiver of Immunity

(a) Governing law

The Notes (including for the avoidance of doubt Condition 20), the Trust Deed and any non-contractual obligations arising out of or in connection with any one of them are governed by English law.

(b) Agent for Service of Process

Each of the Issuer and the Guarantor has appointed LUKOIL Accounting & Finance Limited at its registered office (being, at the date hereof, Rotunda Point, 11 Hartfield Crescent, London SW19 3RL, England) as its agent in England to receive service of process in England in connection with the Notes or the Trust Deed.

(c) Consent to enforcement etc.

The Issuer and the Guarantor consent generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Disputes.

(d) Waiver of immunity

To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, the Issuer and the Guarantor agree not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

22. Definitions

In these Conditions, the following terms shall have the following meanings:

"Affiliate" has the meaning ascribed to it under Rule 405 of the Securities Act;

"**Auditors**" means the auditors of the Group's GAAP consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under terms of the Notes, such other internationally recognised firm of accountants as may be approved in writing by the Trustee for this purpose;

"**business day**" means (except where expressly defined otherwise) a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office;

"**Consolidated Assets**" means the total amount of assets appearing on the consolidated balance sheet of the Guarantor, prepared in accordance with GAAP, as of the date of the most recently prepared consolidated financial statements;

"Closing Date" means 2 November 2016;

"Domestic Relevant Indebtedness" means any Relevant Indebtedness which is denominated and payable in rubles, is not quoted, listed or ordinarily dealt in or traded on any stock exchange, over the

counter or other recognised securities market outside the Russian Federation and which on issue was placed only with investors within the Russian Federation;

"Event of Default" has the meaning assigned to such term in Condition 10;

"GAAP" means IFRS or U.S. GAAP as applicable;

"Group" means the companies which are consolidated in the most recent accounts of the Guarantor prepared in accordance with GAAP;

"IFRS" means international accounting standards within the meaning of IAS Regulation 1606/2002;

"Indebtedness" means, in respect of any Person, any indebtedness for, or in respect of, moneys borrowed; any amount raised by acceptance under any credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount of money raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; the amount of any liability in respect of a capital lease that would at that time be required to be capitalised on a balance sheet in accordance with GAAP and (without double counting) the amount of any liability in respect of any guarantee or indemnity (whether on or off balance sheet) for any of the items referred to above; **provided that**, for the avoidance of doubt, Indebtedness shall not include moneys raised by way of the issue of share capital (whether or not for cash consideration and excluding shares which are expressed to be redeemable) and any premium on such share capital; and **provided further that** Indebtedness shall not include any trade credit extended to such Person in connection with the acquisition of goods and/or services on arm's length terms and in the ordinary course of trading of that Person;

"Issue Date" means 2 November 2016;

"**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of the Guarantor or the Group, or (b) the Issuer's or the Guarantor's ability to perform its obligations under the Notes and the Guarantee, respectively or (c) the validity, legality or enforceability of the Notes or the Guarantee or the rights or remedies of the Noteholders under the Notes or the Guarantee.

"Permitted Security Interest" means:

- (a) any Security Interest existing on the Issue Date;
- (b) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;
- (c) any Security Interest existing on any property, income or assets of any company at the time such company becomes a Subsidiary of the Guarantor or such property, income or assets are acquired by the Guarantor or any Subsidiary **provided that** such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other property, income or assets of such company or the Group;
- (d) any Security Interest created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of a Security Interest or Security Interests) does not exceed 20 per cent. of Consolidated Assets, as determined by reference to the most recently available consolidated financial statements prepared in accordance with GAAP of the Group; or
- (e) any Security Interest created or existing in respect of any Indebtedness that is not Relevant Indebtedness.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

"Principal Subsidiary" means:

- (a) any Subsidiary of the Guarantor (other than the Issuer):
 - (i) whose gross revenues equal or exceed 10 per cent. of the gross revenues of the Group; or
 - (ii) whose net income equals or exceeds 10 per cent. of the net income of the Group; or

- (iii) whose net assets equal or exceed 10 per cent. of the net assets of the Group, all as shown in the most recent audited accounts (consolidated or aggregated if available) of the Subsidiary and the Group; and
- (b) any Subsidiary to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary of the Guarantor.

The Trustee shall be entitled to rely on a certificate of an Authorised Officer as to whether a Subsidiary constitutes a Principal Subsidiary and will not be responsible to any Person for any loss occasioned by relying on such a certificate;

"**Relevant Indebtedness**" means any present or future Indebtedness in the form of, or represented by notes, debentures, bonds or other securities (but for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements) which either are by their terms payable, or confer a right to receive payment, in any currency, and are for the time being, or ordinarily are, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market;

"**Subsidiary**" means any corporation or other business entity of which the Issuer or the Guarantor owns or controls (either directly or through one or more Subsidiaries) 50 per cent. or more of the issued share capital or other ownership interest having ordinary voting power to elect a majority of the directors, managers or trustees of such corporation or other business entity;

"**U.S. Dollars**", "**US\$**" or the sign "**\$**" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; and

"U.S. GAAP" means accounting principles generally accepted in the United States of America.

There will appear at the foot of the Conditions endorsed on each Definitive Note the name and specified office of the Agents as set out at the end of this prospectus.

TRANSFER RESTRICTIONS

Rule 144A Notes

In connection with its purchase of Rule 144A Notes, the purchaser hereof (the Investor), by virtue of its acceptance of this prospectus, will be deemed to represent, acknowledge and agree as follows:

- 1. It has not distributed this prospectus or any of its contents to any other person and has not disclosed any of the contents of the prospectus to any other person.
- 2. It (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the notes and is experienced in buying the securities of Russian companies or other emerging market companies, (b) has received and reviewed the prospectus and understands and accepts the substantial risks associated with an investment in the notes, (c) is able to bear a complete loss of its investment in the notes, (d) has the financial ability to bear the economic risk of an investment in the notes for an indefinite period of time and adequate means for providing for its current needs and possible contingencies and (e) has no need for liquidity with respect to its investment in the notes.
- 3. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the notes, Russia, the Issuer or LUKOIL and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers have not made and are not making any representation as to the truth, accuracy or completeness of the information in the prospectus.
- 4. It is (a) a QIB, (b) acquiring such notes for its own account, or for the account of one or more QIBs and that, in each case, is holding and transferring beneficial interests of not less than US\$200,000 principal amount of the Rule 144A Notes, and (c) aware, and each beneficial owner of such notes has been advised, that the sale of such notes to it is being made in reliance on Rule 144A.
- 5. It will provide notice of these transfer restrictions to any subsequent transferees.
- 6. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and are "**restricted securities**" within the meaning of Rule 144 under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs which can make the representations set out in paragraphs 4 and 5 above or (b) to non- U.S. persons (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
- 7. It understands that the Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and which cannot make the representations set out in paragraphs 4 and 5 above.
- 8. Anything herein to the contrary notwithstanding, the Investor shall notify any transferee to which it transfers Rule 144A Notes in accordance with Rule 144A that such transferee will be subject to the restrictions and procedures set forth herein.
- 9. The Rule 144A Notes will be represented by the Rule 144A Global Note. Before any beneficial interests in the notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and *vice versa*, certain certifications will be required pursuant to the agency agreement.
- 10. The Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will at all times bear a legend substantially to the following effect:

THE NOTES REPRESENTED HEREBY AND THE GUARANTEE THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE SECURITIES ACT) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THE NOTES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (RULE 144A) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED

INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A QIB) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US\$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (REGULATION S), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE HOLDER OF THE NOTES REPRESENTED HEREBY WILL, AND EACH SUBSEQUENT HOLDER OF THE NOTES REPRESENTED HEREBY IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES REPRESENTED HEREBY OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THE NOTES REPRESENTED HEREBY, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES REPRESENTED HEREBY.

IF THE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB; (2) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS AND (3) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHICH IS NOT A QIB AND WHICH CANNOT MAKE THE REPRESENTATIONS SET FORTH IN THE FIRST SENTENCE OF THE SECOND PARAGRAPH OF THIS LEGEND. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

BY ITS PURCHASE AND HOLDING OF THE NOTES REPRESENTED HEREBY (OR ANY INTEREST HEREIN), THE PURCHASER AND ANY TRANSFEREE HEREOF WILL BE DEEMED TO HAVE REPRESENTED AND AGREED EITHER THAT: (I) IT IS NOT AND FOR SO LONG AS IT HOLDS THE NOTES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING ANY NOTE REPRESENTED HEREBY DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THE NOTES ARE HELD WILL BE) (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (ERISA)) THAT IS SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED TO INCLUDE, "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR (D) ANY EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW, OR NON-U.S. LAW. THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"); OR (II) ITS PURCHASE AND HOLDING OF THE NOTES REPRESENTED HEREBY WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, IS NOT IN VIOLATION OF ANY SIMILAR LAW).

THE ISSUER MAY COMPEL THE HOLDER OF THE NOTES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB (DURING SUCH TIME

THAT THE NOTES REPRESENTED HEREBY ARE "**RESTRICTED SECURITIES**" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT).

- 11. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Issuer or any of its agents.
- 12. It is not purchasing the notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.
- 13. If it is a pension fund or an investment company, it represents that its purchase of the notes is in full compliance with all applicable laws and regulations.
- 14. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the notes have previously been offered, sold or transferred outside of the United States.

Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

In connection with its purchase of the Regulation S Notes, the Investor and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by virtue of its acceptance of this prospectus hereof, will be deemed to represent, acknowledge and agree as follows:

- 1. It has not distributed any part of the prospectus to any other person and has not disclosed any of the contents of the prospectus to any other person.
- 2. It (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the notes, (b) has received and reviewed the prospectus and understands and accepts the substantial risks associated with an investment in the notes, (c) is able to bear a complete loss of its investment in the notes, (d) has the financial ability to bear the economic risk of an investment in the notes for an indefinite period of time and adequate means for providing for its current needs and possible contingencies and (e) has no need for liquidity with respect to its investment in the notes.
- 3. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the notes, Russia, the Issuer or LUKOIL and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers are not making any representation as to the truth, accuracy or completeness of the information in the prospectus.
- 4. It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) is located outside of the United States or purchasing in an offshore transaction (within the meaning of Regulation S); (b) is not a U.S. person (as defined in Regulation S); and (c) is not an affiliate of the Issuer or LUKOIL or a person acting on behalf of such an affiliate.
- 5. The notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB which can make the representations set forth in paragraphs 4 and 5 of "*Transfer Restrictions* —*Rule 144A Notes*" purchasing for its own account or for the account of one or more QIBs which can make the representations set forth in paragraphs 4 and 5 of "*Transfer Restrictions* —*Rule 144A Notes*" above or (b) to non-U.S. persons (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
- 6. The Regulation S Notes will be represented by the Regulation S Global Note. Before any beneficial interests in the notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and *vice versa*, certain certifications will be required pursuant to the agency agreement.
- 7. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Issuer or any of their respective agents.

- 8. It is not purchasing the notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.
- 9. If it is a pension fund or an investment company, it represents that its purchase of the notes is in full compliance with all applicable laws and regulations.
- 10. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the notes have previously been offered, sold or transferred outside of the United States.

ERISA

Each purchaser of notes, and each subsequent transferee of any notes by virtue of the transfer of such notes to such transferee, by accepting delivery of this prospectus and the notes, will be deemed to have represented, agreed and acknowledged that either:

- 1. It is not and for so long as it holds the notes represented thereby (or any interest therein) will not be (and is not acquiring any note represented thereby directly or indirectly with the assets of a person who is or while the notes are held will be) (a) an "employee benefit plan", as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), that is subject to Title I of ERISA, (b) a "plan" described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the Code), (c) any entity whose underlying assets include, or are deemed to include, "plan assets" by reason of such employee benefit plan's or plan's investment in the entity or (d) any employee benefit plan which is subject to any federal, state or local law, or foreign law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (Similar Law); or
- 2. Its purchase and holding of the notes represented hereby will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to similar law, is not in violation of any Similar Law).

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

The notes will be evidenced on issue by (i) in the case of the Regulation S Notes, the Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of the Rule 144A Notes, the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in the Rule 144A Global Note (if applicable). See "*Transfer Restrictions*". Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See "*Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Rule 144A Global Note may only be held through DTC at any time. See "*Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB which can make the representations set forth in paragraphs 4 and 5 of "*Transfer Restrictions*" and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the agency agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the agency agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only upon receipt by the Registrar of a written certification (in the form provided in the agency agreement) to the effect that the transferor reasonably believes that the transferee is a QIB which can make the representations set forth in paragraphs 4 and 5 of "*Transfer Restrictions*—*Rule 144A Notes*" and that such transaction is in accordance with any applicable securities laws of any state or other jurisdiction of the United States. Beneficial interest in the Regulation S Global Note only upon receipt by the Registrar of an interest in the Rule 144A Global Note only upon receipt by the Registrar is in the form of an interest and so of any state or other jurisdiction of the United States. Beneficial interests in the Rule 144A Global Note only upon receipt by the Registrar of a written certification (in the form provided in the agency agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for so long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated notes in definitive form (the Definitive Notes). The notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant notes.

Payment business days

So long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, the definition of "business day" in Condition 8(d) (*Payments on business days*) will be modified by the terms of such Global Note to mean any day which is a day on which dealings in foreign currencies may be carried on in New York City.

Record Date

Notwithstanding the provisions of Condition 8(e) (*Record Date*), for so long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, payments in respect of the notes will be made to each accountholder in whose account with a clearing system the notes are held at the opening of business on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a day on which each clearing system for which such Global Note is being held is open for business.

Notices

So long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such notes.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of noteholders and in any such meeting as having one vote in respect of each of the notes for which the relevant Global Note may be exchangeable.

Trustee's Powers

In considering the interests of noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) principal in respect of any notes is not paid when due and payable.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for definitive notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB which can make the representations set forth in paragraphs 4 and 5 of "*Transfer Restrictions* —*Rule 144A Notes*". Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, a set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the U.S. Investment Company Act of 1940, as amended (the U.S. Investment Company Act).

Book-Entry Procedures for the Global Notes

For notes evidenced by both the Regulation S Global Note and the Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the notes and cross-market transfers of the notes associated with secondary market trading. See "*Book-Entry Ownership—Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (Direct Participants) or indirectly (Indirect Participants and together with Direct Participants, Participants) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised bookentry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly. More information about DTC may be found at www.dtcc.com.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Exchange for Definitive Notes*", DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing the Rule 144A Notes will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the notes for so long as the notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the Beneficial Owner) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement (SDFS) system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the agency agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or

Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the agency agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices, and purchasers of notes between the date of pricing and the Closing Date should consult their own advisors.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and J.P. Morgan Securities plc (together, the Managers) have, pursuant to a Subscription Agreement dated 31 October 2016, jointly and severally agreed with the Issuer and LUKOIL, subject to the satisfaction of certain conditions, to subscribe for the notes at 100% of the principal amount of the notes, less concessions and commissions plus accrued interest, if any. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Certain of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their affiliates. The Managers have received, or may in the future receive, customary fees and commissions for these transactions. In particular, affiliates of the Managers entered into a US\$1,000,000 loan agreement with a Group company in 2014, which requires prepayment of the loan in connection with the issuance of the notes. As of the date of this prospectus, the total amount outstanding under this loan, including accrued and unpaid interest, was approximately US\$338 million.

Selling Restrictions

General

Neither the Issuer nor LUKOIL nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer or LUKOIL that would permit a public offering of the notes, or possession or distribution of any offering material (in preliminary, proof or final form) in relation thereto in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will, to the best of its knowledge having made due enquiries, comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers notes or has in its possession or distributes this prospectus, in all cases at its own expense.

United States

The notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of U.S. persons, and it will have sent to each dealer to which it sells notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United State or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offer, an offering or sale of notes within the United States by a dealer which is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Notes offered and sold outside the United States may be sold in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of notes within the United States only to persons whom they reasonably believe are QIBs who can represent that (a) they are QIBs within the meaning of Rule 144A; (b) they are acting for their own account, or the account of one or more QIBs, purchasing an amount for each account of not less than US\$200,000 principal amount of notes and (c) they will provide notice of the transfer restrictions set forth in this prospectus to any subsequent transferees.

The Issuer and the Managers reserve the right to reject any offer to purchase the notes, in whole or in part, for any reason. This prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB which can make the representations set out in the previous paragraph and to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this prospectus by any non-U.S. person outside the United States or by any QIB within the United States to any U.S. person or to any other person within the United States, other than any QIB which can make the representations set out in the previous paragraph and those persons, if any, retained to advise such non-U.S. person or QIB which can make the representations set out in the previous paragraph with respect thereto, is unauthorised and any disclosure without the prior written

consent of the Issuer of any of its contents to any such U.S. person or person within the United States, other than any QIB which can make the representations set out in the previous paragraph and those persons, if any, retained to advise such non-U.S. person or QIB which can make the representations set out in the previous paragraph, is prohibited.

United Kingdom

Each Manager has represented, warranted and undertaken that:

- (i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the FSMA) and the regulations adopted thereunder with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom; and
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.

The Netherlands

The notes may not be offered to the public in The Netherlands unless in reliance on Article 3(2) of the Prospectus Directive and provided such offer is made exclusively to persons or entities which are qualified investors (as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) in The Netherlands.

The Russian Federation

Each Manager represents, warrants and agrees that the notes have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Singapore

Each Manager acknowledges that the prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the SFA). Accordingly, each Manager represents, warrants and agrees that it has not offered or sold any notes, it has not made such notes the subject of an invitation for subscription or purchase, and it has not circulated or distributed, nor will it circulate or distribute, the prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions of, any other applicable provision of the SFA.

Hong Kong

Each Manager has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding-up and Miscellaneous Provisions) Ordinance (Cap. 622) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of

only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Republic of Italy

The offering of the notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (CONSOB) pursuant to Italian securities legislation. Each Manager represents and agrees that any offer, sale or delivery of the notes or distribution of copies of the prospectus or any other document relating to the notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the notes or distribution of copies of the prospectus or any other document relating to the notes in the Republic of Italy must be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and
- (ii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

TAXATION

The following is a general description of certain tax laws relating to the notes. It does not purport to be a complete analysis of all tax considerations relating to the notes, whether in those countries referred to or elsewhere. However, prospective investors should consult their own advisors regarding the tax consequences of an investment in the notes.

The Netherlands

The following is a summary of certain material Dutch tax consequences of purchasing, owning and disposing of the notes. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or dispose of the notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. This summary is based on the laws of The Netherlands currently in force and as applied on the date of this prospectus, which are subject to change, possibly with retroactive or retrospective effect. Where in this summary the terms "The Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of the Netherlands.

It is assumed that the notes and income received or capital gains derived therefrom, are not attributable to employment activities of the holder of the notes and that a holder of notes will not directly or indirectly hold a substantial interest (*aanmerkelijk belang*) in the Issuer.

It is further noted that under Dutch tax law an individual may be considered as a holder of notes if he/she is deemed to hold an interest in the notes pursuant to the attribution rules of article 2.14a of The Netherlands Income Tax Act 2001, with respect to property that has been segregated, for instance in a trust or foundation.

Finally, it should be noted that, with the exception of the section on withholding tax below, this summary does not address the Dutch tax consequences for entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba and the notes are attributable to such permanent establishment or permanent representative.

Withholding tax

All payments made by the Issuer under the notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Individuals

A holder of notes who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from notes, including any payment under notes and any gain realised on the disposal of notes, except if:

- (a) he is either resident or deemed to be resident in The Netherlands for Dutch tax purposes or has elected to be treated as a resident of The Netherlands for Dutch income tax purposes; or
- (b) he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, such enterprise is carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands and his notes are attributable to such enterprise.

Furthermore, a holder of notes who is an individual and who does not come under exception (a) nor under exception (b) above will not be subject to Dutch taxes on income or on capital gains in respect of any payment under the notes or any gain realised on the disposal or deemed disposal of the notes, provided that such holder does not carry out any activities in The Netherlands with respect to the notes that exceed ordinary active asset management (*normaal vermogensbeheer*) and such holder of notes does not derive, or is deemed to derive, benefits from the notes that are (otherwise) taxable as benefits from other activities in The Netherlands (*resultaat uit overige werkzaamheden*).

Entities

A holder of notes other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from notes, including any payment under notes and any gain realised on the disposal of notes, except if:

- (a) it is resident or deemed to be resident in The Netherlands for Dutch tax purposes; or
- (b) it derives profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, such enterprise is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and its notes are attributable to such enterprise.

A holder of notes will not become subject to Dutch taxation on income or capital gains by reason only of the issue of the notes or the performance by the Issuer of its obligations thereunder.

Dutch Gift, Estate or Inheritance Taxes

Gift and inheritance tax will arise in The Netherlands with respect to a transfer of the notes by way of a gift by, or on the death of, a holder of notes who is resident or deemed to be resident in The Netherlands at the time of the gift or his/her death.

For purposes of Dutch gift and inheritance taxes, amongst others, a person that holds the Dutch nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the 10 years preceding the date of the gift or the death of this person. Additionally, for purposes of Dutch gift tax, a person not holding the Dutch nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the 12 months preceding the date of the gift. Applicable tax treaties may override deemed residency.

No Dutch gift or inheritance taxes will arise on the transfer of the notes by way of a gift by, or on the death of, a holder of notes who is neither resident nor deemed to be resident in The Netherlands, unless in the case of a gift of the notes by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

Registration Tax, Transfer Tax and Capital tax

There is no Dutch registration tax, transfer tax, capital tax, stamp duty or any other similar documentary tax or duty, other than court fees payable in The Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the notes or the performance of the Issuer's obligations under the notes.

Value Added Tax

There is no Dutch value added tax payable in respect of payments in consideration for the issue of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes, other than the value added Tax which may be due with respect to advisory fees incurred in relation to such payments.

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the acquisition, ownership and disposal of the notes, as well as taxation of payments under the guarantee.

The summary is based on the laws of Russia in effect as of the date of this prospectus (whereas these laws are subject to any changes, which could occur frequently, at short notice and could apply retrospectively). The information and analysis contained in this section are limited to taxation issues and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the notes.

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal authorities of the Russian Federation. Nor does this summary seek to address the availability of double tax treaty relief to and the eligibility for double tax treaty relief of any noteholder in respect of income payable to that noteholder on the notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the noteholders in connection with entering into REPO or stock-lending transactions with the notes or into term deals, derivatives and/ or any similar types of transactions with the notes.

Many aspects of the Russian Tax Code are uncertain and lack interpretive guidance resulting in inconsistent interpretations and application thereof by the various authorities in practice. Both the substantive provisions of the Russian Tax Code applicable to securities and financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency as compared to jurisdictions with more developed capital markets and tax systems.

In practice, the interpretation and application of tax laws and regulations by different tax inspectorates in Russia may be inconsistent and/or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly provided for by law. Similarly, in the absence of binding precedent, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own advisors in relation to the tax consequences of investing in the notes that may arise in their particular circumstances. No representations with respect to the Russian tax consequences pertinent to any particular noteholder are made herein.

For the purposes of this summary, the term "Resident Noteholder" means:

- a noteholder who is (1) a Russian legal entity or an organisation which acquires, holds and disposes of the notes; or (2) a legal entity or an organisation, in each case organised under a non-Russian law which acquires, holds and disposes of the notes through its permanent establishment in Russia (as defined by Russian tax law); or (3) a foreign organisation recognised as Russian tax resident in accordance with the requirements set out in the Russian Tax Code which acquires, holds and disposes of the notes (the "**Resident Noteholder-Legal Entity**"). A foreign organisation shall be recognised as a tax resident of the Russian Federation if (1) it is deemed to be a tax resident of the Russian Federation in accordance with an applicable double tax treaty and/or (2) its place of management is in the Russian Federation, unless a different conclusion follows from an applicable double tax treaty; and
- a noteholder who is an individual and satisfies the criteria of being a Russian tax resident who acquires, holds and disposes of the notes (the "**Resident Noteholder Individual**"). A "Russian tax resident" is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months. Presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment, education purposes or completion of employment or other duties related to work (rendering services) at offshore hydrocarbon fields.

For the purposes of this summary, the term "Non-Resident Noteholder" means:

- a legal entity or an organisation, in each case not organised under the Russian law which acquires, holds and disposes of the notes otherwise than through its permanent establishment in Russia and does not satisfy the criteria for being a Russian tax resident as defined above (the "Non-Resident Noteholder-Legal Entity"); and
- a noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above and who acquires, holds and disposes of the notes (the "Non-Resident Noteholder–Individual").

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as written as at the date of this prospectus. In practice, however, the application of the above formal residency definition by the Russian tax authorities may differ based on their position in each case. The law is currently worded in a way that implies the potential for individuals to be tax resident in Russia for a part of a calendar year. However, both the Ministry of Finance of the Russian Federation and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in Russia for the full calendar year and consequently even where the travel pattern dictates a differing tax residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to the Russian

Tax Code dealing with taxation of individuals, a change in the position of the Russian tax authorities or by outcomes of tax controversy through the courts.

Tax residency rules and the Russian Federation's rights with regard to taxation may be affected by the applicable double tax treaty. The Russian tax treatment of payments under the guarantee made by the guarantor to the Trustee, acting on behalf of the noteholders, may affect the noteholders. See "—*Taxation of Payments under the Guarantee*" below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the notes (including interest received on the notes).

Resident Noteholders should consult their own tax advisors with respect to the effect that acquisition, holding and/or disposal of the notes may have on their tax position.

Non-Resident Noteholders

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

Acquisition of the notes by the Non-Resident Noteholders–Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, acquisition of the notes should not trigger any Russian tax implications for the Non-Resident Noteholders–Legal Entities.

Interest on the Notes

The Non-Resident Noteholders–Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the notes received from the Issuer. However, taxation of interest on the notes may be affected by the taxation treatment of income from sale of the notes and/or payments under the guarantee. See "—Sale or other Disposal of the Notes" and "—Taxation of Payments under the Guarantee".

Sale or other Disposal of the Notes

Generally, there should be no Russian tax on gains from sale or other disposition of the notes imposed on the Non-Resident Noteholder—Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the notes (i.e. debt obligations) where proceeds from sale or other disposition of the notes are received from a source within Russia by a Non-Resident Noteholder–Legal Entity, which is caused by isolated instances in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the notes. Although the Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest on the notes paid to a non-Russian organization should not be regarded as Russian source income and on this basis should not be subject to taxation in Russia, there remains a possibility that a Russian entity or a foreign entity having registered tax presence in Russia which purchases the notes or acts as an intermediary may seek to assess Russian withholding tax at the rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Taxation of Non-Resident Noteholders–Individuals

Acquisition of the Notes

Acquisition of the notes by Non-Resident Noteholders–Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code concerning material benefit (deemed income) received by individuals as a result of the acquisition of securities (in case the notes are initially issued at par, these provisions are likely to be relevant for the acquisition of the notes in the secondary market only). In particular, if the acquisition price of the notes is below the lower margin of the fair market value of the notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to the Russian personal income tax at the rate of 30 per cent. (or such other tax rate as may be

effective at the time of acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders–Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income if the notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is therefore no assurance that as a result of the acquisition of the notes any material benefit received by the Non-Resident Noteholders–Individuals will not become taxed in Russia.

Interest on the Notes

A Non-Resident Noteholder–Individual generally should not be subject to any Russian taxes in respect of payments of interest on the notes received from the Issuer. Taxation of interest on the notes may however be affected by the taxation treatment of income from sale of the notes and /or payments under the guarantee. See "—Sale or other Disposal of the Notes" and "—Taxation of Payments under the Guarantee".

Sale or other Disposal of the Notes

A Non-Resident Noteholder–Individual should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Subject to any available tax treaty relief, if the receipt of any proceeds from a disposal of the notes by a Non-Resident Noteholder–Individual is classified as income from a source within Russia for Russian personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30 per cent (or such other tax rate as may be effective at the time of payment) on the gross amount of proceeds from disposal of the notes (including accrued and paid interest on the notes) less any available duly documented cost deductions.

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources, in practice the Russian tax authorities may assert that such income should be considered as Russian source income if the notes are sold or disposed "in Russia". In absence of any additional guidance as to what should be considered as a sale or other disposal of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the purchaser, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Noteholders–Individual will not become taxable in Russia.

The tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the notes (including accrued and paid interest on the notes) decreased by the amount of duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the notes), provided that such documentation is duly executed and is provided to the tax agent obliged to calculate and withhold the tax in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities, the immediate deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

In certain circumstances if the sale and other disposal proceeds (including accrued and paid interest on the notes) are paid to a Non-Resident Noteholder–Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation, carrying out operations for the benefit of the Non-Resident Noteholder–Individual under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person who will be considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of

the notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder-Individual. If the costs were born in connection with the acquisition of the notes within the relationship with the party other than tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the noteholder and presentation of the documents confirming the costs.

Where a sale is made to other legal entities, organisations (other than licensed brokers or asset managers mentioned in the preceding paragraph) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder–Individual would be then required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition cost and other expenses related to the acquisition, holding and sale or other disposal of the notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the Non-Resident Noteholder–Individual on the basis of the filed personal income tax return.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder–Individual as a result of sale or other disposal of the notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for the Russian personal income tax purposes, which would affect the total amount of income of a Non-Resident Noteholder–Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder–Individual from sale or other disposal of the notes may be affected by changes in the exchange rate between the currency of acquisition of the notes, the currency of the sale or other disposal of the notes and Russian rubles. For personal income tax purposes deductible costs and proceeds from disposal of the notes are converted into Russian rubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Russian ruble terms due to devaluation of the Russian ruble (whereas in foreign currency terms there might be no gain or even capital loss).

Non-Resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences of the acquisition of the notes, sale or other disposition of the notes, including the receipt of sales proceeds from a source within Russia.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholder from Russian sources, including income relating to acquisition, holding, sale and disposal of the notes (if this income is treated as income from Russian sources). To the extent double tax treaty benefits are available, in order to obtain them, such Non-Resident Noteholders must comply with the certification, information and reporting requirements in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

In order to enjoy the double tax treaty benefits, a Non-Resident Noteholder–Legal Entity which has the actual right to receive income (i.e., who qualifies as a "beneficial owner of income") should provide the tax agent with a tax residency certificate before the date of each income payment.

Starting 2016 in order to apply for tax exemption or payment of tax at a reduced tax rate under the respective double tax treaty a Non-Resident Noteholder–Individual must provide to the tax agent a passport of a foreign citizen in order to prove his/ her tax residency status in the foreign jurisdiction. If this document is not sufficient to prove the residency status, the tax agent will request the Non-Resident Noteholder–Individual to provide a tax residency certificate issued by the competent authorities in his/ her country of residence for tax purposes. It is not explicit whether under the new law Russian citizens may enjoy exemption from taxation at source under the respective double tax treaty. The law does not clearly establish how the tax agent shall determine whether a passport is sufficient to confirm the individual's eligibility to double tax treaty benefits. Within 30 days upon payment of income subject to tax exemption or withholding at a reduced tax rate under the respective double tax treaty the tax agent is obliged to submit information to the Russian tax authorities on foreign individuals – recipients of income (passport details and citizenship) and income paid (type of income, amount of income and date of

payment). The procedure of elimination of double taxation of Non-Resident Noteholders–Individuals in case of a basence of a tax agent is not explicitly indicated in the Russian Tax Code.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed in respect of income received in connection with the acquisition, holding and the sale or other disposal of the notes as well as interest income and payments under the guarantee.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder– Legal Entity was withheld at source, despite the domestic release of such income from Russian withholding tax envisaged by the Russian law, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by that Non-Resident Noteholder–Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-Resident Noteholder–Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

Starting from 2016 claim for refund of tax withheld in excess and application of the benefits of the applicable double tax treaty may be filed by the Non-Resident Noteholder-Individual with the tax agent within three years following the year when the corresponding income was received. In the absence of a tax agent to withhold the Russian personal income tax on such income (e.g., in case of a liquidation of the tax agent), an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) with the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide range of documentation confirming a right of a Non-Resident Noteholder–Individual to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to a Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Payments under the Guarantee

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with payments received pursuant to fulfilment of the obligations of the Guarantor established by the Guarantee. Resident Noteholders should consult their own tax advisors with respect to the effect that the receipt of such payments may have on their tax position.

Withholding tax

Pursuant to the Russian Tax Code, payments made by a Russian entity to a Non-Resident–Legal Entity should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to "other similar income" that could include any income similar to specific examples of types of Russian source income provided in the Russian Tax Code (e.g., dividends, interest, royalties, fines, penalties, etc.), including guarantee payments. The Russian Tax Code provides that the exemption established for the "issued bonds" (as discussed below) is applicable with regard to payments made under the guarantee.

Therefore, payments under the guarantee made by the Guarantor to or to the order of the Trustee acting on behalf of the noteholders should be subject to the Russian withholding tax at a rate of 20 per cent. unless the criteria for application of the exemption established for the "issued bonds" are all met or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

The Russian Tax Code provides that Russian companies which make payments in favour of foreign legal entities upon the execution of the guarantee or suretyship should be released from the obligation to

withhold Russian income tax from such payments provided that the following conditions are all met (i.e., exemption established for the "issued bonds"):

(1) Payments under a guarantee or suretyship relate to the "issued bonds", where "issued bonds" are defined as bonds or other debt obligations which are (a) listed and/ or admitted to trading on one of the qualifying foreign exchanges and/ or (b) cleared through foreign depository/ clearing organisations.

The lists of qualifying foreign stock exchanges and foreign depository/clearing organisations were approved by Order No. 12-91/pz-n dated 25 October 2012 of the Federal Financial Markets Service of the Russian Federation, which came into force on 30 December 2012. The London Stock Exchange and the clearing systems Euroclear, Luxembourg and Clearstream were included in the above-mentioned lists. DTC is not expressly mentioned in the lists as opposed to its holding company, the Depository Trust & Clearing Corporation. We believe that the aforementioned conditions provided by the Russian Tax Code are satisfied because, among other things, the notes will be admitted to the Official List of the London Stock Exchange.

(2) Payments under a guarantee or suretyship relate to "issued bonds" which were placed by a foreign entity in order to fund a debt to a Russian entity.

Debt obligations of a Russian legal entity towards a foreign legal entity should be recognised as arising in connection with the issuance by a foreign legal entity of "issued bonds" if reference to this fact is made in the agreement governing the debt obligation and/or in the terms and conditions of the issuance of the respective "issued bonds" and/or in the prospectus, or the connection is verified by the actual movement of funds.

Pursuant to the section "Use of Proceeds" of this prospectus, the Issuer intends to use the net proceeds of the notes for general corporate purposes.

(3) There is a double tax treaty between Russia and the jurisdiction of tax residence of (i) the issuer of the "issued bonds", (ii) the foreign entity authorised to receive interest income payable on the "issued bonds", or (iii) the foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned which can be confirmed by a tax residency certificate of such person.

The Trustee is incorporated under the laws of England and Wales, therefore, the Guarantor should not be required to deduct Russian withholding tax from guarantee payments made to the Trustee acting on behalf of the noteholders, provided the Guarantor have received from the Trustee a tax residency certificate and the Trustee is deemed to be a "foreign entity authorised to receive interest income payable on the issued bonds" for Russian taxation purposes.

There is a risk that the Trustee could not be viewed as a "foreign entity authorised to receive interest income payable on the issued bonds" for Russian taxation purposes. In this case, one can argue that the Non-Resident Noteholder–Legal Entity can be viewed as a "foreign entity authorised to receive interest income payable on the issued bonds". In this respect if the Non-Resident Noteholder–Legal Entity provides the Guarantor with the tax residency certificate confirming that it resides in the jurisdiction having a double tax treaty with Russia, the above exemption on the "issued bonds" could be applicable with the regard to payments under the guarantee payable to such noteholders.

In case the above exemption on the "issued bonds" is not applicable with regard to payments under the guarantee (either because the conditions 2 and/or 3 are not met) there is a risk that respective payments under the guarantee may be subject to Russian withholding tax unless the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty.

Pursuant to the Russian Tax Code the double tax treaty benefits could be applied only by a non-resident income recipient who has the actual right to receive income (i.e., who qualifies as a "beneficial owner of income"). A non-resident income recipient claiming double tax treaty benefits which has the actual right to receive income should provide the tax agents that pay Russian source income with a tax residency certificate before the date of the income payment. Before 1 January 2017 a tax agent that pays Russian source income has the right to request from a non-resident income recipient a confirmation that it has an actual right to receive the income in question. Starting from 1 January 2017 there is an obligation of such non-resident income recipient to provide this confirmation to the tax agent in order to enjoy the double tax treaty

benefits. There is no list of particular documents which can be supplied by the non-resident income recipient for this purpose. Further, there is no explicit guidance or list of the structures which can jeopardise the beneficial owner status of the non-resident income recipient. Beneficial ownership status is determined under a very broad facts-and-circumstances test and should be analysed on a case-by-case basis.

It is unlikely that the Trustee will be deemed as beneficial owner of payments under the guarantee and, consequently, its tax residency certificate (if it is provided to the Guarantor) could arguably not be relied upon for purpose of application of the double tax treaty benefits.

In this respect if the Non-Resident Noteholder–Legal Entity is a beneficial owner of income payable under the guarantee and provides the Guarantor with the tax residency certificate and a relevant confirmation that it is a beneficial owner of income, the Russian withholding tax on guarantee payments payable to such Non-Resident Noteholder–Legal Entity could be reduced or eliminated based on the applicable double tax treaty. However, there can be no assurance that the double tax treaty relief (or refund of any taxes withheld) will be available for Non-Resident Noteholder–Legal Entities with respect to payments under the guarantee in practice.

There can be no assurance that the Russian withholding tax would not be imposed on the payments made under the guarantee to the Non-Resident Noteholders–Legal Entities that are residents for tax purposes in countries which have not concluded double tax treaties with Russia. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the payment under the guarantee, including the principal amount of the notes. Since the above could only be relevant in case of payments made in favour of the Non-Resident Noteholders–Legal Entities residing for tax purposes in countries which do not have a double tax treaty with Russia, reduction or elimination of 20 per cent. Russian withholding tax on the basis of the double tax treaties under such circumstances should not be possible.

In case the payments under the guarantee are deemed to be made to the Non-Resident Noteholder-Individual, a Non-Resident Noteholder–Individual may be subject to Russian personal income tax as such income may be treated as a Russian source income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the notes, could be subject to Russian personal income tax at the rate of 30 per cent., which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from the disposal of the notes.

Importantly, the above-mentioned exemption established by the Russian Tax Code for the "issued bonds" that envisages the release from the obligation to deduct Russian withholding tax from payments made upon the execution of a guarantee or suretyship (provided the above conditions are all simultaneously met) does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance has acknowledged in an information letter published on its website that the release of Russian companies from the obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. However, as of the date of this prospectus, this acknowledgement of the Russian Ministry of Finance has not been formalised. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients including the Non-Resident Noteholders–Legal Entities and/or the Trustee.

If payments under the guarantee become subject to the Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the guarantee by the amount of tax withheld), LUKOIL will be obliged (subject to certain conditions) to increase payments under the guarantee as may be necessary so that the net payments received by the Trustee acting on behalf of the noteholders will be equal to the amounts they would have received in the absence of such withholding.

The Russian Tax Code provides that taxpayers, including foreign persons who receive Russian source income, must pay legally established taxes. To the extent Russian courts interpret the provisions obliging the LUKOIL to gross up payments under the guarantee as an arrangement providing for payment by one party of taxes imposed on another party, the relevant gross-up provisions will not will be enforceable under Russian laws. Accordingly, there is a risk that gross up for withholding tax will not take place and that the payments made by LUKOIL under the guarantee will be reduced by the amount of the Russian income tax withheld by LUKOIL at the rate of 20 per cent. (in the case of applicability of the rate established for Non-Resident Noteholders–Legal Entities) or at a rate of 30 per cent. (in the case of applicability of the rate as may be in force at the time of payment.

VAT on Payments under the Guarantee

The Russian Tax Code specifically exempts payments under guarantees from VAT if they are made by banking entities. However, it does not provide a similar exemption with respect to payments made by non-banking entities. Therefore, it is not entirely clear if payments made under the guarantee by the Guarantor should be subject to VAT.

There is an argument that payments made by the Guarantor under the guarantee should not be subject to Russian VAT because they are outside the scope of Russian VAT as there is no supply of goods, works or services by the recipients of payments under the guarantee (i.e., the Trustee or the noteholders) to the Guarantor.

However, there is a residual risk that a portion of payments made by the Guarantor to the Trustee representing reimbursement of fees for such services as legal, advertising and accounting services incurred by the Trustee may be subject to Russian VAT withheld by the Guarantor at the rate of 18/118 pursuant to sub-item 4 of item 1 of Article 148 of the Russian Tax Code.

United States

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes by U.S. Holders (as defined below), but does not purport to be a complete analysis of all the potential tax considerations. This summary is based upon the Internal Revenue Code of 1986, as amended (the Code), the Treasury Regulations promulgated or proposed thereunder (the Regulations) and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change at any time, possibly on a retroactive basis. No assurance can be given that the treatment of the notes described herein will be respected by the Internal Revenue Service (the IRS) or, if challenged, by a court. This summary is limited to the tax consequences to those persons who are initial purchasers of the notes and who hold the notes as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to deal with all aspects of U.S. federal income taxation that might be relevant to particular U.S. Holders in light of their particular investment circumstances or status, nor does it address specific tax consequences that may be relevant to particular persons (including, for example, financial institutions, broker-dealers, insurance companies, partnerships or other pass-through entities, expatriates, banks, real estate investment trusts, regulated investment companies, tax-exempt organisations, U.S. Holders that have a functional currency other than the U.S. dollar or persons in special situations, such as those who have elected to mark securities to market or those who hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment). In addition, this summary does not address tax considerations applicable to U.S. Holders that own (directly or by attribution) 10% or more of the voting stock of LUKOIL. This summary does not address U.S. Medicare tax, U.S. federal alternative minimum, estate and gift tax consequences or consequences under the tax laws of any state, local or non-U.S. jurisdiction. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in this summary, and we cannot assure you that the IRS will agree with such statements and conclusions.

This summary is for general information only. U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income taxation and other tax consequences to them of acquiring, owning and disposing of the notes, as well as the application of state, local and non-U.S. and other tax laws.

For purposes of this summary, a "U.S. Holder" means a beneficial owner of a note that is for U.S. federal income tax purposes: (1) an individual who is a citizen or resident of the United States, (2) a corporation created or organised under the laws of the United States, any state thereof, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (4) a trust if (a) a court within the United States is able to exercise primary supervision over the administration

of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) a valid election to be treated as a U.S. person for U.S. federal income tax purposes is in effect with respect to such trust.

For purposes of this summary, an entity treated as a partnership for U.S. federal tax purposes will not be treated as a U.S. Holder. A partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax on income derived from holding a note. The U.S. taxation of a partner in a partnership will depend on the nature of the partnership's activities. If you are a partner in a partnership which holds the notes, you should consult your tax advisor about the U.S. tax consequences of acquiring, owning and disposing of the notes.

Characterisation of the Notes

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the notes. We believe and intend to take the position that the notes constitute debt for U.S. federal income tax purposes. However, no ruling will be obtained from the IRS with respect to the characterisation of the notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the notes. If, due to our capital structure or otherwise, the notes were treated as equity interests in us, U.S. Holders likely would be treated as owning interests in a "passive foreign investment company" (a PFIC). Prospective investors should consult their tax advisors regarding the characterisation of the notes and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the notes will be treated as debt for U.S. federal income tax purposes.

Payments of Interest

Payments of interest on a note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued in accordance with such U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Payments of interest on the notes will constitute income from sources outside the United States and generally will be treated as "passive income" for foreign tax credit limitation purposes.

Effect of Russian Withholding Taxes

As discussed in "*Taxation—The Russian Federation*", under current law payments made by LUKOIL under the guarantee to holders of the notes who are not Russian residents may be subject to Russian withholding taxes. In this circumstance, LUKOIL may become liable for the payment of additional amounts to U.S. Holders (see "*Terms and Conditions of the Notes—Taxation*") so that U.S. Holders receive the same amounts they would have received had no Russian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Russian taxes withheld by the guarantor with respect to a note, and as then having paid over the withheld taxes to the Russian taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the guarantor with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Russian income taxes withheld and paid by LUKOIL. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two "baskets", and the credit for foreign taxes on income in either basket is limited to U.S. federal income tax allocable to income in such basket. Interest on the notes generally will constitute foreign source income in the passive basket. A. U.S. Holder will not be entitled to a credit against its U.S. federal income tax liability for Russian taxes withheld in excess of the applicable tax rate under the United States-Russia Tax Treaty if such amounts are treated as recoverable by the U.S. Holder for U.S. federal income tax purposes, regardless of whether the U.S. Holder successfully claims a refund for such taxes. In addition, in certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed only deductions) for foreign taxes imposed on interest if the notes are held under arrangements in which the U.S. Holder's expected profit is insubstantial. Prospective purchasers should consult their tax advisors concerning the foreign tax credit implications of the payment of these Russian taxes.

Treatment of Premium

If a U.S. Holder purchases a note for an amount greater than its principal amount, the U.S. Holder generally may elect to amortise this premium over the term of the note. If a U.S. Holder makes this election, the amount of interest income in each payment period will be reduced by the amount of premium allocated to that period. The U.S. Holder's basis will also be reduced by the amount. Generally, an election to amortise premium for one note requires a U.S. Holder to amortise premium for all debt instruments it acquired or acquires at a premium. U.S. Holders should consult their own advisors about whether the election would be advisable in their particular circumstances and about how to calculate the amount of premium allocated to each payment period.

Sale, Exchange and Retirement of the Notes

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount realised on the sale or retirement (excluding any amount attributable to accrued but unpaid interest, which will be treated as a payment of interest to the extent not previously included in income) and the U.S. Holder's tax basis in the note, decreased (but not below zero) by any amortised premium (as described above). A U.S. Holder's tax basis in a note generally will be the cost of the note to such holder. Any gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a note will be capital gain or loss and will be long-term capital gain or loss if the note was held by the U.S. Holder for more than one year. Long-term capital gains recognised by non-corporate U.S. Holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realised by a U.S. Holder on the sale, exchange or retirement of a note generally will be U.S. source gain or loss.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of the sale or other disposition of notes by, a U.S. paying agent or other U.S. connected intermediary will be reported to the IRS along with certain information, including the beneficial owner's name, address and taxpayer identification number, the aggregate amount of interest or other amounts paid to that beneficial owner during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to payments to certain U.S. Holders, including tax-exempt organisations, provided that they establish entitlement to an exemption.

In the event that a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law, or underreports its tax liability, backup withholding may apply to each payment of interest and principal on the notes and on proceeds from a sale or other disposition of the notes. Backup withholding is not an additional tax and may be refunded or credited against the U.S. Holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS.

U.S. Holders should consult their own tax advisors regarding their qualifications for an exemption from backup withholding and the procedure for obtaining such exemption, if applicable.

U.S. Holders should consult their own tax advisors regarding any filing or reporting obligations that may apply to the acquisition, ownership or disposition of the notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income (the Directive), each Member State has been required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria has instead been required to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Directive has been repealed with effect from 1 January 2017 in the case of Austria and 1 January 2016 in the case of all other Member States, in order to avoid overlap with the amended Council Directive on Administrative Cooperation in the Field of Taxation 2011/16/EU (the DAC), pursuant to which Member States other than Austria are required to apply other new measures on the mandatory automatic exchange of information commencing 1 January 2016. The DAC implements CRS (as defined in "*—The Common Reporting Standard*" below) in the EU context. Austria has an additional year before being required to implement the DAC, but has announced that it will nevertheless begin to exchange information automatically in accordance with the timetable applicable to other Member States.

If a payment under a note were to be made and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Issuer nor the Principal Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such note as a result of the imposition of such withholding tax.

The Common Reporting Standard

The Common Reporting Standard (CRS) was published by the OECD in 2014. Its goal is to provide for the annual automatic exchange between governments of financial account information reported to them by local reporting financial institutions and relating to account holders who are tax resident in other participating jurisdictions. The DAC creates a mandatory obligation on all Member States to exchange financial account information in respect of residents in other Member States on an annual basis, commencing in 2017 in respect of the 2016 calendar year.

The Netherlands has enacted legislation in order to implement CRS and DAC into Dutch law, under which Dutch financial institutions (as defined in Annex I, Section VIII, subparagraphs A(3) through (8) of DAC) will be obliged to make a single return in respect of CRS and DAC. The Issuer may qualify to be a Dutch financial institution for such purposes. If so, the Issuer will be entitled to require a holder of notes to provide any information regarding their and, in certain circumstances, their controlling persons' tax status, identity or residence, in order to satisfy any reporting requirements which the Issuer may have as a result of CRS and DAC, and holders of notes will be deemed, by their holding, to have authorised the automatic disclosure of such information by the Issuer (or any nominated service provider) or any other person to the Netherlands Tax and Customs Administration. The Netherlands Tax and Customs Administration will exchange the information with the tax authorities of other participating jurisdictions, as applicable.

ERISA

The following is a summary of certain considerations associated with the purchase and holding of any notes (or interest therein) by (i) an "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA)) that is subject to Part 4 of Subtitle B of Title I of ERISA, (ii) a plan, individual retirement account or other arrangement that is subject to Section 4975 of the Code and (iii) entities whose underlying assets include, or are deemed to include, "plan assets" by reason of any such plan's, account's or arrangement's investment in the entity (each of (i), (ii) and (iii), a Benefit Plan Investor). Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Covered Plan (as defined below) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Covered Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Accordingly, each original or subsequent purchaser or transferee of a note that is or may become a Covered Plan is responsible for determining that its purchase and holding of such note will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Certain employee benefit plans, such as governmental plans, church plans and non-U.S. plans, while not subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state or local laws or non-U.S. laws that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (Similar Law).

This summary is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions or violations of Similar Law, it is particularly important that fiduciaries, or other persons considering purchasing or holding any notes (or interest therein) on behalf of, or with the assets of, any Benefit Plan Investor or Similar Law plan, consult with their counsel.

U.S. Department of Labor Regulations (29 U.S. C.F.R. 2510.3-101 as modified by Section 3(42) of ERISA, the "Plan Asset Regulations"), generally provide that when a Benefit Plan Investor subject to Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the Code (a "Covered Plan") acquires an "equity interest" in an entity that is neither a "publicly offered security" (as such terms are defined in the Plan Asset Regulations) nor a security issued by an investment company registered under the U.S. Investment Company Act, the Covered Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by the Covered Plan is not "significant" or that the entity is an "operating company," in each case as defined in the Plan Asset Regulations. For purposes of the Plan Asset Regulations, equity participation in an entity by Covered Plans will not be "significant" if they hold, in the aggregate, less than 25% of the value of each class of equity interests of such entity, excluding equity interests held by any person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets, and any affiliates of such person (the significant participation test).

For purposes of the Plan Asset Regulations, (i) the notes will not constitute "publicly offered securities" and (ii) the Issuer will not be an investment company registered under the U.S. Investment Company Act. Moreover, no one will monitor the significant participation test.

Under the Plan Asset Regulations, the term "equity interest" means any interest in an entity other than an interest that is treated as indebtedness under applicable local law and which has no substantial equity features. There are no regulations, published rulings or judicial decisions addressing the characterisation for ERISA purposes of securities issued under the same circumstances and with substantially the same terms as the notes. The company believes and intends to take the position that the notes do not constitute "equity interests" for purposes of the Plan Asset Regulations. There can be no assurance, however, that the U.S. Department of Labor or the courts would agree with such characterisation. If the notes were deemed to constitute "equity interests" and Benefit Plan Investors held a significant portion of the notes, and provided that no other exception from the treatment as "plan assets" applied, the Issuer's assets would be deemed to include "plan assets" subject to the fiduciary provisions of Section 406 of ERISA and the prohibited transaction provisions of ERISA and Section 4575 of the Code.

Whether or not the assets of the Issuer are deemed to include "plan assets", the acquisition and/or holding of any notes (or an interest therein) by a Benefit Plan Investor with respect to which the Issuer, it affiliates and other parties connected with the offering are considered a party in interest or a disgualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or "PTCEs," that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 75-1, which exempts certain transactions between a plan and certain broker dealers, reporting dealers and banks, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers, although there can be no assurance that all of the conditions of any such exemptions will be satisfied. In addition, the statutory service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, which exempts certain transactions between plans and parties in interests that are not fiduciaries with respect to the transaction, could apply.

We cannot provide any assurance that any of these class exemptions or statutory exemptions will apply with respect to any particular investment in the notes by, or on behalf of, a Benefit Plan Investor or, even if it were deemed to apply, that any exemption would apply to all transactions that may occur in connection with the investment.

Because of the foregoing, the notes (and any interest therein) may not be purchased or held by any person investing "plan assets" of any Benefit Plan Investor or employee benefit plan that is subject to a

Similar Law, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Accordingly, by its purchase and holding of any notes (or any interest therein), each purchaser thereof and each transferee will be deemed to have represented and agreed either that: (i) it is not and for so long as it holds notes (or any interest therein) will not be (and is not acquiring the notes directly or indirectly with the assets of a person who is or while the notes are held will be) a Benefit Plan Investor or employee benefit plan that is subject to Similar Law, or (ii) its purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to Similar Law, a violation of any Similar Law).

In addition, fiduciaries and other plan investors should also consider the fiduciary standards under ERISA or other Similar Law in the context of the plan's particular circumstances before authorising an investment of plan assets in the notes. Among other factors, fiduciaries and other plan investors should consider whether the investment:

- satisfies the diversifications requirement of ERISA or other Similar Law;
- complies with the plan's governing instruments; and
- is prudent in light of the "Risk Factors" and other factors discussed in this prospectus.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the notes on behalf of, or with the assets of, any Benefit Plan Investor, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the notes.

REGULATION OF THE OIL INDUSTRY IN THE RUSSIAN FEDERATION

The following information relating to the regulation of the oil industry in the Russian Federation is for background purposes only. This information has been extracted from publicly available sources. LUKOIL has not independently verified the following information. Although LUKOIL accepts responsibility for extracting and reproducing such information accurately, none of LUKOIL or any of the Joint Lead Managers accepts responsibility for the accuracy of such information.

Set forth below are certain key provisions of the Russian legislation relating to the oil industry applicable to the Group. This description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Applicable Legislation

The regulation of the oil industry in the Russian Federation is primarily based on the following laws:

- Parts One, Two, Three and Four of the Civil Code of the Russian Federation (generally effective 1 January 1995, 1 March 1996, 1 March 2002 and 1 January 2008, respectively), as amended (the Civil Code);
- Federal Law No. 208-FZ on Joint Stock Companies dated 26 December 1995, as amended;
- Federal Law No. 14-FZ on Limited Liability Companies dated 8 February 1998, as amended;
- Federal Law No. 225-FZ on Production Sharing Agreements dated 30 December 1995, as amended (the PSA Law);
- Law No. 2395-1 on Subsoil dated 21 February 1992, as amended (the Subsoil Law);
- Federal Law No 99-FZ on Licensing of Certain Activities dated 4 May 2011, as amended (the Licensing Law);
- Federal Law No. 69-FZ on Gas Supply in the Russian Federation dated 31 March 1999, as amended;
- Federal Law No. 117-FZ on Export of Gas dated 18 July 2006, as amended;
- Federal Law No 135-FZ on Protection of Competition dated 26 July 2006, as amended (the Antimonopoly Law);
- Federal Law No. 147-FZ on Natural Monopolies dated 17 August 1995, as amended;
- Parts One and Two of the Tax Code of the Russian Federation (effective 1 January 1999 and 1 January 2001, respectively), as amended (the Russian Tax Code);
- the Customs Code of the Customs Union (annex to the Agreement on Customs Code of the Customs Union adopted by Resolution No. 17 of the Interstate Council of EurAsEc at the level of heads of state of 27 November 2009), as amended;
- Federal Law No. 57-FZ on Procedure for Carrying out Foreign Investments in Enterprises which have Strategic Importance for Ensuring Defence and Security of the State dated 29 April 2008, as amended (the Law on Strategic Enterprises);
- the Land Code of the Russian Federation dated 25 October 2001, as amended (the Land Code);
- Federal Law No. 7-FZ on Environment Protection dated 10 January 2002, as amended (the Environment Protection Law);
- Federal Law No. 39-FZ on the Securities Market dated 22 April 1996, as amended; and
- Federal Law No. 46-FZ on Protection of Rights and Legitimate Interests of Investors at Securities Market dated 5 March 1999, as amended.

The Regulatory Authorities

At the federal level, regulatory authority over the oil industry is divided primarily between Ministry of Energy of the Russian Federation, which replaced the Ministry of Industry and Energy of the Russian Federation pursuant to Presidential Decree No. 724 dated 12 May 2008 (Decree No. 724), and the Ministry of Natural Resources and Ecology of the Russian Federation, which replaced the Ministry of Natural Resources of the Russian Federation pursuant to Decree No. 724. The Ministry of Energy of the Russian Federation sets and implements governmental policy for the industry, drafts legislation

regulating the energy sector and has the enforcement authority and the property management functions. The Ministry of Natural Resources and Ecology of the Russian Federation is involved, in particular, through the Federal Agency for Subsoil Use supervised by it, in the licensing of subsoil resources and also regulates geological exploration for oil and gas.

Unless the relevant Decrees of the Russian President or Orders of the Russian Government provide otherwise, the federal ministries in Russia are not responsible for the control and supervision and management of the state property, which are generally performed by the federal services and the federal agencies, respectively. On the basis of Presidential Decree No. 314 dated 9 March 2004 (**Decree No. 314**), the control and surveillance functions related to use of natural resources and ecology are fulfilled by the Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation, and the law enforcement functions related to subsoil use area are fulfilled by the Federal Agency for Subsoil Use of the Russian Federation. Prior to enactment of Decree No. 314, the functions of these two federal authorities were performed by the Ministry of Natural Resources of the Russian Federation. The Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation and the Federal Agency for Subsoil Use of the Russian Federation. The Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation and the Federal Agency for Subsoil Use of the Russian Federation and the Federal Agency for Subsoil Use of the Russian Federation are subordinate to the Ministry of Natural Resources and Ecology of the Russian Federation.

Among other things, the Federal Agency for Subsoil Use of the Russian Federation is responsible for organising tenders and auctions for subsoil use, the award of subsoil licences, issuing, suspension and terminating subsoil licences, and the Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation is responsible for supervising the compliance by licence holders with the terms of such licences.

The Federal Service for Ecological, Technological and Nuclear Surveillance of the Russian Federation (**Rostekhnadzor**) is a federal authority which is subordinate directly to the Russian Government and which, among other things, is responsible for keeping the register of industrial safety certificates.

The FAS is authorized to pursue state policy aimed at promoting the development of the commodity markets and competition, at exercising state control over the observance of antimonopoly legislation and at preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. Among other functions, FAS oversees the acquisition of controlling stakes in companies with dominant market positions and activities of natural monopolies. In addition, FAS is authorised to decide on determination of prices (tariffs) and/or their relevant thresholds in the areas of operations of natural monopolies and other regulated entities.

The FAS and the Ministry of Energy of the Russian Federation coordinate activities of various federal executive agencies to address issues in the oil industry, including, among others, issues related to access to Transneft's pipeline and tariffs for services rendered by Transneft.

Generally, regional authorities with jurisdiction over the specific area in which an oil and gas project, pipeline, refinery or other enterprise is located have substantial authority. Regional and local authorities usually control regional and local (respectively) land-use allocations.

Strategic Investments

Strategic Enterprises

The Law on Strategic Enterprises establishes certain restrictions and special procedures for foreign investments in sectors of strategic importance to Russian national defence and security by imposing restrictions on the acquisition of control over Russian commercial entities that operate in such sectors (**Strategic Enterprises**), and on the acquisition, including for use, of production facilities of Strategic Enterprises, provided that the value of such production facilities is 25% or more of the book asset value of such Strategic Enterprises (**Strategic Transactions and Actions**). The Law on Strategic Enterprises sets forth the procedure for approval of Strategic Transactions and Actions and sets a general prohibition on Strategic Transactions by foreign states, international organisations or organisations under their control, including those incorporated in the territory of the Russian Federation (**Foreign Sovereign Acquirers**), and requires that other foreign investors obtain consent of the Governmental Commission for Control over Foreign Investments in the Russian Federation (the **Commission**) for consummation of Strategic Transactions and Actions.

The Law on Strategic Enterprises provides for a number of exemptions from the Commission clearance requirements. In particular, the Law on Strategic Enterprises shall not apply to transactions concerning

Strategic Enterprises where the acquirers in such transactions are entities under control of the Russian Federation, a subject of the Russian Federation or a citizen of the Russian Federation who is its tax resident, except for Russian individuals with another citizenship. Furthermore, the Law provides for exemption from the clearance requirement in respect of certain categories of transactions undertaken by international financial organisations established in accordance with international treaties to which the Russian Federation is a party or international financial organisations with which the Russian Federation has entered into a treaty. The Russian Government publishes the list of such organisations, which currently includes, *inter alia*, the International Bank for Reconstruction and Development (**IBRD**), the European Bank for Reconstruction and Development (**EBRD**) and the International Finance Corporation (**IFC**). The exemption does not affect, however, the aforementioned general prohibition for Foreign Sovereign Acquirers to consummate Strategic Transactions and Actions.

Subsoil areas of federal importance

The Law on Strategic Enterprises defines a number of activities that are considered to be strategically important for Russia, including geological survey of subsoil and/or exploration and production of mineral resources within subsoil areas of federal importance (**Strategic Deposits**). The criteria for determining whether a subsoil mineral deposit is a Strategic Deposit are set out in the Subsoil Law. These include, *inter alia*, subsoil deposits (i) that include fields with 70 million tonnes or more of recoverable oil reserves and/or 50 billion cubic metres or more of gas reserves; or (ii) that are located in internal sea waters, territorial sea or on the continental shelf of the Russian Federation; or (iii) whose use requires the use of land plots designated for defence or security purposes.

The list of Strategic Deposits is regularly published in an official publication of the Russian Federation. Unless the federal laws provide otherwise, once a subsoil deposit has been included into such list, it will retain its status as a Strategic Deposit, notwithstanding any changes in the requirements set out in the Subsoil Law.

Strategic Deposits, except for Strategic Deposits located on the continental shelf of the Russian Federation and Strategic Deposits located on the territory of the Russian Federation and extending into the continental shelf of the Russian Federation, may be used only by legal entities established in accordance with the laws of the Russian Federation, unless the Russian Government sets out additional restrictions in accordance with the Subsoil Law on the participation of legal entities incorporated in accordance with the Russian legislation with foreign investors' participation in the auctions for the right to use Strategic Deposits located on the continental shelf of the Russian Federation and Strategic Deposits located on the territory of the Russian Federation and extending into the continental shelf of the Russian Federation may be used only by Russian legal entities (i) which have no less than five years' experience developing continental shelf deposits in Russia; and (ii) in which the Russian Federation holds more than 50% of the total votes represented by the share capital of such entity, or otherwise controls (directly or indirectly) more than 50% of the total number of votes.

Approval requirements

The Law on Strategic Enterprises generally requires a prior approval of the Commission for the acquisition of direct or indirect control over Strategic Enterprises by a company that is under foreign control. The Law on Strategic Enterprises imposes a stricter definition of control (and therefore threshold for approval) in relation to Strategic Enterprises conducting geological survey and/or exploration and production of hydrocarbons/minerals in Strategic Deposits (the Strategic Subsoil Users) than is required for other types of Strategic Enterprises. A person is deemed to control a Strategic Subsoil User if such person: (i) has (direct or indirect) control over 25% or more of the votes represented by the voting shares or participatory interests of the Strategic Subsoil User; or (ii) has the right or authority (pursuant to an agreement or otherwise) to determine decisions made by the Strategic Subsoil User, including the terms of its business operations; or (iii) has the right to appoint the Strategic Subsoil User's general director and/or 25% or more of the members of its management board; and/or (iv) has an unconditional ability to procure the election of 25% or more of the members of the Strategic Subsoil User's board of directors or other collegiate management body; or (v) acts as a management company of the Strategic Subsoil User. In addition, since 2014 prior approval is also required for transactions involving acquisition, including for use, of production facilities of Strategic Enterprises provided that the value of such production facilities is 25% or more of the book asset value of such Strategic Enterprises.

Moreover, the Law on Strategic Enterprises requires prior approval of acquisitions by a Foreign Sovereign Acquirer of direct or indirect control over more than 5% of the votes represented by the

shares/participatory interests comprising the charter capital of the Strategic Subsoil User. At the same time, the Law on Strategic Enterprises exempts from the regime foreign investments in the capital of Strategic Subsoil Users in which the Russian Federation directly or indirectly controls more than 50% of the total number votes prior to consummation of the relevant transactions, provided that it retains such rights after completion of the transactions. The exemption does not cover rules regarding foreign investments in the capital of Strategic Subsoil Users by Foreign Sovereign Acquirers.

Licences and Permits

The Licensing Law and the Subsoil Law, as well as other laws and regulations, list activities which can only be performed subject to licences and permits issued by the relevant Russian authorities and establish procedures for issuing such licences and permits. In particular, to conduct its operations, a company may be required to hold licences and permits for, *inter alia*:

- use of the subsoil, see "-Subsoil Production Licenses".
- discharge of pollutants into the environment;
- collection, processing, utilization, detoxification, transportation and placement of hazardous waste;
- operations involving circulation of explosive materials of industrial use;
- operation of inflammable and class I, II V III chemically hazardous facilities; and
- fire extinguishing.

Subsoil Production Licences

Under the Regulation on Licensing of Subsoil Use No. 3314-1 dated 15 July 1992, as amended (the Subsoil Licensing Regulation), and the Subsoil Law, subsoil areas are provided for the purposes of production of mineral resources for the term of operation of the field, calculated on the basis of a feasibility study for the development of a field providing for the rational use and protection of the subsoil. This regime was introduced in 2000 and did not affect the terms of licenses issued prior to January 2000, however, it permits license holders to apply for extensions of such licences in accordance with the amended Subsoil Law, provided that the licence holder complies with the licence terms and applicable regulations. Prior to January 2000, exploration and production licences had a maximum term of 20 years and combined geological survey, exploration and production licences were issued for a term of up to 25 years. The total maximum term of a geological survey licence provided for in the Subsoil Law is 5 years. Since December 2007 a special term of up to 10 years applies to licences for geological survey of subsoil resources of internal sea waters, territorial sea and the continental shelf of the Russian Federation. As of January 2014 the Subsoil Law also provides for a special term of up to 7 years for geological survey of subsoil resources located fully or partially within the borders of the Republic of Sakha (Yakutia), the Kamchatka Krai, the Krasnoyarsk Krai, the Khabarovsk Krai, the Irkutsk Region, the Magadan Region, the Sakhalin Region, the Nenets Autonomous District, the Chukotka Autonomous District or the Yamalo-Nenets Autonomous District.

A licence holder has the right to develop and sell oil extracted from the area indicated in the licence. The Russian Federation, however, retains ownership of all subsoil deposits at all times, and the licence holder may only have rights to the crude oil or other relevant types of mineral resources when extracted.

Generally, a licence can be held by any business entity, including a legal entity. A subsoil exploration and production licence gives its holder exclusive subsoil use rights with respect to an identified licence area (including subsurface areas) for the term of the licence.

Restrictions related to strategic deposits

The Russian Government may restrict participation in auctions for the right of subsoil use in Strategic Deposits, other than the Strategic Deposits of the continental shelf of the Russian Federation and the Strategic Deposits located in the Russian Federation and extending to its continental shelf, for Russian entities in which foreign investors directly or indirectly hold shares.

In respect of a Strategic Deposit, exploration and production or combined (geological survey, exploration and production) licences may only be issued. Such licences are issued pursuant to a decision of the Russian Government based on the results of an auction, or upon the discovery of a deposit that becomes a Strategic Deposit. Generally, under a combined licence, exploration and production operations, including in a Strategic Deposit, may be performed either in the course or after completion of geological survey operations. This rule does not extend to exploration and production operations performed in a Strategic Deposit by a legal entity controlled by foreign investors or by a foreign investor under a combined licence which may only be performed if the Russian Government so determines in respect of the relevant Strategic Deposit.

Geological survey licences may be issued for subsoil deposits that do not qualify as Strategic Deposits. If in the course of such geological survey a discovery is made which results in the relevant deposit meeting the Strategic Deposit criteria, issuance of the exploration and production licence to the subsoil user that has made the discovery may be denied by decision of the Russian Government if the subsoil user is an entity in which a foreign investor has a direct or indirect interest, and the Russian Government determines that a threat to the national defence and security of Russia has arisen. If the relevant discovery is made under a combined licence by an entity in which a foreign investor has an interest, the Russian Government has the right to terminate the licence.

If issuance of the exploration and production licence is denied, or a combined licence is terminated, as described above, the affected subsoil user is entitled to reimbursement of certain costs it incurred in the prospecting and appraisal of the discovered deposit and (in case of termination of a combined licence) of the one-time payment made under the terms of such licence. This reimbursement and certain other compensation will be payable from the federal budget pursuant to a procedure established by the Russian Government.

Issuance of licences

Most of the currently existing subsoil licences owned by companies derive from (i) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations, or (ii) tender or auction procedures held in the post-Soviet period.

At present, subsoil licences are generally issued by the Federal Agency for Subsoil Use. The Civil Code, the Subsoil Law and the Subsoil Licensing Regulation contain the major requirements relating to tenders and auctions for granting subsoil licences. The Subsoil Law allows for exploration and production licences to be issued without a tender or auction procedure only in a limited number of circumstances, such as when a mineral deposit is discovered by the licence holder who performed geological survey of the discovered mineral deposit at its own expense.

Licences may not be sold or transferred to other persons except in certain limited circumstances specified by the Subsoil Law, such as to companies resulting from reorganisation, licensee's subsidiaries or a licensee's parent, a company that was newly formed for the purpose of holding a transferred licence if the former licensee holds a 50% or greater stake or interest in such newly formed company, provided that the licence is transferred together with the property necessary to operate under the licence.

The Subsoil Law prohibits the transfer of a Strategic Deposit to any entity in which a foreign investor or a group of which a foreign investor is a member has the right to (i) directly or indirectly control 10% or more of its voting shares or interest, (ii) (pursuant to an agreement or otherwise) to determine its decisions, including the terms of its business operations, or (iii) appoint its sole executive body or more than 10% of members of its collective executive body and/or has an unconditional ability to elect more than 10% of members of its board of directors or another collective management body. Such transfer is only permitted in limited circumstances pursuant to a decision of the Russian Government.

Maintenance and termination of licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. There are typically two parties to any licensing agreement: the federal authority (or its local agency) and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil licence.

Under a licensing agreement, the licensee makes certain environmental, safety and production commitments. For example, the licensee makes a commitment to bring the field into production by a certain date and to extract an agreed upon volume of natural resources each year, as well as to conduct agreed drilling and other exploratory and development activities, comply with the requirements of subsoil rational use and conservation, subsoil use-related safe operations, protect the environment in the licence area from damage and also to provide geological information and data to the relevant authorities. The licence agreement may also contain commitments with respect to the region's social and economic development.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil licence holders with the terms of their licences and applicable legislation.

The license may terminated, suspended or limited by the licensing authorities upon notice in the following events:

- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- a breach of material terms and conditions of the licence by the licensee;
- repeated violation of the established subsoil use rules by the licensee;
- inability of the licensee to commence operations within a specified period of time and at required production volumes, both as indicated in the licence;
- the occurrence of an emergency situation (natural disasters, war, etc.);
- the liquidation of the licensee;
- failure to report in accordance with the legislation; and
- failure to provide, on time or at all, subsoil geological data as required by the law.

The licensee is also fined in case of a material breach of the license terms. Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and Rostekhnadzor, undertake periodic reviews for ensuring compliance by subsoil license holders with the terms of their licences and applicable legislation. Although the Subsoil Law, as well as administrative law regulations do not specify which terms of a licence are material, failure to pay subsoil taxes and failure to commence operations in a timely manner as provided by licensing agreements have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project would also be likely to constitute violations of material license terms.

When a licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory rules contained in the Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

Compliance with the licence terms is critical to maintaining a licence in force. If the subsoil licence holder fails to fulfil the licence conditions, the licence may be terminated by the licensing authorities with the relevant notice to be given. However, if a subsoil licence holder is unable to meet certain deadlines or achieve certain exploration or production volumes as set forth in a licence, it may apply to amend the relevant licence conditions, although such amendments may be denied.

If a licensee disagrees with a decision of the licensing authorities, including a decision relating to licence termination or the refusal to re-issue an existing licence, the licensee may appeal against the decision in administrative or judicial proceedings. In certain cases the licensee may be given an opportunity to cure a violation within three months of receipt of the notice of violation. If a violation is cured within such a three-month period no termination or other action may be taken.

Extension of licences

The Subsoil Law provides that, upon expiration of a licence, it may be extended at the initiative of the licensee if prospecting, appraisal and development operations need to be completed or remediation activities are required, provided that the relevant subsoil user is not in breach of the licence terms.

Land Use Permits

In addition to a subsoil production licence, Russian oil companies are required to obtain rights to use surface land within the specified licensed area as Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Under the Land Code, Russian legal entities generally have one of the following options to formalise their rights with regard to land in the Russian Federation: (i) ownership, (ii) lease, (iii) right of free use or (iv) easement.

Most land plots in the Russian Federation are in state or municipal ownership. Such land plots may, by way of bidding in the form of an auction or without bidding, where provided for by the law, or otherwise, be sold, leased or otherwise be granted for use to a third party.

Under the Land Code, the land that is in state and municipal ownership and required for the subsoil use is leased to subsoil users without bidding (auction or tender). The relevant lease will contain a mandatory provision to hold reclamation work in respect of the land plot being leased and will be executed for a term exceeding the term of the subsoil use licence by no more than two years. The term of the land lease, therefore, depends on the term of the licence and may not be shorter than such term.

The law also provides for a right to use the land plot required for the subsoil use by creating an easement. For this purpose, the subsoil user enters into an easement agreement in respect of the relevant land plot.

Where land plots are expected to be used for geological survey, such land plots in state or municipal ownership which have not been earlier granted to individuals or entities may be used without being granted or without creating an easement. In this circumstances the land plot will be used pursuant to a permit issued by a competent authority for the term of the relevant subsoil use licence.

Companies could also have had a right of perpetual use of land granted to them before the Land Code was enacted; however, the Federal Law No. 137-FZ on Introduction of the Land Code dated 25 October 2001, as amended, with certain exceptions, obliged the companies using land based on the right of perpetual use either to purchase the land from, or to enter into a lease in respect of, the land with the relevant federal, regional or municipal authority which owned the land by 1 July 2012. The violation of this requirement results in a penalty under the administrative law provisions in effect as of 1 January 2013.

Fees Payable by Subsoil Production Licensee

The Subsoil Law provides for the basic framework of payments applicable to licence holders, including: (i) one time payments in cases specified in the licence, (ii) regular payments for the subsoil use (i.e., rentals paid for the right to conduct prospecting and exploration works) and (iii) fees for the right to participate in tenders or auctions. In addition, subsoil users must also pay other taxes and fees provided for by the Russian Tax Code.

Environmental Protection

Operations of Russian oil companies are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

The Environment Protection Law establishes the types of environmental impact, the pollution discharge limits and a "pay-to-pollute" regime. Federal Service for the Supervision of the Use of Natural Resources monitors that the relevant fees are correctly calculated and paid in full and in due time. Pursuant to Decree No. 314 it is generally responsible for controlling environmental quality and the use of the natural resources.

Fees are assessed both for pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. The fees are calculated mainly based on the Environmental Protection Law and Decree of the Russian Government No. 344 dated 12 June 2003 On Rates of Payments for Pollutant Emissions into the Air by Stationary and Mobile Sources, Pollutant Discharges into Surface and Underground Waters, Including through Centralised Water Disposal Systems, Disposal of Production and Consumption Waste, as amended, and certain other regulations. Additional fines may be imposed for certain other breaches of environmental regulations. The environmental protection laws provide for an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorised governmental bodies may bring an action, and although there is no private right of action for monetary relief, courts may impose clean-up obligations subject to the agreement of the parties in lieu of or in addition to imposing fines. In certain cases breaches of environmental laws and regulations may also lead to criminal liability of guilty persons under the Criminal Code of the Russian Federation.

Subsoil licences generally provide for certain environmental commitments. Although the commitments may be stringent in a particular licence the penalties for failing to comply with such commitments are generally low. However, governmental authorities impose onerous clean-up requirements requiring significant resources.

Natural resource development matters are subject to periodic environmental evaluation. While in the past these evaluations generally did not result in substantial restrictions on natural resource exploration and development activities, they are expected to become increasingly strict in the future. Currently, operations that may cause damage to the environment conducted without a state environmental expert examination may trigger negative consequences. Thus, if the operations of a company violate environmental authorities may suspend such operations or a court action may be brought to limit or ban such operations and require the company to remedy the effects of the violation. Any company or employee who fails to comply with environmental regulations may be subject to administrative and/or civil liability and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to fines. The limitation period for compensation claims regarding damages caused by pollution is 20 years.

The Subsoil Law and the Subsoil Licensing Regulation also provide that a subsoil licence must include a provision establishing the procedure for the restoration and recultivation of the land plot upon termination of the subsoil licence. This procedure generally requires the licensee to submit, for the approval of regional authorities, a proposed plan detailing the timeframe and actions the licensee will undertake to restore and recultivate the land plot. Additional requirements in respect of environment remediation, land recultivation and compensation of damage to the environment are prescribed by the Environment Protection Law. The Environment Protection Law also contemplates monetary incentives to encourage legal entities and individual entrepreneurs to take actions mitigating the adverse impact on the environment.

Oil Spills and Oil Contamination

Except for the general obligation to compensate for the harm caused to the environment as a result of its contamination provided for by the Environmental Protection Law, the Russian Government has adopted certain regulations setting out requirements to the action plans and the principles according to which oil and oil product spill prevention and response plans must be developed in respect of spills both on land and on the continental shelf of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation. In addition to the obligations to train employees and to arrange for the special technical equipment to clean up oil spills to be owned and available, the law requires, for the purposes of preventing and cleaning up oil and oil product spills on the contiguous zone of the Russian Federation, in the territorial waters and the contiguous zone of preventing and cleaning up oil and oil product spills on the contiguous zone of the Russian Federation, in the territorial waters and the contiguous zone of preventing and cleaning up oil and oil product spills on the contiguous zone of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation, in the inland sea waters, in the territorial waters and the continental shelf of the Russian Federation, in the inland sea waters, in the territorial waters and the continental shelf of the Russian Federation, in the inland sea waters, in the territorial waters and the contiguous zone of the Russian Federation, inform the state authorities about the financial provision to prevent and clean up oil and oil product spills and of the scope of such financial provision.

Moreover, the Land Code provides for certain obligations arising with the persons whose activities have caused the land quality to deteriorate. Where the impact on the land has caused such environmental degradation and/or topsoil damage that, as a result, the land may no longer be cultivated and may not be reclaimed to remedy such impact, such land will be subject to conservation, while the persons whose activities have resulted in such conservation being required, will reimburse the owners of such land for their losses incurred.

Gas Flaring Operations

Russian oil producers, including the Group, flare a portion of the gas produced in their fields. Consequently, such oil producers are subject to state-imposed charges for excess gas flared, which have increased in recent years. These charges are levied in accordance with regulations of the Ministry of Natural Resources and Ecology of the Russian Federation and applicable regulations of the Russian Government. Limitations on gas flaring may be established in the licences.

Established in 2013, the amount of the emission charge for excess gas flared has not been increased since, and the gas flaring limit remains at the level of 5% of the amount of associated gas produced. Any

associated gas flared in excess of the established limit results in increased emission charges per a coefficient equal to 25.

Crude Oil and Refined Product Transportation Regime

From 1995, as part of a scheme to deregulate prices and liberalise export controls, the Russian Government established equal pipeline and sea terminal access procedures for all oil companies in proportion to the actual production volume of each company. This system allowed Russian oil companies to export, on average, 35% of the oil they produced.

In August 2001, the Russian Government began implementing reforms relating to the allocation of pipeline and sea terminal access rights, and since September 2001, pipeline and sea terminal access rights have been distributed among oil producers and their parent companies in proportion to the volumes of oil they have produced and actually delivered to the Transneft pipeline system (and not solely in proportion to the volumes of oil they produce).

The allocation of pipeline and sea terminal access rights is currently overseen by the Ministry of Energy of the Russian Federation. The Ministry of Energy of the Russian Federation approves on a quarterly basis schedules that, *among other things*, detail the precise volumes of oil that each oil producer can pump through the Transneft pipeline system. Once access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have some limited flexibility in altering delivery routes.

Transneft has a very limited ability to transport individual batches of crude oil, with the result that crude oil of differing qualities delivered in the pipeline system is blended. Transneft does not currently operate a "quality bank" system whereby companies shipping heavy and sour crude oil would compensate the shippers of higher-quality crude oil for the deterioration in the crude quality arising from blending.

Due to lack of a quality bank system the Group's sales of crude oil that it transports through the Transneft pipeline system are priced as the crude oil blend that results from the combination of different types and qualities of crude oil in the pipeline system, which is usually referred to as "Urals blend" crude oil. As a result, the price the Group gets for its oil may be lower than the price that it could get for oil of the same quality if the Group could transport oil independently of Transneft.

It should be noted, however, that based on announcements by Transneft representatives, the infrastructure necessary for the quality bank system and the technical arrangements necessary for implementation of a quality bank system are being developed. In particular, in May 2016 Transneft proposed creating Urals Heavy, a new benchmark high-sulphur Russian oil blend, which may be partially derived from the Urals blend, the main Russian export blend, and may be high-sulphur with approximately 2.3% sulphur content. However, this initiative has not been legally formalised.

As Transneft is a natural monopoly, the tariffs for using its pipelines are regulated by the FAS which is in charge of analysing and setting such tariffs and controlling their application.

Production Sharing Agreements

The PSA Law sets forth general principles for investment in the exploration and production of minerals on a "production sharing" basis.

A production sharing agreement (PSA) is a contract between the Russian Government and an investor in which the investor agrees to bear the costs and risks of exploration and production of a mineral resource and the parties agree predetermined shares of the output.

The PSA Law governs petroleum operations carried out pursuant to PSAs. It establishes the principal legal framework for state regulation of PSAs relating to oil and gas field development and production. Under the PSA Law, the Russian Federation as a state is represented (in its relations with investors under PSAs) by the Russian Government or the state bodies authorised by it. The PSA Law contains stabilisation rules purporting to protect investors against adverse changes in federal and regional laws and regulations, including certain uncertainties in tax laws and regulations, save for legislative amendments of health and safety standardization requirements and documents and environmental protection requirements. The PSA Law provides that operations conducted under a PSA pursuant to the PSA Law will be governed by the PSA itself. In case of conflict between the PSA Law and other Russian law requirements the PSA Law shall prevail, therefore the PSA shall not be affected by contrary provisions of any other laws, including the Subsoil Law.

Since the PSA Law was enacted, the legislature has approved a number of oil fields as eligible for PSA. Currently, few of these fields are subject to effective PSAs.

Current System of Oil and Gas-Related Taxes and Duties

Oil and Gas-Related Taxes and Duties

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Our Results of Operations—Taxation" for information on the tax regime for the production and sale of crude oil, gas and refined products in Russia, including with respect to crude oil extraction tax rates, natural gas extraction tax rates, crude oil export duty rates, export duty rates on refined products, crude oil and refined products export duty payments, excise taxes on refined products.

Regular Payments for the Use of Subsoil

Regular subsoil use payments depend on the size of the licence area (subsoil plot) provided to the subsoil user (the licensee), the kind of natural resources and location of subsoil plot (offshore or onshore plot). The current annual minimum and maximum rates of regular payments are set as follows: (1) the rate for the right to prospect and evaluate oil fields ranges from RUB 120 to RUB 540 per sq. km (from RUB 50 to RUB 225 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)); and (2) the rate for the right to explore oil fields ranges from RUB 4,000 to RUB 16,000 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)); and (2) the rate for the right to explore oil fields ranges from RUB 5,000 to RUB 20,000 per sq. km (from RUB 4,000 to RUB 16,000 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)); and (2) the rate for the right to explore oil fields ranges from RUB 5,000 to RUB 20,000 per sq. km (from RUB 4,000 to RUB 16,000 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)).

Tax and Customs Regime for Shelf Projects

Starting 1 January 2014, a special tax and customs regime for shelf projects applies. The regime applies to offshore hydrocarbon deposits lying wholly within the boundaries of Russia's territorial waters, its continental shelf and/or the Russian sector of the Caspian Sea seabed and to new offshore hydrocarbon deposits. New offshore hydrocarbon deposits are offshore hydrocarbon deposits for which the date of commencement of commercial extraction of hydrocarbons falls on or after 1 January 2016 excluding offshore hydrocarbon deposits lying 50% and more within the south part of the Sea of Okhotsk (south of 55 degrees north latitude).

Tax incentives under the special regime are granted to licence holders and operators of new offshore projects. The regime includes ad valorem mineral extraction tax rate, export duty relief, transport tax and assets tax exemptions, as well as certain VAT, profits tax and transfer pricing incentives.

Forthcoming Changes in Legislation Regarding Oil-Related Taxes and Duties

In 2016 the Russian Government continued moving towards a transformation of the tax regime for upstream from a royalty based tax system to a profits based tax system. During 2016 the Ministry of Energy and the Ministry of Finance have been discussing the parameters of the new tax regime ("added income tax") but no certain decisions have been taken yet.

Further changes to the oil tax regime, including amendments of export duty rates for crude oil and gas condensate are uncertain and are subject to ongoing discussions by the Russian Government.

Protection of Competition

The anti-monopoly legislation of the Russian Federation is based on the Antimonopoly Law which sets forth the framework for regulation and other regulations governing the anti-monopoly issues. The Group must conduct its operations in compliance with the Antimonopoly Law, which provides for certain restrictions, such as an obligation to obtain the preliminary consent of the antimonopoly authorities for actions/transactions that meet certain criteria (including, from 2016 onwards, entering into joint operations agreements with competitors without formation of a body corporate). The Antimonopoly Law also prohibits certain actions by companies, holding a dominant market position (for example, setting monopolistically high or low prices for goods, works or services), which result in prevention, limitation, elimination of competition or infringement of interests of other entrepreneurs or public consumers. It is also prohibited agreements or concerted actions of companies, restricting competition, conducting unfair competitions with regard to compliance with the requirements of the Antimonopoly Law, to issue binding orders to business entities in cases specified by the Antimonopoly Law, as well as other powers. Failure to comply with anti-monopoly requirements may result in administrative fines, criminal liability

of the managers, as well as courts' invalidation of transactions that violate the Antimonopoly Law. See "Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—If the FAS were to conclude that we had conducted our business in contravention of antimonopoly legislation, it could impose administrative sanctions on us" and "—If the FAS were to conclude that we acquired any shares (equity interests) or assets in contravention of antimonopoly legislation, it could impose on us and/or file a claim seeking invalidation of the transactions related to such shares (equity interests) or assets".

Health and Safety

The Group's business operations and most of its activities are conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating the safety of employees at industrial workplaces is the Federal Law No. 116-FZ on Industrial Safety of Hazardous Industrial Objects dated 21 July 1997, as amended (the Safety Law). We are also subject to the Federal Norms and Rules of Industry Safety *"Rules of Safety in the Oil and Gas Industry*" enacted by the Order of Rostekhnadzor dated 12 March 2013 No. 101, as amended.

Oil companies that operate hazardous facilities have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation dated 30 December 2001, as amended (the Labour Code). In particular, they must arrange for trainings and personnel industrial safety appraisals, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. Any construction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review which is conducted by Rostekhnadzor, which has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous facility where the accident took place bears all costs of this investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may impose administrative liability on persons for violation of requirements of industrial safety in accordance with the procedure established by Russian legislation as well as send to the law enforcement agencies information and materials to hold such persons criminally liable.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages, and in certain cases its activity may be suspended for a period of up to 90 days.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code, various federal laws, such as the Law of the Russian Federation No. 1032-1 on Employment in the Russian Federation dated 19 April 1991, as amended, and other regulations adopted in accordance with these laws.

Employment Contracts

Generally, the employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed-term employment contracts. However, an employment contract may be entered into for a fixed term of up to 5 years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by federal law. An employer may terminate an employment contract only on the basis of the specific grounds set out in the Labour Code.

Any termination of an employment contract by an employer that is inconsistent with the Labour Code requirements may be challenged by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work Time and Salary

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid leave under the law is 28 calendar days. Employees who work in hazardous, strenuous or severe conditions may be entitled to an additional paid vacation of not less than 7 calendar days. Generally, such categories of employees are also entitled to reduced working hours (not more than 36 hours per week) and higher salary rate (not less than 4% of the base rate (fixed salary)). Similarly, additional benefits, including additional pay leaves and monetary compensations, must be provided to employees working in Russia's far north and certain other Russian regions, including those where we operate.

Trade Unions

The activities of trade unions are generally governed by the Federal Law No. 10-FZ on Trade Unions, Their Rights and Guarantees of Their Activity dated 12 January 1996, as amended (the Trade Union Law). The Trade Union Law defines a trade union as a voluntary union of individuals with common industrial, professional interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. As part of their activities, trade unions represent interests of employees in collective negotiations, execution and amending of collective contracts and agreements, monitor compliance with labour laws, collective contracts and other agreements, represent their members and other employees in individual and collective labour disputes with management and monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

The trade union may apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may participate in resolving collective labour disputes and have the right to organise and conduct strikes and other collective actions. Russian laws require that companies cooperate with trade unions and do not interfere with their activities.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for strikes to be considered legal. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract.

GENERAL INFORMATION

1. The Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following reference numbers:

	ISIN	Common Code
Regulation S Global Note	XS1514045886	151404588

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg.

2. The Rule 144A Global Note has been accepted for clearance through the facilities of DTC under the following reference numbers:

	ISIN	CUSIP
Rule 144A Global Note	US549876AL44	549876 AL4

The address of DTC is 55 Water Street, New York, New York 10041-0099, United States of America.

- 3. It is expected that listing of the notes on the Official List and admission of the notes to trading on the London Stock Exchange's regulated market will be granted on or about 2 November 2016, subject only to the issue of the Global Notes. Prior to official listing and admission to trading, however, dealing will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in dollars and for delivery on the third working day after the day of the transaction.
- 4. The Issuer and LUKOIL have obtained all necessary consents, approvals and authorisations in The Netherlands and the Russian Federation in connection with the issue and performance of the notes and the guarantee in respect of the notes. The issue of the notes was authorised by a resolution of the Board of Directors of the Issuer dated 21 October 2016.
 - (i) There has been no material adverse change in our prospects since 31 December 2015, the date of our last published audited financial statements.
 - (ii) There has been no significant change in our financial or trading position since 30 June 2016, the end of the last financial period for which unaudited financial information has been published.
 - (iii) There has been no material adverse change in the prospects of the Issuer since 31 December 2015, the date of the Issuer's last published audited financial statements.
 - (iv) There has been no significant change in the financial or trading position of the Issuer since 31 December 2015, the end of the last financial period for which the Issuer's audited financial information has been published.
- 5. Copies of the latest annual report and accounts of LUKOIL may be obtained, and copies of the trust deed constituting the notes, including the guarantee, and the agency agreement for the notes will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the notes is outstanding.
- 6. The annual consolidated financial statements of LUKOIL included in this prospectus have been audited by JSC KPMG, independent auditors, whose address is 10 Presnenskaya Naberezhnaya, 123112 Moscow, Russia. JSC KPMG is a member of the Russian Union of Auditors. The interim consolidated financial statements included in this prospectus have been reviewed by JSC KPMG, independent auditors, therefore no audit opinion has been expressed thereon. With respect to the interim consolidated financial statements included herein, the independent auditor has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their report with respect thereto, included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

- 7. KPMG Accountants N.V. have rendered an unqualified audit report on the financial statements of the Issuer as of 31 December 2015 and 31 December 2014 and for the years then ended. KPMG Accountants N.V. is a member of the Royal Netherlands Institute of Registered Accountants.
- 8. Copies (and accurate/direct English translations where the document in question is not in English) of the following documents may be inspected at the offices of Akin Gump LLP, Ten Bishops Square, London E1 6EG, United Kingdom during usual business hours on any weekday (Saturdays and public holidays excepted) for the life of this prospectus:
 - (i) Charter of LUKOIL;
 - (ii) the Articles of Association of the Issuer;
 - (iii) the reserves reports prepared by Miller and Lents referred to in this prospectus;
 - (iv) the audited annual consolidated accounts of the Group prepared in accordance with IFRS as of 31 December 2015 and 2014 and 1 January 2014, and for the years ended 31 December 2015 and 2014;
 - (v) the unaudited interim consolidated accounts of the Group prepared in accordance with IFRS as of and for the three and six-month periods ended 30 June 2016;
 - (vi) the audited annual accounts of the Issuer prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code as of 31 December 2015 and 31 December 2014 and for the years then ended, in each case together with the audit reports thereon; and
 - (vii) this prospectus together with any supplement to this prospectus or further prospectus.
- 9. The noteholders should note that the Trustee may act, or not act, and rely on (and shall have no liability to noteholders for doing so) certificates or reports provided by our auditors whether or not addressed to the Trustee and whether or not any such certificate or report is subject to any limit on the liability of our auditors (whether by reference to a monetary cap or by reference to the methodology to be employed in producing the same).
- 10. Other than as disclosed in this prospectus, there are no material contracts not entered into in the ordinary course of the Issuer's or LUKOIL's business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's or LUKOIL's ability to meet its obligations to noteholders in respect of the notes being issued.

GLOSSARY OF TERMS

The expressions below shall have the following meanings throughout this prospectus unless the context requires otherwise:

References to:

- "crude oil" are to oil and gas condensate
- "gas" are to non-associated gas (i.e., natural gas) and associated gas
- "mbls" means thousand barrels
- "mmbls" means million barrels
- "boe" means barrels of oil equivalent
- "mboe" means thousand barrels of oil equivalent
- "mmboe" means million barrels of oil equivalent
- "mcf" means thousand cubic feet
- "mmcf" means million cubic feet
- "**bcf**" means billion cubic feet
- "**mcm**" means thousand cubic metres
- "**mmcm**" means million cubic metres
- "**bcm**" means billion cubic metres
- "tonne" means metric tonne, or 1,000 kilograms
- "**bpd**" means barrels per day
- "**kW**" means kilowatt
- "**MW**" means megawatt
- "GW" means gigawatt
- "**kWh**" means kilowatt hour
- "Gcal" means giga calories
- "mPas" means millipascal-seconds
- "sq. km" means thousand square metres
- "sq. mi" means square miles.

"2D seismic" means seismic data that is acquired and processed to yield a two-dimensional picture of the subsurface.

"**3D seismic**" means seismic data that is acquired and processed to yield a three-dimensional picture of the subsurface.

"completion" means the installation of permanent equipment for the production of oil or gas.

"downstream" is a term that includes refining, transportation and sale of crude oil, natural gas and refined products; production and sale of petrochemical products; generation, transportation and sales of electricity and heat, as well as related services.

"field" means an area consisting of a single or multiple reservoirs all grouped in or related to the same individual geological structure or stratigraphic condition.

"gas available for sale" means the amount of gas produced excluding gas used for internal consumption.

"**natural gas**" means petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas) and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; wet gas is partially liquid under atmospheric pressure.

"**operator**" means a company appointed by venture stake holders to take primary responsibility for day-to-day operations of exploration and production activities.

"Nelson Complexity Index" is a measure of the complexity (the secondary conversion capacity in comparison to the primary distillation capacity) of a refinery.

"**petrochemicals**" means chemicals such as ethylene, propylene and benzene that are derived from petroleum.

"**petroleum**" is a collective term for hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.

"reservoir" means a porous and permeable underground rock formation where crude oil or gas has naturally accumulated.

"**royalty**" is a tax on production that is equal to the royalty percentage multiplied by the gross revenue attributable to the interest of the Company.

"seismic" is the use of shock waves generated by controlled explosions to ascertain the nature and contour of geological structures.

"**thermocracking**" means the use of heat to reduce the size of the hydrocarbon molecular structure and convert heavy oils into lighter, value-added products.

"**upstream**" is a term that includes exploration and development of oil and gas fields and the production of oil and gas.

"vacuum distillation" means distillation under less than atmospheric pressure, which lowers the boiling temperature of the liquid being distilled. This technique is used to prevent cracking or decomposition (a change in the chemical makeup of a hydrocarbon).

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PJSC LUKOIL

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with IFRS)

As of and for the three and six-month periods ended 30 June 2016 (unaudited)

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



JSC "KPMG" 10 Presnenskaya Naberezhnaya Moscow, Russia 123112 Telephone +7 (495) 937 4477 Fax +7 (495) 937 4400/99 Internet www.kpmg.ru

Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

To the Shareholders and Board of Directors

PJSC LUKOIL

Introduction

We have reviewed the accompanying consolidated statement of financial position of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, and the related consolidated statements of profit or loss and other comprehensive income for the three- and six-month periods ended 30 June 2016 and the related consolidated statements of changes in equity and cash flows for the six - month period ended 30 June 2016, and notes to the condensed interim consolidated financial statements (the "condensed interim consolidated financial statements"). Management is responsible for the preparation and presentation of these condensed interim consolidated financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

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

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

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

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

11, Sretensky Boulevard, Moscow, Russia, 101000

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

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

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

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000604.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements as at 30 June 2016, and for the three –and six-month periods ended 30 June 2016 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting



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

JSC "KPMG"

29 August 2016

Moscow, Russian Federation

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

(Millions of Russian rubles)		30 June 2016	31 December
• .	Note	(unaudited)	2015
Assets			
Current assets Cash and cash equivalents	6	346,703	257 262
Accounts receivable, net	8 7	346,705	257,263 440,489
Other current financial assets	1	16,970	23,768
Inventories	8	388,783	340,196
Income tax prepaid	0	15,668	7,413
Other taxes receivable	9	67,009	81,692
Other current assets	10	61,063	62,826
Fotal current assets	10	1,284,902	1,213,647
Property, plant and equipment	12	3,380,811	3,411,153
Investments in associates and joint ventures	12	169,047	181,744
Other non-current financial assets	13	106,424	102,067
Deferred income tax assets	15	27,018	28,735
Goodwill and other intangible assets		47,416	51,749
Other non-current assets		30,853	31,512
Total non-current assets		3,761,569	3,806,960
Total assets		5,046,471	5,020,607
Liabilities and equity			
Current liabilities			
Accounts payable	14	424,715	394,339
Short-term borrowings and current portion of long-term debt	15	132,097	60,506
Income tax payable		6,990	11,640
Other taxes payable	17	93,545	73,277
Provisions	19	27,168	25,553
Other current liabilities	18	114,141	129,853
Total current liabilities		798,656	695,168
Long-term debt	16	732,582	799,207
Deferred income tax liabilities		234,943	234,107
Provisions	19	55,019	51,115
Other non-current liabilities		8,027	9,636
Total non-current liabilities		1,030,571	1,094,065
Total liabilities		1,829,227	1,789,233
Equity	20		
Share capital		1,151	1,151
Treasury shares		(241,615)	(241,615)
Additional paid-in capital		129,508	129,403
Other reserves		66,791	104,150
Retained earnings		3,254,923	3,229,379
Fotal equity attributable to PJSC LUKOIL shareholders		3,210,758	3,222,468
Non-controlling interests		6,486	8,906
Total equity		3,217,244	3,231,374
Total liabilities and equity		5,046,471	5,020,607

Vice-president of

Acting Vice-president – Chief accountant of PJSC LUKOIL Kozyrev I.A.

PJSC LUKOIL Fedotov G.S.

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

(Millions of Russian rubles, unless otherw	Note	For the three months ended 30 June 2016 (unaudited)	For the three months ended 30 June 2015 (unaudited)	For the six months ended 30 June 2016 (unaudited)	For the six months ended 30 June 2015 (unaudited)
Revenues			· · · ·	· · · · · · · · · · · · · · · · · · ·	
Sales (including excise and export tariffs)	28	1,338,959	1,476,966	2,516,633	2,917,271
Costs and other deductions					
Operating expenses		(113,709)	(105,828)	(226,953)	(211,509)
Cost of purchased crude oil, gas and products		(677,297)	(777,640)	(1,215,030)	(1,477,705)
Transportation expenses		(77,665)	(68,377)	(164,364)	(147,162)
Selling, general and administrative expenses		(45,302)	(40,028)	(93,125)	(81,213)
Depreciation, depletion and amortization		(71,608)	(87,058)	(155,956)	(165,521)
Taxes other than income taxes		(118,724)	(141,219)	(202,277)	(271,054)
Excise and export tariffs		(113,820)	(123,609)	(228,769)	(296,458)
Exploration expenses		(2,871)	(13,586)	(4,552)	(14,783)
Profit from operating activities		117,963	119,621	225,607	251,866
Finance income	22	3,511	4,036	7,342	8,567
Finance costs	22	(11,098)	(11,026)	(21,469)	(22,486)
Equity share in income of affiliates		3,425	2,382	5,778	6,475
Foreign exchange loss		(28,945)	(29,154)	(74,323)	(23,479)
Other expenses	23	(4,205)	(2,784)	(7,548)	(8,556)
Profit before income taxes		80,651	83,075	135,387	212,387
Current income taxes		(17,183)	(19,394)	(27,659)	(42,334)
Deferred income taxes		(774)	575	(2,064)	(1,358)
Total income tax expense		(17,957)	(18,819)	(29,723)	(43,692)
Profit for the period		62,694	64,256	105,664	168,695
Profit for the period attributable to non- controlling interests		(127)	(508)	(272)	(916)
Profit for the period attributable to PJSC LUKOIL shareholders		62,567	63,748	105,392	167,779
Other comprehensive income (loss), net of income taxes					
Items that may be reclassified to profit or loss:					
Foreign currency translation differences for foreign operations		(21,923)	(8,045)	(37,314)	(35,641)
Items that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability / asset of pension plan		13	336	33	652
Other comprehensive loss		(21,910)	(7,709)	(37,281)	(34,989)
Total comprehensive income for the period		40,784	56,547	68,383	133,706
Total comprehensive income for the period attributable to non-controlling interests		(119)	(511)	(298)	(967)
Total comprehensive income for the period attributable to PJSC LUKOIL shareholders		40,665	56,036	68,085	132,739
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):					
(III Kussiaii i ubies).					
Basic	20	87.76	89.42	147.83	235.34

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

	Share capital	Treasury shares	Equity- linked notes	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non- controlling interests	Total equity
31 December 2015	1,151	(241,615)	-	129,403	104,150	3,229,379	3,222,468	8,906	3,231,374
Profit for the period	-	-	-	-	-	105,392	105,392	272	105,664
Other comprehensive income:									
Foreign currency translation differences	-	-	-		(37,340)	-	(37,340)	26	(37,314)
Remeasurements of defined benefit liability / asset of pension plan					33	_	33	-	33
Total comprehensive income (loss)	-	-	-	-	(37,307)	105,392	68,085	298	68,383
Dividends on common stock	-	-	-	-	-	(79,848)	(79,848)	-	(79,848)
Changes in non- controlling interests	-	-	-	105	(52)	-	53	(2,718)	(2,665)
30 June 2016	1,151	(241,615)	-	129,508	66,791	3,254,923	3,210,758	6,486	3,217,244
31 December 2014	1,151	(158,615)	(83,000)	128,846	93,454	3,055,542	3,037,378	12,164	3,049,542
Profit for the period	-	-	-	-	-	167,779	167,779	916	168,695
Other comprehensive income:									
Foreign currency translation differences	-	-	-	-	(35,692)	-	(35,692)	51	(35,641)
Remeasurements of defined benefit liability / asset of									
pension plan	-	-	-		652	-	652	-	652
Total comprehensive income (loss)					(35,040)	167,779	132,739	967	133,706
Dividends on common stock	-	-	-	-	-	(70,957)	(70,957)	-	(70,957)
Changes in non-				a 220			2 220	(2 717)	(1.259)
controlling interests	-	-	-	2,339	-	-	2,339	(3,717)	(1,378)

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

	Note	For the six months ended 30 June 2016 (unaudited)	For the six months ended 30 June 2015 (unaudited)
Cash flows from operating activities	1000	(unuuncu)	(unuunteu)
Profit for the period attributable to PJSC LUKOIL shareholders		105,392	167,779
Adjustments for non-cash items:			
Depreciation, depletion and amortization		155,956	165,521
Equity share in income of affiliates, net of dividends received		(3,839)	65
Dry hole write-offs		522	13,668
Loss on disposals and impairments of assets		4,718	8,251
Income tax expense		29,723	43,692
Non-cash foreign exchange loss		70,506	21,211
Non-cash investing activities		(69)	(161)
Finance income		(7,342)	(8,567)
Finance costs		21,469	22,486
Bad debt provision		2,913	821
All other items – net		6,374	8,510
Changes in operating assets and liabilities:		,	,
Trade accounts receivable		2,458	69,459
Inventories		(87,849)	(54,162)
Accounts payable		85,588	(24,766)
Other taxes		37,183	57,356
Other current assets and liabilities		(49,754)	(75,076)
Income tax paid		(35,788)	(38,373)
Dividends received		2,102	(50,575)
Interests received		4,215	5,389
Net cash provided by operating activities		344,478	383,103
Cash flows from investing activities		<i>c</i> ,c	202,202
Acquisition of licenses		(2,408)	(371)
Capital expenditures		(248,664)	(302,853)
Proceeds from sale of property, plant and equipment		624	1,219
Purchases of financial assets		(13,299)	(2,924)
Proceeds from sale of financial assets		5,651	5,504
Sale of subsidiaries, net of cash disposed		1,414	2,718
Sale of equity method affiliates		-	9,410
Acquisitions of subsidiaries, net of cash acquired		-	(272)
Acquisitions of equity method affiliates		(1,833)	(3,299)
Net cash used in investing activities		(258,515)	(290,868)
Cash flows from financing activities		(=;-=-)	()
Proceeds from issuance of short-term borrowings		46,941	71,559
Principal repayments of short-term borrowings		(12,178)	(26,447)
Proceeds from issuance of long-term debt		89,276	19,402
Principal repayments of long-term debt		(14,050)	(94,255)
Interest paid		(23,574)	(18,190)
Dividends paid on Company common shares		(46,324)	(40,934)
Dividends paid on company common shares		(1,587)	(767)
Financing received from non-controlling interest shareholders		48	61
Sale of non-controlling interests		-	9
Purchases of non-controlling interests		(1,285)	-
Net cash provided by (used in) financing activities		37,267	(89,562)
Effect of exchange rate changes on cash and cash equivalents		(33,790)	(19,429)
Net increase (decrease) in cash and cash equivalents		<u> </u>	(19,429)
Cash and cash equivalents at beginning of period		257,263	169,023
cash and cash equivalents at beginning of period		201,205	107,023

Note 1. Organization and environment

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

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

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

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

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

The condensed interim consolidated financial statements were authorised by the Vice-president of the Company on 29 August 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. Management has analysed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency. The functional currency of the Company is the Russian ruble ("RUB").

Note 2. Basis of preparation (continued)

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

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

Note 3. Summary of significant accounting policies

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

Note 4. Use of estimates and judgments

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

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

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

- Estimation of oil and gas reserves;
- Estimation of useful lives of property, plant and equipment;
- Impairment of non-current assets;
- Assessment of asset retirement obligations;
- Assessment and recognition of provisions and contingent liabilities;
- Assessment of deferred income tax assets and liabilities;
- Determination of whether a joint arrangement is a joint venture or a joint operation.

Note 5. Income taxes

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

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

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

Note 6. Cash and cash equivalents

	30 June 2016	31 December 2015
Cash held in RUB	34,135	98,253
Cash held in US dollars	283,745	141,863
Cash held in other currencies	28,823	17,147
Total cash and cash equivalents	346,703	257,263

Note 7. Accounts receivable, net

	30 June 2016	31 December 2015
Trade accounts receivable (net of allowances of 17,967 million RUB and 17,322 million RUB at 30 June 2016 and 31 December 2015, respectively)	356,223	375,531
Other current accounts receivable (net of allowances of 1,929 million RUB and 1,599 million RUB at 30 June 2016 and 31 December 2015, respectively)	32,483	64,958
Total accounts receivable, net	388,706	440,489

Note 8. Inventories

	30 June 2016	31 December 2015
Crude oil and petroleum products	323,763	275,941
Materials for extraction and drilling	21,327	21,345
Materials and supplies for refining	3,237	3,732
Other goods, materials and supplies	40,456	39,178
Total inventories	388,783	340,196

Note 9. Other taxes receivable

	30 June 2016	31 December 2015
VAT and excise tax recoverable	36,936	39,171
Export duties prepaid	10,108	21,824
Other taxes prepaid	19,965	20,697
Total other taxes receivable	67,009	81,692

Note 10. Other current assets

	30 June 2016	31 December 2015
Advance payments	25,681	16,341
Prepaid expenses	25,910	31,960
Other assets	9,472	14,525
Total other current assets	61,063	62,826

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

		Owner	ship, %		31 December 2015
Name of the company	 Country	30 June 2016	31 December 2015	30 June 2016	
Joint Ventures:					
Tengizchevroil	Kazakhstan	5%	5%	90,752	99,843
Caspian Pipeline Consortium	Kazakhstan	12.5%	12.5%	25,590	27,574
Turgai Petroleum	Kazakhstan	50%	50%	1,763	1,675
Shakh-Deniz Midstream	Azerbaijan	10%	10%	22,246	22,284
Associates:					
Other associates				28,696	30,368
Total				169,047	181,744

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
1 January 2016	3,232,673	1,206,252	103,587	4,542,512
Additions	203,974	28,882	1,041	233,897
Capitalised borrowing costs	4,694	211	-	4,905
Disposals	(5,845)	(17,437)	(516)	(23,798)
Foreign currency translation differences	(138,021)	(48,226)	(1,825)	(188,072)
Other	(4,215)	6,171	338	2,294
30 June 2016	3,293,260	1,175,853	102,625	4,571,738
Depreciation and impairment				
1 January 2016	(953,254)	(259,515)	(14,627)	(1,227,396)
Depreciation for the period	(106,474)	(43,491)	(3,058)	(153,023)
Impairment loss	-	(78)	-	(78)
Disposals	1,209	9,486	268	10,963
Foreign currency translation differences	77,554	16,444	404	94,402
Other	(83)	(1,893)	(11)	(1,987)
30 June 2016	(981,048)	(279,047)	(17,024)	(1,277,119)
Advance payments for property, plant and equipment				
1 January 2016	94,619	1,280	138	96,037
30 June 2016	85,300	776	116	86,192
Carrying amounts				
1 January 2016	2,374,038	948,017	89,098	3,411,153
30 June 2016	2,397,512	897,582	85,717	3,380,811

Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
1 January 2015	2,556,173	1,030,097	95,392	3,681,662
Additions	225,859	63,104	1,646	290,609
Acquisitions through business combinations	305	149	-	454
Capitalised borrowing costs	171	503	-	674
Disposals	(18,740)	(1,459)	(535)	(20,734)
Foreign currency translation differences	(12,907)	(39,808)	(228)	(52,943)
Other	3,465	(3,765)	(63)	(363)
30 June 2015	2,754,326	1,048,821	96,212	3,899,359
Depreciation and impairment				
1 January 2015	(444,128)	(142,713)	(8,525)	(595,366)
Depreciation for the period	(131,721)	(30,136)	(2,960)	(164,817)
Disposals	707	3,473	116	4,296
Foreign currency translation differences	4,465	8,951	196	13,612
Other	(1,597)	(489)	(42)	(2,128)
30 June 2015	(572,274)	(160,914)	(11,215)	(744,403)
Advance payments for property, plant and equipment				
1 January 2015	58,558	8,258	467	67,283
30 June 2015	74,812	2,397	510	77,719
Carrying amounts				
1 January 2015	2,170,603	895,642	87,334	3,153,579
30 June 2015	2,256,864	890,304	85,507	3,232,675

The cost of assets under construction included in Property, plant and equipment was 615,890 million RUB and 676,908 million RUB at 30 June 2016 and 31 December 2015, respectively.

Exploration and evaluation assets:

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
1 January	52,302	46,906
Capitalized expenditures	15,317	11,567
Reclassified to development assets	(3,633)	(8,036)
Charged to expenses	(483)	(69)
Foreign currency translation differences	(1,160)	-
Other movements	(127)	18
30 June	62,216	50,386

Note 13. Other non-current financial assets

	30 June 2016	31 December 2015
Long-term loans	94,188	89,770
Non-current accounts and notes receivable	8,326	8,148
Other non-current financial assets	3,910	4,149
Total other non-current financial assets	106,424	102,067

Note 14. Accounts payable

	30 June 2016	31 December 2015
Trade accounts payable	374,177	339,091
Other accounts payable	50,538	55,248
Total accounts payable	424,715	394,339

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

	30 June 2016	31 December 2015
Short-term borrowings from third parties	60,096	33,611
Short-term borrowings from related parties	5,063	5,609
Current portion of long-term debt	66,938	21,286
Total short-term borrowings and current portion of long-term debt	132,097	60,506

Short-term borrowings from third parties include amounts repayable in US dollars of 46,960 million RUB and 22,951 million RUB and amounts repayable in other currencies of 13,136 million RUB and 10,660 million RUB at 30 June 2016 and 31 December 2015, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.36% and 5.43% per annum at 30 June 2016 and 31 December 2015, respectively. Approximately 78% of total short-term borrowings from third parties at 30 June 2016 are secured by inventories.

Note 16. Long-term debt

	30 June 2016	31 December 2015
Long-term loans and borrowings from third parties	436,448	408,781
Long-term borrowings from related parties	-	138
6.356% non-convertible US dollar bonds, maturing 2017	32,129	36,441
3.416% non-convertible US dollar bonds, maturing 2018	96,124	108,983
7.250% non-convertible US dollar bonds, maturing 2019	38,442	43,583
6.125% non-convertible US dollar bonds, maturing 2020	64,173	72,778
6.656% non-convertible US dollar bonds, maturing 2022	32,129	36,441
4.563% non-convertible US dollar bonds, maturing 2023	96,124	108,983
Capital lease obligations	3,951	4,365
Total long-term debt	799,520	820,493
Current portion of long-term debt	(66,938)	(21,286)
Total non-current portion of long-term debt	732,582	799,207

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 303,751 million RUB and 336,842 million RUB, amounts repayable in euros of 61,379 million RUB and 70,447 million RUB, amounts repayable in other currencies of 1,318 million RUB and 1,492 million RUB at 30 June 2016 and 31 December 2015, respectively, and amounts repayable in RUB of 70,000 million RUB at 30 June 2016. This debt has maturity dates from 2016 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.32% and 3.77% per annum at 30 June 2016 and 31 December 2015, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 15% of total long-term loans and borrowings from third parties at 30 June 2016 are secured by shares of an associated company, export sales and property, plant and equipment.

Note 17. Other taxes payable

	30 June 2016	31 December 2015
Mineral extraction tax	37,069	24,566
VAT	26,173	21,532
Excise tax	18,996	15,553
Property tax	4,400	4,583
Other taxes	6,907	7,043
Total other taxes payable	93,545	73,277

Note 18. Other current liabilities

	30 June 2016	31 December 2015
Advances received	28,906	79,424
Dividends payable	81,907	47,615
Other	3,328	2,814
Total other current liabilities	114,141	129,853

Note 19. Provisions

	Asset retirement obligation	Provision for employee compensations	Provision for environmental liabilities	Pension provisions	Provision for compensated absences	Other provisions	Total
30 June 2016	33,466	24,279	5,244	7,630	4,944	6,624	82,187
Incl.: Non-current	31,707	12,679	3,057	6,132	66	1,378	55,019
Current	1,759	11,600	2,187	1,498	4,878	5,246	27,168
31 December 2015	32,919	19,837	5,455	7,913	3,591	6,953	76,668
Incl.: Non-current	32,632	6,733	3,575	6,392	134	1,649	51,115
Current	287	13,104	1,880	1,521	3,457	5,304	25,553

Assets retirement obligation:

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
1 January	32,919	19,604
Provisions made during the period	1,816	255
Reversal of provisions	(38)	(172)
Provisions used during the period	(44)	(47)
Accretion expense	1,117	430
Changes in estimates	40	(370)
Foreign currency translation differences	(2,157)	(266)
Other	(187)	78
30 June	33,466	19,512

Note 20. Equity

Common shares

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

Dividends

At the annual shareholders' meeting on 23 June 2016, dividends for 2015 were approved in the amount of 112.00 RUB per common share. At the extraordinary shareholders' meeting on 16 December 2015, interim dividends for 2015 were approved in the amount of 65.00 RUB per common share. Total dividends for 2015 were approved in the amount of 177.00 RUB per common share. At the annual shareholders' meeting on 25 June 2015, dividends for 2014 were approved in the amount of 94.00 RUB per common share. At the extraordinary shareholders' meeting on 12 December 2014, interim dividends for 2014 were approved in the amount of 60.00 RUB per common share. Total dividends for 2014 were approved in the amount of 60.00 RUB per common share. Total dividends for 2014 were approved in the amount of 60.00 RUB per common share. Total dividends for 2014 were approved in the amount of 60.00 RUB per common share. Total dividends for 2014 were approved in the amount of 154.00 RUB per common share.

Dividends on the Company's shares payable of 80,114 million RUB and 46,609 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 30 June 2016 and 31 December 2015, respectively.

Earnings per share

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

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Profit for the period attributable to PJSC LUKOIL				
shareholders	62,567	63,748	105,392	167,779
Add back interest and accretion on 2.625% convertible				
US dollar bonds, maturing 2015 (net of tax at effective rate)	-	697	-	1,718
Total diluted profit for the period attributable to				
PJSC LUKOIL shareholders	62,567	64,445	105,392	169,497
Weighted average number of outstanding common shares				
(thousands of shares)	712,933	754,866	712,933	754,866
Equity-linked notes	-	(41,933)	-	(41,933)
Weighted average number of common shares				
(thousands of shares)	712,933	712,933	712,933	712,933
Add back treasury shares held in respect of convertible debt				
(thousands of shares)	-	18,291	-	19,945
Weighted average number of common shares,				
assuming dilution (thousands of shares)	712,933	731,224	712,933	732,878
Earnings per share of common stock attributable to				
PJSC LUKOIL shareholders (RUB):				
Basic	87.76	89.42	147.83	235.34
Diluted	87.76	88.13	147.83	231.28

Note 21. Personnel expenses

Personnel expenses were as follows.

	For the three months ended	For the three months ended	For the six months ended	For the six months ended
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Salary	35,137	31,718	69,852	60,582
Statutory insurance contributions	7,394	6,825	14,994	13,644
Share-based payments	2,400	(557)	6,344	3,585
Total personnel expenses	44,931	37,986	91,190	77,811

Note 22. Finance income and costs

Finance income was as follows.

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Interest income from deposits	1,354	2,494	2,849	4,914
Interest income from loans	1,819	1,363	3,697	2,915
Other finance income	338	179	796	738
Total finance income	3,511	4,036	7,342	8,567

Finance costs were as follows.

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Interest expenses	10,259	9,576	20,184	20,567
Accretion expenses	751	123	1,124	442
Other finance expenses	88	1,327	161	1,477
Total finance costs	11,098	11,026	21,469	22,486

Note 23. Other income and expenses

Other income was as follows.

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Gain on disposal of assets	176	1,761	916	2,750
Changes in estimates of asset retirement obligation	9	156	29	258
Reversal on impairment of assets	-	3	-	296
Other income	3,939	3,790	7,779	6,573
Total other income	4,124	5,710	8,724	9,877

Other expenses were as follows.

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Loss on disposal of assets	2,825	4,688	5,170	6,127
Impairment loss	356	189	464	5,170
Charity expenses	3,926	2,299	6,343	3,705
Other expenses	1,222	1,318	4,295	3,431
Total other expenses	8,329	8,494	16,272	18,433

Note 24. Operating lease

At 30 June 2016 and 31 December 2015, Group companies had commitments primarily related to the lease of vessels and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows.

	30 June 2016	31 December 2015
Less than a year	31,215	35,858
1-5 years	49,069	46,589
More than 5 years	87,845	80,924
Total	168,129	163,371

Note 25. Commitments and contingencies

Capital commitments

At 30 June 2016, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 471,866 million RUB.

Taxation environment

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

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

Litigation and claims

On 27 November 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against AO Arkhangelskgeoldobycha ("AGD"), a Group company, and the Company (together the "Defendants"). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of \$1.2 billion (77.1 billion RUB) and punitive damages of \$3.6 billion (231.3 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.

Note 25. Commitments and contingencies (continued)

On 6 January 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court). In the federal Court case, the Company has filed a Motion to Dismiss. On 18 December 2014, the federal court granted the motion based on lack of personal jurisdiction over the Company and the doctrine of "forum non conveniens". ADC filed a notice of appeal in the US Court of Appeals for the Tenth Circuit. On 9 February 2016, the US Court of Appeals for the Tenth Circuit affirmed the dismissal of the case on "forum non conveniens" grounds. On 23 February 2016, ADC filed a Petition for rehearing and for "rehearing en banc". On 1 April 2016, the US Court of Appeals for the Tenth Circuit denied both ADC'c Petition for rehearing and for "rehearing en banc". On 28 July 2016, ADC filed a Petition for Writ of Certiorari. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial position.

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the "Prosecutor's Office") issued an order on initiation of criminal proceedings and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor's Office added bad faith use of the company's credit and money laundering charges for 2008-2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim is not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group are also considered to be suspects in this criminal case. At the moment a preliminary investigation of the criminal case is being conducted. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. In July 2015, a new charge in respect of bad faith use of the company's credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. A similar charge was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011-2014. On 3 August 2015, the Prosecutor's Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company's credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor's Office revised the amount of damage claimed from \$2.2 billion (141.4 billion RUB) to \$1.5 billion (96.4 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor's Office. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal on 22 January 2016. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. At the current stage of the hearings the defendants are making oral statements. Next hearing on the merits will take place on 22 September 2016. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor's Office. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the dispute related to cost recovery and calculation of the "fairness index" in accordance with the Final Production Sharing Agreement in respect of the Karachaganak field in Kazakhstan. An estimated total of claims filed by the Republic of Kazakhstan is about \$1.8 billion (115.7 billion RUB), a share of LUKOIL Overseas Karachaganak B.V. is about \$243 million (15.6 billion RUB). At the moment the parties are negotiating an amicable 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.

Note 25. Commitments and contingencies (continued)

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

Political situation

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

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a set of economic sanctions on Russia, including certain sectoral sanctions which affect Russian oil and gas companies. Such sectoral sanctions prohibit US and the EU companies and individuals from providing, exporting, or reexporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects on the territory of the Russian Federation. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

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

Note 26. Related party transactions

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

Outstanding balances with related parties were as follows.

	30 June 2016	31 December 2015
Accounts receivable	9,097	10,925
Other financial assets	100,069	98,538
Total assets	109,166	109,463
Accounts payable	8,538	8,458
Loans and borrowings	5,063	5,747
Total liabilities	13,601	14,205

Related party transactions were as follows.

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Sales of oil and oil products	5,453	8,452	9,834	16,035
Other sales	452	382	846	741
Purchases of oil and oil products	22,297	16,335	35,442	33,513
Other purchases	461	1,392	2,685	3,435
Loans given	4,105	1,350	12,529	1,869
Loans received	1,548	8,537	2,238	11,333

Note 27. Compensation plan

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

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The reporting date fair value of this part of the plan was estimated at 15,711 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 9.53% per annum, an expected dividend yield of 7.08% 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 2,400 million RUB of compensation expenses during the three months ended 30 June 2016, 557 million RUB of income during the three months ended 30 June 2015, 6,344 million RUB and 3,585 million RUB of compensation expenses during the six months ended 30 June 2016 and 2015, respectively. At 30 June 2016 and 31 December 2015, amounts of 16,042 million RUB and 9,698 million RUB related to this plan are included in "Provisions" of the consolidated statement of financial position, respectively.

At 30 June 2016, there was 4,713 million RUB of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2017.

Note 28. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

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

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

Operating segments

For the three months ended 30 June 2016

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	42,485	1,288,758	7,716	-	1,338,959
Inter-segment	382,814	15,782	12,457	(411,053)	-
Total revenues	425,299	1,304,540	20,173	(411,053)	1,338,959
Operating expenses	67,355	59,393	5,063	(18,102)	113,709
Selling, general and administrative expenses	9,957	30,866	12,858	(8,379)	45,302
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	67,519	24,299	(28,071)	(1,180)	62,567
EBITDA	134,701	50,192	(26,532)	1,358	159,719
Income tax expense	154,701	50,172	(20,552)	1,556	(17,957)
Finance income					3,511
Finance costs					(11,098)
Depreciation, depletion and amortisation					(71,608)
Profit for the period attributable to PJSC LUKOIL shareholders					62,567

For the three months ended 30 June 2015

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	64,659	1,405,223	7,084	-	1,476,966
Inter-segment	444,413	13,120	16,758	(474,291)	-
Total revenues	509,072	1,418,343	23,842	(474,291)	1,476,966
Operating expenses	63,017	44,414	5,424	(7,027)	105,828
Selling, general and administrative expenses	9,841	30,251	9,034	(9,098)	40,028
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	63,312	22,766	(21,885)	(445)	63,748
EBITDA	159,295	44,460	(23,595)	(3,545)	176,615
Income tax expense	,	,			(18,819)
Finance income					4,036
Finance costs					(11,026)
Depreciation, depletion and amortisation					(87,058)
Profit for the period attributable to PJSC LUKOIL shareholders					63,748

For the six months ended 30 June 2016

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating					
revenues					
Third parties	95,462	2,400,709	20,462	-	2,516,633
Inter-segment	693,546	31,983	25,906	(751,435)	-
Total revenues	789,008	2,432,692	46,368	(751,435)	2,516,633
Operating expenses	133,623	104,645	9,524	(20,839)	226,953
Selling, general and administrative expenses	19,976	66,697	24,903	(18,451)	93,125
Profit (loss) for the period attributable to PJSC LUKOIL					
shareholders	117,994	56,211	(68,727)	(86)	105,392
EBITDA	261,611	109,991	(66,422)	18	305,198
Income tax expense					(29,723)
Finance income					7,342
Finance costs					(21,469)
Depreciation, depletion and amortisation					(155,956)
Profit for the period attributable to PJSC LUKOIL shareholders					105,392

For the six months ended 30 June 2015

	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	126,470	2,777,380	13,421	-	2,917,271
Inter-segment	867,940	27,680	28,600	(924,220)	
Total revenues	994,410	2,805,060	42,021	(924,220)	2,917,271
Operating expenses	126,479	87,242	10,808	(13,020)	211,509
Selling, general and administrative expenses	20,088	60,740	19,022	(18,637)	81,213
Profit (loss) for the period attributable to PJSC LUKOIL					
shareholders	137,754	62,923	(20,875)	(12,023)	167,779
EBITDA	312,734	115,273	(20,907)	(16,189)	390,911
Income tax expense					(43,692)
Finance income					8,567
Finance costs					(22,486)
Depreciation, depletion and amortisation					(165,521)
Profit for the period attributable to PJSC LUKOIL shareholders					167,779

Geographical segments

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Sales of crude oil within Russia	23,404	37,859	44,744	75,232
Export of crude oil and sales of crude oil by foreign subsidiaries	340,858	390,764	633,406	771,001
Sales of petroleum products within Russia	146,110	149,217	276,286	280,196
Export of petroleum products and sales of petroleum products by foreign subsidiaries	740,748	817,644	1,365,635	1,620,430
Sales of chemicals within Russia	8,915	6,296	18,094	9,394
Export of chemicals and sales of chemicals by foreign subsidiaries	8,804	8,875	18,962	17,089
Sales of gas and gas products within Russia	8,582	9,533	17,820	18,831
Export of gas products and sales of gas and gas products by foreign subsidiaries	19,877	21,187	44,285	48,859
Sales of energy and related services within Russia	11,642	11,523	30,678	29,420
Sales of energy and related services by foreign subsidiaries	2,797	1,719	6,525	4,209
Other sales within Russia	12,677	9,797	22,896	18,628
Other export sales and other sales of foreign subsidiaries	14,545	12,552	37,302	23,982
Total sales	1,338,959	1,476,966	2,516,633	2,917,271

For the three months ended 30 June 2016

	Russian			
	Federation	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	224,961	1,113,998	-	1,338,959
Inter-segment	272,210	732	(272,942)	-
Total revenues	497,171	1,114,730	(272,942)	1,338,959
Operating expenses	81,746	29,386	2,577	113,709
Selling, general and administrative expenses	24,937	21,286	(921)	45,302
Profit for the period attributable to PJSC LUKOIL shareholders	58,503	6,049	(1,985)	62,567
EBITDA	125,434	35,635	(1,350)	159,719

For the three months ended 30 June 2015

	Russian			
	Federation	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	229,945	1,247,021	-	1,476,966
Inter-segment	320,174	1,474	(321,648)	-
Total revenues	550,119	1,248,495	(321,648)	1,476,966
Operating expenses	78,785	29,575	(2,532)	105,828
Selling, general and administrative expenses	20,121	21,032	(1,125)	40,028
Profit (loss) for the period attributable to PJSC LUKOIL				
shareholders	68,049	(3,397)	(904)	63,748
EBITDA	125,477	51,775	(637)	176,615

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For the six months ended 30 June 2016

	Russian			
	Federation	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	429,952	2,086,681	-	2,516,633
Inter-segment	509,437	1,327	(510,764)	_
Total revenues	939,389	2,088,008	(510,764)	2,516,633
Operating expenses	155,859	61,275	9,819	226,953
Selling, general and administrative expenses	48,874	46,058	(1,807)	93,125
Profit for the period attributable to PJSC LUKOIL shareholders	99,012	7,277	(897)	105,392
EBITDA	219,209	86,517	(528)	305,198

For the six months ended 30 June 2015

	Russian			
	Federation	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	444,517	2,472,754	-	2,917,271
Inter-segment	648,487	2,757	(651,244)	-
Total revenues	1,093,004	2,475,511	(651,244)	2,917,271
Operating expenses	147,953	62,236	1,320	211,509
Selling, general and administrative expenses	42,109	41,357	(2,253)	81,213
Profit for the period attributable to PJSC LUKOIL shareholders	179,874	795	(12,890)	167,779
EBITDA	303,605	102,648	(15,342)	390,911

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

	For the three months ended 30 June 2016	For the three months ended 30 June 2015	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Sales revenues				
in Switzerland	641,323	683,645	1,148,389	1,368,906
in the USA	127,777	130,394	210,305	212,498

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

Note 29. Fair value

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

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

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

Level 3: unobservable inputs.

Note 29. Fair value (continued)

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 30 June 2016 and 31 December 2015.

			Fair value		
30 June 2016	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Commodity					
derivative contracts	14,640	-	14,640	-	14,640
Available for sale					
securities	3,813	-	-	3,813	3,813
Financial					
liabilities:					
Commodity					
derivative contracts	16,969	-	16,969	-	16,969
Long-term debt	799,520	376,856	-	452,253	829,109
			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
Long-term debt	820,493	400,140	-	392,952	793,092

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar periods, repayment schedules and similar other main terms. The fair value of bonds (Level 1) was determined based on market quotations at 30 June 2016 and 31 December 2015.



PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015



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



Auditors' Report Page 2

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.



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		5,020,007	4,750,555	5,005,015
Current liabilities				
	16	204 220	200.007	028 004
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		3,229,379	3,037,378	2,730,001
Non-controlling interests		<u> </u>	12,164	2,041,196 14,506
		0,900	12,104	14,000
Total equity		3,231,374	3,049,542	2,655,702

1 President of PJSCLUKOIL Alekperov V.Y.

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

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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

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

	Share capital	Treasury shares	Equity- linked notes	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non- controlling interests	Total equity
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					239		220		220
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

	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 beginning of year	6	257,263	169,022
vaon and caon equivalento at end or year	v	201,200	107,043

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.

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 currency at the beginning of the exchange rate at the date 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.

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.

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 constructions5-40 yearsMachinery and equipment3-20 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.

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.

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.

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;

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.

	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

Note 6. Cash and cash equivalents

PJSC LUKOIL Notes to Consolidated Financial Statements (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	

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	тсо	СРС	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

<u>31 December 2014</u>	тсо	СРС	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	тсо	CIRL	СРС	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
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	тсо	СРС	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

				Turgai	Shah Deniz	Other	
2014	тсо	CIRL	CPC	Petroleum	Midstream	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

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost	und production	und distribution	0.000	1000
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	927 467	67,283
31 December 2014	94,619	1,280	138	96,037
Carrying amounts	74,019	100	130	70,037
1 January 2014	1,911,940	693,198	78,620	2,683,758
31 December 2014	2,170,603	895,642	78,020 87,334	2,083,758 3,153,579
31 December 2015	2,374,038	948,017	89,098	3,411,1

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.

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

Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost	generated soleware		intungible ussets	Goodmin	1000
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		11.022	7 420	10 472
Other	12	- (510)	11,032	7,439	18,473
		(510)	(2,489)	(847)	(3,834)
31 December 2014 Additions as a result of internal	14,223	1,135	45,451	32,060	92,869
developments Acquisitions through business	622	457	-	-	1,079
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)		(5 513)
Other	(12)	(8)	1,264	-	(5,512) 1,244
				-	
31 December 2014	(8,843)	(84)	(27,006)	(550)	(36,483)
Amortisation for the year	(1,326)	(175)	(4,786)	- (10,281)	(6,287)
Impairment loss Disposals	- 61	- 2	(162) 1,264	(10,281)	(10,443) 1,327
Foreign currency translation	01	Z	1,204	-	1,347
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.

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 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.

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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

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

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 assumptions	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
(903)	(459)
2,030	(444)
1,127	(903)
	(903) 2,030

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:

2015 41.4%	2014 65.9%
41.4%	65.9%
-	6.6%
26.9%	-
7.4%	8.7%
12.4%	9.2%
5.9%	7.6%
6.0%	2.0%
100.0%	100.0%
	26.9% 7.4% 12.4% 5.9% 6.0%

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.

	201	15	20	14
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	1 January	
		2015	2014	2014
		(thousands of shares)	(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

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.

PJSC LUKOIL Notes to Consolidated Financial Statements (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)

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

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.

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.

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
					26

Note 32. Segment information (continued)

2014	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues	unu production	distribution		Linnation	Consonduced
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

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 Decen	nber 2015	31 Decen	mber 2014	1 January 2014		
	Country of	Total	Voting	Total	Voting	Total	Voting	
Subsidiary	incorporation	shares, %	shares, %	shares, %	shares, %	shares, %	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 LUKOIL – Nizhegorodnefteorgsintez OOO	Russia Russia	100.00%	100.00%	100.00%	100.00% 100.00%	100.00%	100.00%	
LUKOIL –	Russia	100.00 %	100.00 //	100.00 %	100.00 //	100.00 //	100.00 /	
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%	100.009	
AO RITEK	Russia	100.00%	100.00%	100.00%	100.00%	100.00%	100.009	
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%	100.00%	100.009	
LUKOIL Neftochim Bourgas	Bulgaria	99.82%	99.82%	99.71%	99.71%	99.61%	99.619	
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%	100.00%	100.009	
LUKOIL Mid-East Limited	Cyprus	100.00%	100.00%	100.00%	100.00%	100.00%	100.009	
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%	100.009	

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

	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	15,705					(112)	1,334	(270)	1,334
Other taxes payable	81,850					(2,685)	(1,334)	1	77,832
Provisions	01,050					(592)	21,984	168	21,560
Other current liabilities	62,928	_	_	-	-	(552)	(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			,						<u> </u>
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

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.

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

	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 Short-term borrowings and current portion of	399,491	-	(2)	-	-	(1,497)	-	-	1,004	398,996
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 Liabilities related	181,771	-	-	-	-	-	(27,163)	-	(53)	154,555
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.

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

	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 Items that will never	-	-	92,770	-	-	-	-	-	92,770
<i>be reclassified to</i> <i>profit or loss:</i> Remeasurements of defined benefit									
liability/asset of pension plan	692	-	-	-	-	-	-	(453)	239
Other comprehensive income	692	-	92,770	-	-	_	<u>-</u>	(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	1,00	213	(13)						1,107
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	

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 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.

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 31 December		1 January	
	2015	2014	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).

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.

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:

	31 December	31 December	1 January
	2015	2014	2014
USD	72.88	56.26	32.73
EUR	79.70	68.34	44.97

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	t (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	31 December	1 January
	2015	2014	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	

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%

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

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.

			Total consolidated	Group's share in equity
2015	International	Russia	companies	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.

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	Consoli	Consolidated subsidiaries			
Crude oil	International	Russia	Total	in equity companies	
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	Consoli	Group's share		
Natural gas	International	Russia	Total	in equity companies
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.

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.

	-, , , .	D	Total consolidated	Group's share in equity
31 December 2015	International	Russia	companies	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	-
21 December 2014	Internetional	Dussia	Total consolidated	Group's share in equity
31 December 2014	International	Russia	consolidated companies	in equity companies
Future cash inflows	International 3,501,705	Russia 46,537,136	consolidated	in equity
			consolidated companies	in equity companies
Future cash inflows Future production and	3,501,705	46,537,136	consolidated companies 50,038,841	in equity companies 1,352,951
Future cash inflows Future production and development costs	3,501,705 (2,249,144)	46,537,136 (32,324,492)	consolidated companies 50,038,841 (34,573,636)	in equity companies 1,352,951 (793,128)
Future cash inflows Future production and development costs Future income tax expenses	3,501,705 (2,249,144) (143,934)	46,537,136 (32,324,492) (2,606,596)	consolidated companies 50,038,841 (34,573,636) (2,750,530)	in equity companies 1,352,951 (793,128) (111,113)
Future cash inflows Future production and development costs Future income tax expenses Future net cash flows Discount for estimated timing of cash	3,501,705 (2,249,144) (143,934) 1,108,627	46,537,136 (32,324,492) (2,606,596) 11,606,048	consolidated companies 50,038,841 (34,573,636) (2,750,530) 12,714,675	in equity companies 1,352,951 (793,128) (111,113) 448,710

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

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

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



Financial Statements

For the year ended 31 December 2015

World Trade Center, Tower D, 9th Floor Strawinskylaan 963 1077 XX AMSTERDAM The Netherlands

Company Number 34254022



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Directors' Report

for the year ended 31 December 2015

The directors present their annual report and the audited financial statements of Lukoil International A9.11.1 Finance B.V. for the year ended 31 December 2015.

General information

The principal activity of the Company is to act as a finance company and to raise funds for members of the PJSC LUKOIL Group (further "the Group") through the issue of bonds.

The Company has one employee at the year end. The Company's ultimate parent is PJSC LUKOIL domiciled in Russia and immediate parent is LUKOIL INTERNATIONAL GmbH domiciled in Austria. The Company funds its expenses through the margin made between the interest received on its loans granted to PJSC LUKOIL Group companies and interest paid to bondholders.

Business review

The Company has sufficient assets to meet all bond obligations. The interest income generated on loans given to group companies more than covers all bond interest costs and any administrative expenses. The Company has net equity of more than USD 12 million at the end of the year.

On 7 June 2007, the Company issued USD 1 billion of interest bearing bonds, in the amounts of USD 500 million due in 2017 and USD 500 million due in 2022. On 5 November 2009, the Company issued an additional USD 1.5 billion of interest bearing bonds, in the amounts of USD 900 million due in 2014 and USD 600 million due in 2019. The USD 900 million was repaid to bondholders on the due date 5 November 2014.

On 9 November 2010, the Company issued an additional USD 1 billion of interest bearing bonds due in 2020. On 16 December 2010, the Company issued USD 1.5 billion of interest bearing bonds convertible into shares of PJSC LUKOIL maturing in June 2015. On 24 April 2013, the Company issued USD 3 billion of interest bearing bonds, in the amounts of USD 1.5 billion due in 2018 and USD 1.5 billion due in 2023.

The Company has loaned the proceeds from the issue of bonds to Group companies. In 2015 USD 3.1 billion was transferred from LUKOIL Finance Ltd. to Lukinter Finance B.V. and USD 2 billion from Lukinter Finance B.V. to LUKOIL Investments Cyprus Ltd. (2014: USD 4 billion was transferred from LUKOIL Finance Ltd. to Lukinter Finance B.V.).

Proposed dividend and transfer to reserves

The profit of the company for the year is USD 425 thousand (2014: USD 716 thousand loss) and it is proposed to transfer the result for the year to the retained earnings. The loss in 2014 mainly resulted from legal and other bond preparation costs which were not incurred in 2015.

Financial risk management

During the normal course of business, the Company uses various financial instruments that expose the Company to market and/or credit risks. These relate to financial instruments that are included on the balance sheet and relate to bonds issued or loans granted.

The Company does not make use of financial derivatives. The Company follows procedures and a code of conduct to limit the size of the credit risk for financial instruments with each counterparty and market.

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from group companies, credit risk is concentrated at these counterparties.

The credit risk is considered negligible since all funding is obtained on behalf of the PSJC LUKOIL Group and passed on directly to the group companies. Management of the Company assess and reviews the risk for the group companies, and is of the opinion that the group companies will not fail to meet their



Directors' Report for the year ended 31 December 2015

obligations. The Company is 100% owned by the PSJC LUKOIL Group, a large Russian conglomerate, which operates in the oil and gas industry. The Company finances entities within the group. As such, the Company is economically dependent on the PJSC LUKOIL Group.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

The Company does not expect to encounter difficulty in meeting the obligations associated with its financial liabilities since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company that has sufficient available funds to meet its obligations

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, being a finance company, management is of the opinion that the operational risk is negligible.

Business environment

The bondholders are guaranteed by PJSC LUKOIL, a company incorporated in the Russian Federation. The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

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 PJSC LUKOIL. These sanctions prohibit the US and the EU companies and individuals from the provision of goods, services or technology (except for financial services to PJSC LUKOIL) that can be used on the territory of the Russian Federation in deepwater exploration and production of crude oil, exploration and production of crude oil in Arctic offshore and shale projects. The LUKOIL Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the LUKOIL Group financial position and results of operations.



Directors' Report

for the year ended 31 December 2015

The company does not expect to encounter difficulty in meeting the obligations associated with its financial liabilities since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company that has sufficient available funds to meet its obligations.

Capital management

The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Research and development

These are not applicable for a finance company.

Environmental Factors

The Company complies with relevant rules and regulations regarding environmental issues.

Code of Corporate Conduct

The Company issued and applies a Code of Corporate Conduct of PJSC LUKOIL Group, which regulates the most important rules of conduct for LUKOIL's company business and its employees, ethical norms for intra-corporate relations and social responsibility.

From 1 January 2012 onwards the Board of Directors should endeavour to ensure at least 30% of the Board are women. The current situation is that the Board of Directors exists only of men based upon their experience with the business and the group. It is not expected that this 30% requirement will be met during the coming year.

Audit Committee

The Company makes use of the exemption for the requirement to establish its own Audit Committee, based on Article 3a of the Royal Decree of 26 July 2008 implementing article 41 of the EU Directive 2006/43EG. The Audit Committee of PJSC LUKOIL, which is compliant with the requirements, will fulfil the role of the Company's Audit Committee. The Audit Committee of PJSC LUKOIL covers the complete PJSC Lukoil Group. Details of the charter, membership, duties and responsibilities of the Audit Committee of PJSC LUKOIL can be found on PJSC LUKOIL's website.

Employee information

The Company had one employee in 2015 (2014: nil).

Subsequent events

There were no subsequent events after the balance sheet date until the date of these financial statements which would have a material impact on the Company's 2015 financial statements.

Future outlook

The Company is expected to continue acting as a finance company; the loans granted to group companies will fully satisfy the financing requirement of bond repayments and interest commitments. The Company from time to time may consider further opportunities to raise additional funds for the PJSC LUKOIL Group on the basis of, and subject to, market conditions prevailing.

Directors and directors' interests

The directors who held office during the year were as follows: S.G. Nikitin (resigned 24/09/2015) TMF Netherlands B.V. (resigned 24/09/2015) R.G.A. de Schutter (resigned 24/09/2015) J. Brulot (appointed 24/09/2015) K. Khorev (appointed 24/09/2015)



Directors' Report for the year ended 31 December 2015

The directors who held office at the end of the financial year and at signing of these accounts had no disclosable interest in the shares of the Company.

By order of the board Amsterdam, 30 June 2016

J. Brulot

K. Khorev



Balance Sheet

as at 31 December 2015

(Before appropriation of result)

	Note	2015 USD 000's	2014 USD 000's
Non-current assets Long-term loans receivable from the Group Companies	4	5,595,828 5,595,828	<u> </u>
Current Assets Interest receivable from the Group Companies	5	43,418	15,834
Loan receivable from the Group Companies Other debtors	6	- 1,815	1,528,985 35,896
Cash at bank	7	529	3,505
Total Current Assets		45,762	1,584,220
Current Liabilities Interest payable Bonds issued to third parties Income tax payable Other creditors	8 9	(42,228) - - (1,859)	(43,847) (1,498,901) (288) (35,897)
Total Current Liabilities		(44,087)	(1,578,933)
Net Current Assets / (Liabilities)		1,675	5,287
Total Assets less Current Liabilities		5,597,503	5,593,975
Non-current Liabilities Bonds issued to third parties	8	(5,585,172)	(5,582,069)
Net Assets		12,331	11,906
Capital and Reserves Issued and paid up capital Share premium Currency translation reserve Retained earnings Result for the year	10	20 8,063 3 3,820 425	22 8,063 1 4,536 (716)
Total Capital and Reserves		12,331	11,906



Profit and Loss Account

for the year ended 31 December 2015

	Note	2015 USD 000's	2014 USD 000's
Financial (Expenses) / Income			
Interest income and other similar revenues	11	334,794	422,956
Interest expense and other similar charges	12	(333,197)	(420,484)
Foreign exchange gain / (loss)		10	(19)
		1,607	2,453
Operating Expenses			
General and administration expenses		(501)	(2,103)
Result before taxation		1,106	350
Corporate income tax	13	(681)	(1,066)
Result for the year		425	(716)

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Statement of Comprehensive Income for the year ended 31 December 2015

	Note	2015 USD 000's	2014 USD 000's
Result for the year		425	(716)
Other comprehensive income		-	-
Total comprehensive income		425	(716)

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Cash Flow Statement

for the year ended 31 December 2015

	Note	2015 USD 000's	2014 USD 000's
Cash flow from operating activities		050 000 \$	050 000 \$
Result for the year Adjustments for operating result		425	(716)
Interest income Interest expense Corporate income tax Operating Result	11 12 13	(334,794) 333,197 <u>681</u> (491)	(422,956) 420,484 <u>1,066</u> (2,122)
Adjusted for:			
Decrease / (increase) in other debtors Increase /(Decrease) in other creditors		34,081 (34,038) 43	(35,893) 35,868 (2,147)
Cash flow from operating activities			
Change in operating assets:			
Funds received from Group companies – short term loans Funds received from Group companies	6	1,523,205	-
relating to re-financed loans Funds loaned to Group companies relating	4	3,593,135	871,495
to re-financed loans Interest received	4	(3,593,135) <u>305,870</u>	420,467
Change in operating liabilities:		1,829,075	1,291,962
Interest paid Corporate income tax paid		(330,635) (968)	(386,245) (779)
Funds returned to third parties	9	(1,500,000) (1,831,603)	(900,000) (1,287,024)
		(2,528)	4,938
Cash flow from investing activities		-	-
Cash flow from financing activities		-	-
Changes in cash and cash equivalents		(2,976)	2,791
Cash at bank at 1 January		3,505	714
Cash at bank at 31 December		529	3,505



Notes to the Financial Statements

for the year ended 31 December 2015

1 General

LUKOIL International Finance B.V. ('the Company') is a private company with limited liability incorporated in Amsterdam, the Netherlands, on 16 August 2006. The Company's immediate parent company is LUKOIL INTERNATIONAL GmbH, which is incorporated in Vienna, Austria. The Company's ultimate parent company is PJSC LUKOIL, registered in Moscow, Russia. The Company's financial statements are included in the consolidated financial statements of the ultimate parent company. The principal activity of the Company is to act as a financing company.

2 Summary of principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code. The functional currency of the Company is the US dollar since most of the Company's assets and liabilities are denominated in US dollars. For this reason, the accounts are prepared in US dollars.

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability. If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. The revenue and expenses are allocated to the period to which they relate.

Use of estimates

The preparation of the financial statements requires management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign currencies

Transactions denominated in currencies other than US dollars are recorded at rates of exchange approximating to those ruling at the dates of the transactions. Assets and liabilities denominated in such currencies are translated into US dollars using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. The translation results arising on the Company's share capital are transferred to the currency translation reserve forming part of the Company's equity.



Notes to the Financial Statements

for the year ended 31 December 2015

2 Summary of principal accounting policies (continued)

Financial instruments

Financial instruments include loans receivable with group companies, bonds payable to third parties as well as other debtors and creditors. Financial instruments are initially recognized at fair value, including directly attributable transactions costs. After initial recognition, financial instruments are carried at amortised cost using the effective interest method, less impairment losses.

Impairment

Assets with a long life are tested for impairment in the case of changes or circumstances arising that lead to an indication that the carrying amount of the asset will not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows which the asset is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, impairment is charged to the difference between the carrying amount and the recoverable amount.

Shareholders' equity

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Recognition of income and expenses

Interest income and expense are determined on the basis of interest earned and charged over the relating periods, according to the accrual method of accounting. Other revenues and expenses are recorded in the period to which they relate.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.



Notes to the Financial Statements

for the year ended 31 December 2015

2 Summary of principal accounting policies (continued)

Determination of fair value

A number of accounting policies and disclosures in the Group's financial statements require the determination of the fair value for both financial and non-financial assets and liabilities. For measurement and disclosure purposes, fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining fair value are included in the section that specifically relates to the relevant asset or liability.

Non-derivative financial assets

The fair value of non-derivative financial assets is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price of the non-derivative financial commitments as at reporting date plus the appropriate margin.

Non-derivative financial commitments

The fair value of non-derivative financial commitments is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price as at reporting date.

3 Financial risk management

During the normal course of business, the Company uses various financial instruments that expose the Company to market and/or credit risks. These relate to financial instruments that are included on the balance sheet.

The Company does make use of financial derivatives and follows procedures and code of conduct to limit the size of the credit risk with each counterparty and market.

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from group companies, credit risk is concentrated at these counterparties.

The credit risk is considered low since all funding is obtained on behalf of the Group and passed on directly to group companies. Management of the Company assess and reviews risk for the group companies, and is of the opinion that the group companies will not fail to meet their obligations. The Company is 100% owned by the PJSC LUKOIL Group, a large Russian conglomerate, which operates in the oil and gas industry. The Company finances enties within the group. As such, the Company is economically dependent on the PJSC LUKOIL Group.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.



Notes to the Financial Statements

for the year ended 31 December 2015

3 Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment

The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Capital management

The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Cash flow statement

The cash flow statement is prepared using the indirect method. Due to the nature of the Company's operations being financing activities, movements in borrowings and group receivables are generally considered to be operating activities and classified as such in the cash flow statement.



Notes to the Financial Statements

for the year ended 31 December 2015

4

Loans receivable from the Group Companies – non-current

	Amortised cost using effective interest method at 31 December 2014 USD 000's	Repaid in 2015 USD 000's	Loans granted in 2015 USD 000's	Movements in amortised cost due to unwinding 2015 USD 000's	Amortised cost using effective interest method at 31 December 2015 USD 000's
Loan to LUKOIL Finance Limited, Gibraltar maturing 2017 Loan to LUKOIL Finance Limited, Gibraltar maturing 2022 Loan to LUKOIL Finance Limited, Gibraltar maturing 2019 Loan to Lukinter Finance B.V., Netherlands maturing 2020 Loan to Lukinter Finance B.V., Netherlands maturing 2023 Loan to Lukinter Finance B.V., Netherlands maturing 2023 Loan to Lukinter Finance B.V., Netherlands maturing 2019 Loan to Lukinter Finance B.V., Netherlands maturing 2017 Loan to Lukinter Finance B.V., Netherlands maturing 2017 Loan to Lukinter Finance B.V., Netherlands maturing 2022 Loan to Lukinter Finance B.V., Netherlands maturing 2022 Loan to LUKOIL Investments Cyprus Ltd, maturing 2017 Loan to LUKOIL Investments Cyprus Ltd, maturing 2022	500,000 500,000 595,464 997,671 1,498,032 1,497,521 - - -	(500,000) (500,000) (595,464) (997,671) (500,000) (500,000)	- - - 595,464 500,000 500,000 997,671 500,000 500,000	- - 1,356 1,129 3,023 1,632	- - - 1,499,388 1,498,650 598,488 - - - 999,302 500,000 500,000
Long term loans owed by group companies	5,588,688	(3,593,135)	3,593,135	7,140	5,595,828
	Amortised cost using effective interest method at 31 December 2013 USD 000's	Repaid in 2014 USD 000's	Loans granted in 2014 USD 000's	amortised cost due to unwinding	using effective interest method at 31 December
Loan to LUKOIL Finance Limited, Gibraltar maturing 2017 Loan to LUKOIL Finance Limited, Gibraltar maturing 2022 Loan to LUKOIL Finance Limited, Gibraltar maturing 2019 Loan to LUKOIL Finance Limited, Gibraltar maturing 2010 Loan to LUKOIL Finance Limited, Gibraltar maturing 2010 Loan to LUKOIL Finance Limited, Gibraltar maturing 2015 Loan to LUKOIL Finance Limited, Gibraltar maturing 2015 Loan to LUKOIL Finance Limited, Gibraltar maturing 2018 Loan to LUKOIL Finance Limited, Gibraltar maturing 2023 Loan to LUKOIL Finance Limited, Gibraltar maturing 2023 Loan to LUKOIL Finance B.V., Netherlands maturing 2020 Loan to Lukinter Finance B.V., Netherlands maturing 2018 Loan to Lukinter Finance B.V., Netherlands maturing 2023 Reclassification of short term loan owed by group companies - loan maturing 2014 Reclassification of short term loan owed by group companies - loan maturing 2015	500,000 500,000 594,744 899,210 997,401 1,498,205 1,497,652 1,497,451 - - - (899,210)	- (900,000) (997,401) - (1,497,652) (1,497,451) - 900,000	997,401 1,497,652 1,497,451	380	1,499,980 - 997,671 1,498,032 1,497,521
Long term loans owed by group companies	7,085,453	(3,992,504)	3,992,504	3,215	5,588,688

The effective interest is included in "Interest income" in the profit and loss account. The fair value of the long term loans at the end of the year is estimated as being USD 5,535,424 thousand (2014: USD 4,839,785 thousand). The loans are all unsecured and bear fixed interest rates as disclosed below.

Loans repaid during the year to LUKOIL Finance Limited, Gibraltar, were refinanced to Lukinter Finance B.V., The Netherlands and three loans from Lukinter Finance B.V. to LUKOIL Investments Cyprus Ltd., on the same terms.

Loans receivable from Group Companies are due to be repaid at maturity.



Notes to the Financial Statements

for the year ended 31 December 2015

4

Loans receivable from the Group Companies – non-current (Continued)

	Nominal interest rate	Effective interest rate	Nominal Value at 31 December 2015 USD 000's	Nominal Value at 31 December 2014 USD 000's
Loan to LUKOIL Finance Limited, Gibraltar maturing 2017	6.4223%	6.4223%		500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2022	6.7223%	6.7223%	-	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2019	7.3163%	7.520%	-	600,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2014	6.4413%	6.647%	-	
Loan to LUKOIL Finance Limited, Gibraltar maturing 2020	6.1881%	6.249%	-	-
Loan to LUKOIL Finance Limited, Gibraltar maturing 2015	2.6881%	2.825%	-	1,500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2018	3.487%	3.526%	-	_
Loan to LUKOIL Finance Limited, Gibraltar maturing 2023	4.634%	4.657%	-	-
Loan to LUKOIL Investments Cyprus Ltd maturing 2020	6.1881%	6.227%	1,000,000	1,000,000
Loan to Lukinter Finance B.V., Netherlands maturing 2018	3.487%	3.515%	1,500,000	1,500,000
Loan to Lukinter Finance B.V., Netherlands maturing 2023	4.634%	4.650%	1,500,000	1,500,000
Loan to LUKOIL Investments Cyprus Ltd maturing 2017	6.4223%	6.4223%	500,000	-
Loan to LUKOIL Investments Cyprus Ltd maturing 2022	6.7223%	6.7223%	500,000	-
Loan to Lukinter Finance B.V., Netherlands maturing 2019	7.3163%	7.476%	600,000	-
Reclassification of short term loan owed by group companies - loan maturing 2015		_	-	(1,500,000)
Long term loans owed by group companies		_	5,600,000	5,600,000

5 Interest receivable from the Group Companies

31 December	31 December
2015	2014
USD 000's	USD 000's
-	11,057
29,231	4,777
13,487	-
43,418	15,834
	2015 USD 000's - 29,231 13,487

6 Loans receivable from the Group Companies - current

	31 December 2015 USD 000's	31 December 2014 USD 000's
Loan to LUKOIL Finance Limited, Gibraltar (reclassified from long term and paid during 2015)	-	1,499,980
Loan to Lukinter Finance B.V., Netherlands	-	29,005
	-	1,528,985

During the year the loans were repaid and the net cash flow after adjusting for effective interest rate and movement in amortised costs was cash inflow of USD 1,523,205.



Notes to the Financial Statements

for the year ended 31 December 2015

7 Cash at bank

Cash at bank comprise bank balances which are freely available on demand to the Company.

8 Bonds issued to third parties – non-current

On 7 June 2007, the Company issued USD 500,000 thousand of redeemable bonds due 7 June 2017 ("2017 Bond"), and USD 500,000 thousand of redeemable bonds due 7 June 2022 ("2022 Bond"), (together "the 2007 Bonds") on the London Stock Exchange. The 2007 Bonds have been unconditionally guaranteed by PJSC LUKOIL, the ultimate parent company.

The 2017 Bond bears interest at a rate of 6.356% per annum and the 2022 Bond bears interest at a rate of 6.656% per annum. Interest is payable semi-annually in arrears, commencing on 7 December 2007. Accrued interest outstanding on the 2007 Bonds at balance sheet date was USD 4,367 thousand (2014: USD 4,367 thousand).

On 5 November 2009, the Company issued USD 900,000 thousand of redeemable bonds due 5 November 2014 ("2014 Bond") and USD 600,000 thousand of redeemable bonds due 5 November 2019 ("2019 Bond"), (together "the 2009 Bonds"), on the London Stock Exchange. The 2009 Bonds have been unconditionally guaranteed by PJSC LUKOIL, the ultimate parent company. The USD 900 million was repaid to bondholders on the due date 5 November 2014.

The 2019 Bond bears interest at a rate of 7.25% per annum. Interest is payable semi-annually in arrears, commencing on 5 May 2010. Accrued interest outstanding on the 2009 Bond at balance sheet date was USD 6,675 thousand (2014: USD 6,675 thousand).

On 9 November 2010, the Company issued USD 1,000,000 thousand of redeemable bonds due 9 November 2020 ("2020 Bond") on the London Stock Exchange. The 2020 Bond has been unconditionally guaranteed by PJSC LUKOIL, the ultimate parent company.

The 2020 Bond bears a nominal interest at a rate of 6.125% per annum. Interest is payable semi-annually in arrears, commencing on 9 May 2011. Accrued interest outstanding on the 2020 Bond at balance sheet date was USD 8,726 thousand (2014: USD 8,726 thousand).

On 16 December 2010, the Company issued USD 1,500,000 thousand of convertible bonds due 16 June 2015 ("2015 Convertible Bond") on the London Stock Exchange. The 2015 Convertible Bond has been unconditionally guaranteed by PJSC LUKOIL, the ultimate parent company. This bond was fully repaid in cash on the maturity date in 2015.

The 2015 Convertible Bond bears interest at a nominal rate of 2.625% per annum. Interest is payable semi-annually in arrears, commencing on 16 June 2011. Accrued interest outstanding on the 2015 Convertible Bond was fully paid on maturity so no interest is outstanding at the balance sheet date (2014: USD 1,618 thousand).

On 24 April 2013 the Company issued USD 1,500,000 thousand of redeemable bonds due 24 April 2018 ("2018 Bond") and USD 1,500,000 thousand of redeemable bonds due 24 April 2023 ("2023 Bond"), (together "the 2013 Bonds") on the London Stock Exchange. The 2013 Bonds have been unconditionally guaranteed by PJSC LUKOIL, the ultimate parent company. The 2018 Bond bears a nominal interest at a rate of 3.416% per annum and the 2023 Bond bears a nominal interest at a rate of 4.563% per annum. Interest is payable semi-annually in arrears, commencing on 24 October 2013.



Notes to the Financial Statements

for the year ended 31 December 2015

8 Bonds issued to third parties – non-current (continued)

Accrued interest outstanding on the 2013 Bonds at balance sheet date was USD 22,461 thousand (2014: USD 22,461 thousand).

Total interest due to bondholders at the balance sheet date was USD 42,228 thousand (2014: USD 43,847 thousand).

	Effective interest rate	Amortised bon cost at 3 December 201 USD 000'	1 amortised co 4 due to unwindir	ng 15	Amortised bond cost at 31 December 2015 USD 000's
2017 Bond 2022 Bond 2019 Bond 2020 Bond 2018 Bond 2023 Bond	6.440% 6.722% 7.497% 6.193% 3.470% 4.594%	(499,028 (498,085 (593,976 (996,684 (1,497,478 (1,496,818	5) (19 5) (1,03 4) (47 8) (72	9) 2) 3) 3)	(499,386) (498,284) (595,008) (997,157) (1,498,201) (1,497,136)
		(5,582,069	9) (3,10	3)	(5,585,172)
	Effective interest rate	Amortised bond cost 31 December 2013 USD 000's	Movements in amortised cost due to unwinding 2014 USD 000's	Re-classification of short term bond – 2015 Bond USD 000's	Amortised bond cost at 31 December 2014 USD 000's
2017 Bond 2022 Bond 2014 Bond 2019 Bond 2020 Bond 2015 Convertible Bond 2018 Bond 2023 Bond Reclassification of short term bond – 2014 Bond Reclassification of short term bond – 2015 Bond	6.440% 6.722% 6.635% 7.497% 6.193% 2.778% 3.470% 4.594%	(498,691) (497,898) (897,974) (593,017) (996,239) (1,496,700) (1,496,780) (1,496,513) 897,974	(337) (187) (2,026) (959) (445) (2,201) (698) (305) 2,026	- - - - - - - - - - - - - - - - - - -	(499,028) (498,085) - (593,976) (996,684) (1,498,901) (1,497,478) (1,496,818) - 1,498,901
	-	(7,075,838)	(5,132)	1,498,901	(5,582,069)

The effective interest is included in "Interest expense" in the profit and loss account. On 16 June 2015 the Company paid USD 1,500,000 thousand due to maturity of the Convertible Bonds. The fair values of the bonds are estimated as follows, based on the market value per the London Stock Exchange:

	31 December 2015	31 December 2014
	USD 000's	USD 000's
Bonds due 7 June 2017	(520,625)	(487,500)
Bonds due 7 June 2022	(513,850)	(453,500)
Bonds due 5 November 2019	(657,750)	(586,500)
Bonds due 9 November 2020	(1,023,300)	(841,510)
Convertible Bonds due 16 June	-	(1,441,860)
2015		
Bonds due 24 April 2018	(1,468,050)	(1,291,875)
Bonds due 24 April 2023	(1,348,050)	(1,226,250)
Reclassification of short term bond		
	-	1,441,860
	(5,531,625)	(4,887,135)



Notes to the Financial Statements

for the year ended 31 December 2015

9 Bonds issued to the third parties – current

	31 December 2015	31 December 2014
Convertible Bonds due within one year	USD 000's -	USD 000's 1,498,901
	-	1,498,901

On 16 June 2015 the Company paid USD 1,500,000 thousand due to maturity of the Convertible Bonds.

10 Capital and reserves

As at the balance sheet date the Company has an authorised share capital of 90 thousand shares of EUR 1 each, of which 18 thousand shares have been issued and fully paid up (2014: 18 thousand shares of EUR 1 each). The share capital was translated using an exchange rate of EUR 1 = USD 1.0907 at 31 December 2015 (1.2155 at 31 December 2014).

The exchange difference resulting from translating the issued and paid-up capital to the reporting currency (US dollars) is reported as a currency translation reserve as part of equity.

Movements in capital and reserves for the year ending 31 December 2015 and 2015 are as follows:

	Share capital	Share premium	Currency translation reserve	Retained earnings	Result for the year	Total
USD 000's					,	
Balance at 1 January						
2014	25	8,063	(2)	3,057	1,479	12,622
Appropriation of prior year result	_	_	_	1,479	(1,479)	_
•	(2)	-	3	1,473	(1,473)	_
Translation adjustment	(3)	-	3	-	-	-
Result for the year	-	-	-		(716)	(716)
Balance at 31						
December 2014	22	8,063	1	4,536	(716)	11,906
Appropriation of prior						
year result	-	-	-	(716)	716	-
Translation adjustment	(2)	-	2	-	-	-
Result for the year	-	-	-		425	425
Balance at 31						
December 2015	20	8,063	3	3,820	425	12,331



Notes to the Financial Statements

for the year ended 31 December 2015

11 Interest income and other similar revenues

	2015 USD 000's	2014 USD 000's
Interest income from loans to LUKOIL Finance Limited, Gibraltar	-	384,052
Interest income from loans to Lukinter Finance B.V., Netherlands Interest income from loans to LUKOIL	261,867	3,010
Investments Cyprus Ltd, Cyprus Guarantee fee re-charged to Lukinter	51,475	-
Finance B.V. , Netherlands Other interest income	21,452 -	35,884 10
_	334,794	422,956

The interest income relating to the loans is based on the effective interest rates detailed in Note 3.

12 Interest expense and other similar charges

	2015 USD 000's	2014 USD 000's
Interest expense relating to bonds PJSC LUKOIL Guarantee fee	(311,745) (21,452)	(384,600) (35,884)
	(333,197)	(420,484)

The interest expense relating to the bonds is based on the effective interest rates detailed in Note 7.

13 Corporate income tax

The applicable tax rate for 2015 is 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income (2014: 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income). Under Dutch taxation certain income and expenditure are not taxable or tax deductible ("restricted expenses"). Following an agreement with the Dutch tax authorities entered into in the year 2007, the corporate charge for 2015 is 681 USD thousand (2014: USD 1,066 thousand).

The corporate charge includes the following components:

	2015 USD 000's	2014 USD 000's
Result before taxation	425	350
Tax at standard rate (approximately 25%) Tax effect of restricted expenses Prior year adjustments	(106) (575) 	(88) (978) -
Tax charge for current financial year	(681)	(1,066)

The Company entered into an agreement with the Dutch tax authorities whereby corporate income tax is calculated based on a margin on Eurobonds issued.



Notes to the Financial Statements

for the year ended 31 December 2015

14 Directors

The Company has two directors (2014: three): the former directors Mr. S.G. Nikitin, TMF Netherlands B.V. and Mr. R.G.A. De Schutter resigned on 24/09/2015 when Mr J Brulot and Mr K Khorev were appointed. The directors received USD 31 thousand as remuneration in that capacity during the year (2014: USD 8 thousand).

15 Staff numbers and employment costs

The Company has one employee, who is also a director, in 2015 and no employees in 2014.

16 Related parties

Transactions and balances with related parties are disclosed in note 3. In addition there were the following related party activities with other LUKOIL group companies:

	2015 USD 000's	2014 USD 000's
Professional services from the Lukoil Group companies Guarantee fee charged by PJSC LUKOIL Guarantee fee recharged to Lukinter Finance B.V.	131 21,452 (21,452)	133 35,884 (35,884)
	131	133

Guarantee fees are included in the line items Other Debtors and Other Creditors in the statement of financial position.

17 Auditor's fees

	2015 USD 000's	2014 USD 000's
Statutory audit of annual accounts - KPMG Accountants N.V. Other audit engagements – other KPMG firms member	31	29
firms and affiliates Tax advisory services - other KPMG member firms and affiliates	199 -	318 5
-	230	352



Notes to the Financial Statements for the year ended 31 December 2015

Amsterdam, 30 June 2016

K.P. Khorev Director J. Brulot Director



Supplementary Information

Profit appropriation

The appropriation of the result for the year shall be determined by the shareholders at the general meeting. Distributions may be made only in so far as the Company's net equity exceeds the paid up capital and legal reserves. It is proposed to include the result for the year in retained earnings.

Subsequent events

There were no events subsequent to balance sheet date until the date of these financial statements which would have a material impact on the Company's 2015 financial statements.

Independent auditor's report

The Independent auditor's report is set out on the following pages.



Independent auditor's report

To: the General Meeting of LUKOIL International Finance B.V.

Report on the audit of the annual financial statements 2015

Opinion

In our opinion the financial statements give a true and fair view of the financial position of LUKOIL International Finance B.V. as at 31 December 2015, and of its result for 2015 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2015 of LUKOIL International Finance B.V, based in Amsterdam.

The financial statements comprise:

- 1 the Balance Sheet as at 31 December 2015;
- 2 the following statements for the year ended 31 December 2015: Profit and Loss account, the Statement of Comprehensive Income, Cash Flow Statement; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

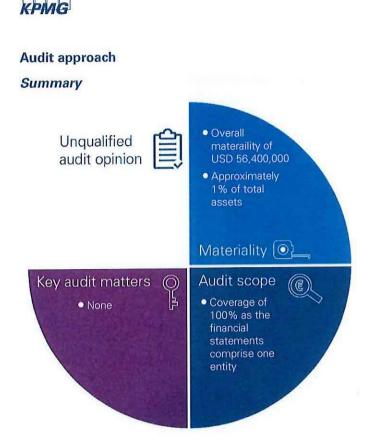
Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of LUKOIL International Finance B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

1002033-16W00145542AVN



Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at USD 56,400,000. The materiality is determined with reference to total assets (1%). We consider total assets as the most appropriate benchmark and more relevant than the profit before tax given the activities of the Company as financing entity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Board of Directors that misstatements in excess of USD 2,820,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Directors is responsible for such internal control as The Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose



events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Board of Directors is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud. For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) www.nba.nl/standardtexts-auditorsreport.

Report on other legal and regulatory requirements

Report on the Director's report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the Directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the Directors' report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the General Meeting as auditor of LUKOIL International Finance B.V. as of the audit for year 2008 and have operated as statutory auditor since then. On 4 June 2015 we were reappointed by the General Meeting for the audit of the 2015 financial statements.

Amstelveen, 30 June 2016

KPMG Accountants N.V.

R.C. Preitschopf RA



Financial Statements

For the year ended 31 December 2014

Luna ArenA Herikerbergweg 238 1101 CM AMSTERDAM ZUIDOOST The Netherlands

Company Number 34254022



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Directors' Report

for the year ended 31 December 2014

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

General information

The principal activity of the Company is to raise funds for members of the OAO LUKOIL Group through the issue of bonds or other securities. The Company has no employees. The Company's ultimate parent is OAO LUKOIL domiciled in Russia and immediate parent is LUKOIL INTERNATIONAL GmbH domiciled in Austria. The Company funds its expenses through the margin made between the interest received on its loans granted to OAO LUKOIL Group companies and interest paid to bondholders.

Business review

On 7 June 2007, the Company issued USD 1 billion of interest bearing bonds, in the amounts of USD 500 million due in 2017 and USD 500 million due in 2022. On 5 November 2009, the Company issued an additional USD 1.5 billion of interest bearing bonds, in the amounts of USD 900 million due in 2014 and USD 600 million due in 2019. The USD 900 million was repaid to bondholders on the due date 5 November 2014.

On 9 November 2010, the Company issued an additional USD 1 billion of interest bearing bonds due in 2020. On 16 December 2010, the Company issued USD 1.5 billion of interest bearing bonds convertible into shares of OAO LUKOIL maturing in June 2015. On 24 April 2013, the Company issued USD 3 billion of interest bearing bonds, in the amounts of USD 1.5 billion due in 2018 and USD 1.5 billion due in 2023. The Company has loaned the proceeds from the issue of bonds to Group companies, during the year USD 4 billion was transferred from LUKOIL Finance Ltd to LUKInter Finance B.V. In 2015 the remaining USD 3.1 billion of loans were transferred from LUKOIL Finance Ltd to LUKInter Finance B.V.

Proposed dividend and transfer to reserves

The loss of the company for the year is USD 716 thousand (2013: USD 1,479 thousand profit) and it is proposed to transfer the result for the year to the retained earnings.

Financial risk management

During the normal course of business, the Company uses various financial instruments that expose the Company to market and/or credit risks. These relate to financial instruments that are included on the balance sheet.

The Company does not trade in financial derivatives and follows procedures and a code of conduct to limit the size of the credit risk with each counterparty and market. If a counter party fails to meet its payment obligations to the Company, the resulting losses are limited to the fair value of the instruments in question. The contract value or principal amounts of the financial instruments serve only as an indication of the extent to which such financial instruments are used, and not of the value of the credit or fair risks.

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from one group company, credit risk is concentrated at this counterparty.

The credit risk is considered negligible since all funding is obtained on behalf of the Group and passed on directly to one group company. Management of the Company assess and reviews risk for the group company, and does not expect that the group company will fail to meet its obligations. The Company is 100% owned by the LUKOIL Group, a large Russian conglomerate, which operates in the oil and gas industry. The Company finances entities within the group. As such, the Company is economically dependent on the LUKOIL Group.



Directors' Report

for the year ended 31 December 2014

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment

The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

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 OAO LUKOIL. These sanctions prohibit the US and the EU companies and individuals from the provision of goods, services or technology (except for financial services to OAO LUKOIL) that can be used on the territory of the Russian Federation in deepwater exploration and production of crude oil, exploration and production of crude oil in Arctic offshore and shale projects. The LUKOIL Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the LUKOIL Group financial position and results of operations.

The company does not expect to encounter difficulty in meeting the obligations associated with its financial liabilities since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.



Directors' Report

for the year ended 31 December 2014

Capital management

The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Code of Corporate Conduct

The Company issued and applies a Code of Corporate Conduct of OAO LUKOIL, which regulates the most important rules of conduct for LUKOIL's company business and its employees, ethical norms for intra-corporate relations and social responsibility.

From 1 January 2012 onwards the Board of Directors should endeavour to ensure at least 30% of the Board are women. The current situation is that the Board of Directors exists only of men. Given the respected foreign nature of this company it is not expected that this 30% requirement will be met during the coming year.

Audit Committee

The Company makes use of the exemption for the requirement to establish its own Audit Committee, based on Article 3a of the Royal Decree of 26 July 2008 implementing article 41 of the EU Directive 2006/43EG. The Audit Committee of OAO LUKOIL, which is compliant with the requirements, will fulfil the role of the Company's Audit Committee. The Audit Committee of OAO LUKOIL covers the complete OAO Lukoil Group. Details of the charter, membership, duties and responsibilities of the Audit Committee of OAO LUKOIL's website.

Employee information

The Company had no employees in 2014 (2013: nil).

Subsequent events

In February and April 2015 USD 3,100 million, the remaining loans granted to LUKOIL Finance Ltd, Gibraltar (as documented in Note 3) were repaid and the funds loaned to LUKInter Finance BV, Netherlands with the same terms and conditions.

There were no other events subsequent to balance sheet date until the date of these financial statements which would have an impact on the Company's 2014 financial statements.

Future outlook

The Company from time to time may consider further opportunities to raise additional funds for the OAO LUKOIL Group on the basis of, and subject to, market conditions prevailing.

Directors and directors' interests

The directors who held office during the year were as follows: S.G. Nikitin TMF Netherlands B.V. R.G.A. de Schutter

The directors who held office at the end of the financial year and at signing of these accounts had no disclosable interest in the shares of the Company.

By order of the board Amsterdam, 18 May 2015

S.G. Nikitin

TMF Netherlands B.V.

R.G.A. de Schutter



Balance Sheet

as at 31 December 2014

(Before appropriation of result)

	Note	2014 USD 000's	2013 USD 000's
Financial Fixed Assets			
Long term loans owed by group	0	5 500 000	7 005 452
companies	3	<u>5,588,688</u> 5,588,688	7,085,453 7,085,453
Current Assets		3,368,068	7,000,400
Interest owed by group companies	4	15,834	53,732
Short term loan owed by group	_		
companies	5	1,528,985	899,210
Other debtors Cash at bank	6	35,896 3,505	3 714
Casil at ballk	0	3,505	714
Total Current Assets		1,584,220	953,659
Current Liabilities			
Interest payable	7	(43,847)	(52,649)
Bonds issued to third parties	7	(1,498,901)	(897,974)
Income tax payable		(287)	-
Other creditors		(35,897)	(29)
Total Current Liabilities		(1,578,932)	(950,652)
Net Current Assets / (Liabilities)		5,287	3,007
Total Assets less Current Liabilities		5,593,975	7,088,460
Long Term Liabilities			
Bonds issued to third parties	7	(5,582,069)	(7,075,838)
Net Assets		11,906	12,622
Capital and Reserves	8		
Issued and paid up capital	C	22	25
Share premium		8,063	8,063
Currency translation reserve		1	(2)
Retained earnings		4,536	3,057
Result for the year		(716)	1,479
Total Capital and Reserves		11,906	12,622



Profit and Loss Account

for the year ended 31 December 2014

	Note	2014 USD 000's	2013 USD 000's
Financial (Expenses) / Income			
Interest income and other similar revenues	9	422,956	358,575
Interest expense and other similar charges	10	(420,484)	(355,545)
Foreign exchange gain / (loss)		(19)	5
		2,453	3,035
Operating Expenses			
General and administration expenses		(2,103)	(583)
Result before taxation		350	2,452
Corporate income tax	11	(1,066)	(973)
Result for the year		(716)	1,479



Statement of Comprehensive Income for the year ended 31 December 2014

	Note	2014 USD 000's	2013 USD 000's
Result for the year		(716)	1,479
Other comprehensive income		-	-
Total comprehensive income		(716)	1,479



Cash Flow Statement

for the year ended 31 December 2014

	Note	2014 USD 000's	2013 USD 000's
Cash flow from operating activities		000 000 3	030 000 3
Result for the year Adjustments for operating result		(716)	1,479
Interest income Interest expense Corporate income tax Operating Result	9 10 11	(422,956) 420,484 1,066 (2,122)	(358,575) 355,545 973 (578)
Adjusted for:			
Decrease / (increase) in other debtors Increase /(Decrease) in other creditors	-	(35,893) 35,868 (2,147)	(3) (6) (9)
Cash flow from operating activities			
Change in operating assets:			
Funds received / (lent) to group companies Interest received		871,495 420,467	(2,992,622) 325,940
Change in operating liabilities:		1,291,962	(2,666,682)
Interest paid Corporate income tax paid Funds (returned)/borrowed from third parties	7	(386,245) (779) (900,000)	(326,405) (1,161) 2,992,622
r unus (returned/borrowed from tinita parties	/	(1,287,024)	2,665,056
	-	4,938	(1,626)
Cash flow from investing activities		-	-
Cash flow from financing activities		-	-
Changes in cash and cash equivalents	-	2,791	(2,213)
Cash at bank at 1 January	-	714	2,927
Cash at bank at 31 December	-	3,505	714

1 General

LUKOIL International Finance B.V. ('the Company') is a private company with limited liability incorporated in Amsterdam, the Netherlands, on 16 August 2006. The Company's immediate parent company is LUKOIL INTERNATIONAL GmbH, which is incorporated in Vienna, Austria. The Company's ultimate parent company is OAO LUKOIL, registered in Moscow, Russia. The Company's financial statements are included in the consolidated financial statements of the ultimate parent company. The principal activity of the Company is to act as a financing company.

2 Summary of principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code. The functional currency of the Company is the US dollar since most of the Company's assets and liabilities are denominated in US dollars. For this reason, the accounts are prepared in US dollars.

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability. If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. The revenue and expenses are allocated to the period to which they relate.

Use of estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign currencies

Transactions denominated in currencies other than US dollars are recorded at rates of exchange approximating to those ruling at the dates of the transactions. Assets and liabilities denominated in such currencies are translated into US dollars using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. The translation results arising on the Company's share capital are transferred to the currency translation reserve forming part of the Company's equity.

2 Summary of principal accounting policies (continued)

Financial instruments

Financial instruments include loans receivable with group companies, bonds payable to third parties as well as other debtors and creditors. Financial instruments are initially recognized at fair value, including directly attributable transactions costs. After initial recognition, financial instruments are carried at amortised cost using the effective interest method, less impairment losses.

Impairment

Assets with a long life are tested for impairment in the case of changes or circumstances arising that lead to an indication that the carrying amount of the asset will not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows which the asset is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, impairment is charged to the difference between the carrying amount and the recoverable amount.

Shareholders' equity

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Recognition of income and expenses

Interest income and expense are determined on the basis of interest earned and charged over the relating periods, according to the accrual method of accounting. Other revenues and expenses are recorded in the period to which they relate.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2 Summary of principal accounting policies (continued)

Determination of fair value

A number of accounting policies and disclosures in the Group's financial statements require the determination of the fair value for both financial and non-financial assets and liabilities. For measurement and disclosure purposes, fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining fair value are included in the section that specifically relates to the relevant asset or liability.

Non-derivative financial assets

The fair value of non-derivative financial assets is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price of the non-derivative financial commitments as at reporting date plus the appropriate margin.

Non-derivative financial commitments

The fair value of non-derivative financial commitments is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price as at reporting date.

Financial risk management

During the normal course of business, the Company uses various financial instruments that expose the Company to market and/or credit risks. These relate to financial instruments that are included on the balance sheet.

The Company does not trade in financial derivatives and follows procedures and code of conduct to limit the size of the credit risk with each counterparty and market. If a counter party fails to meet its payment obligations to the Company, the resulting losses are limited to the fair value of the instruments in question. The contract value or principal amounts of the financial instruments serve only as an indication of the extent to which such financial instruments are used, and not of the value of the credit or fair risks.

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from one group company, credit risk is concentrated at this counterparty.

The credit risk is considered negligible since all funding is obtained on behalf of the Group and passed on directly to one group company. Management of the Company assess and reviews risk for the group company, and does not expect that the group company will fail to meet their obligations. The Company is 100% owned by the LUKOIL Group, a large Russian conglomerate, which operates in the oil and gas industry. The Company finances enties within the group. As such, the Company is economically dependent on the LUKOIL Group.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

2 Summary of principal accounting policies (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment

The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Capital management

The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Cash flow statement

The cash flow statement is prepared using the indirect method. Due to the nature of the Company's operations being financing activities, movements in borrowings and group receivables are generally considered to be operating activities and classified as such in the cash flow statement.

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The effective interest is included in "Interest income" in the profit and loss account.

The fair value of the long term loans at the end of the year is estimated as being USD 4,839,785 thousand (2013: USD 7,448,746 thousand). The fair value of the reclassified to short term loan at the end of the year is estimated as being USD 1,442,888 thousand (2013: USD 940,583 thousand).

The loans are all unsecured and bear fixed interest rates as disclosed below.

3 Long term loans owed by group companies (continued)

5 Long term loans owed by group cor	npames (conti	nueu)		
	Nominal	Effective	Nominal	Nominal
	interest rate	interest rate	Value	Value
			at 31 December	at 31 December
			2014	2013
			USD 000's	USD 000's
Loan to LUKOIL Finance Limited, Gibraltar maturing 2017	6.4223%	6.4223%	500,000	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2022	6.7223%	6.7223%	500,000	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2019	7.3163%	7.520%	600,000	600,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2014	6.4413%	6.647%	-	900,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2020	6.1881%	6.249%	-	1,000,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2015	2.6881%	2.825%	1,500,000	1,500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2018	3.487%	3.526%	-	1,500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2023	4.634%	4.657%	-	1,500,000
Loan to LUKInter Finance BV, Netherlands maturing 2020	6.1881%	6.249%	1,000,000	1,000,000
Loan to LUKInter Finance BV, Netherlands maturing 2018	3.487%	3.526%	1,500,000	-
Loan to LUKInter Finance BV, Netherlands maturing 2023	4.634%	4.657%	1,500,000	-
Reclassification of short term loan owed by group companies -				
loan maturing 2014			-	(900,000)
Reclassification of short term loan owed by group companies -				
loan maturing 2015			(1,500,000)	-
Long term loans owed by group companies				
			5,600,000	7,100,000
			· · ·	

Loans repaid during the year to LUKOIL Finance Limited, Gibraltar, where refinanced to LUKInter Finance BV, The Netherlands, on the same terms.

4 Interest owed by group companies

	31 December 2014 USD 000's	31 December 2013 USD 000's
Interest due from LUKOIL Finance Limited, Gibraltar Interest due from LUKInter Finance BV, Netherlands	11,057 4,777	53,732
	15,834	53,732

5 Short term loans owed by group companies

	31 December	31 December
	2014	2013
	USD 000's	USD 000's
Loan to LUKOIL Finance Limited, Gibraltar (reclassified	1,499,980	899,210
from long term)		
Loan to LUKInter Finance BV, Netherlands	29,005	-
	1,528,985	899,210

The effective interest rate of short term loans to LUKOIL Finance Limited is 2.825% (2013: 6.647%). Interest of Libor is earned on the short term loan to LUKInter Finance BV and it is repayable on demand.

6 Cash at bank

Cash at bank comprise bank balances which are freely available on demand to the Company.

7 Bonds issued to third parties

On 7 June 2007, the Company issued USD 500,000 thousand of redeemable bonds due 7 June 2017 ("2017 Bond"), and USD 500,000 thousand of redeemable bonds due 7 June 2022 ("2022 Bond"), (together "the 2007 Bonds") on the London Stock Exchange. The 2007 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2017 Bond bears interest at a rate of 6.356% per annum and the 2022 Bond bears interest at a rate of 6.656% per annum. Interest is payable semi-annually in arrears, commencing on 7 December 2007. Accrued interest outstanding on the 2007 Bonds at balance sheet date was USD 4,367 thousand (2013: USD 4,367 thousand).

On 5 November 2009, the Company issued USD 900,000 thousand of redeemable bonds due 5 November 2014 ("2014 Bond") and USD 600,000 thousand of redeemable bonds due 5 November 2019 ("2019 Bond"), (together "the 2009 Bonds") on the London Stock Exchange. The 2009 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2019 Bond bears interest at a rate of 7.25% per annum. Interest is payable semi-annually in arrears, commencing on 5 May 2010. Accrued interest outstanding on the 2009 Bonds at balance sheet date was USD 6,675 thousand (2013: USD 15,477 thousand).

On 9 November 2010, the Company issued USD 1,000,000 thousand of redeemable bonds due 9 November 2020 ("2020 Bond") on the London Stock Exchange. The 2020 Bond has been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2020 Bond bears a nominal interest at a rate of 6.125% per annum. Interest is payable semi-annually in arrears, commencing on 9 May 2011. Accrued interest outstanding on the 2020 Bond at balance sheet date was USD 8,726 thousand (2013: USD 8,726 thousand).

On 16 December 2010, the Company issued USD 1,500,000 thousand of convertible bonds due 16 June 2015 ("2015 Convertible Bond") on the London Stock Exchange. The 2015 Convertible Bond has been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company. This bond is classified as a current liability.

The 2015 Convertible Bond converts into American Depository Receipts (ADRs) representing ordinary shares of OAO LUKOIL. Bondholders may exercise their conversion rights and receive (at the option of the Company) ADRs (as determined in the bond issuing details), the Cash Settlement Amount (as determined in the bond issuing details) or a combination of ADRs and the Cash Settlement Amount.

The Company has entered into an agreement with LUKOIL Finance Limited, Gibraltar, whereby LUKOIL Finance Limited will make available sufficient ADRs and/or the Cash Settlement Amount to the Company, at an agreed price, to ensure that the Company's obligations upon conversion are met at no additional risk and as a result, no loss will be borne by the Company. All risks and rewards have therefore effectively been transferred to LUKOIL Finance Limited.

The 2015 Convertible Bond bears interest at a nominal rate of 2.625% per annum. Interest is payable semi-annually in arrears, commencing on 16 June 2011. Accrued interest outstanding on the 2015 Convertible Bond at balance sheet date was USD 1,618 thousand (2013: USD 1,618 thousand).

On 24 April 2013 the Company issued USD 1,500,000 thousand of redeemable bonds due 24 April 2018 ("2018 Bond") and USD 1,500,000 thousand of redeemable bonds due 24 April 2023 ("2023 Bond"), (together "the 2013 Bonds") on the London Stock Exchange. The 2013 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company. The 2018 Bond bears a nominal interest at a rate of 3.416% per annum and the 2023 Bond bears a nominal interest at a rate of 4.563% per annum. Interest is payable semi-annually in arrears, commencing on 24 October 2013. Accrued interest outstanding on the 2013 Bonds at balance sheet date was USD 22,461 thousand (2013: USD 22,461 thousand).

Total interest due to bondholders at the balance sheet date was USD 43,847 thousand (2013: USD 52,649 thousand).

Amortised bond cost at 31 December 2014 USD 000's	(499,028) (498,085) -	(593,976) (996,684) (1,498,901) (1,497,478) (1,496,818)	- 1,498,901	(5,582,069)
Re- classification of short term bond – 2015 Bond USD 000's			- 1,498,901	1,498,901
Effective interest on bonds recorded at fair value as at transaction date 2014 USD 000's	(337) (187) (2.026)	(2,201) (445) (2,201) (698) (305)	2,026	(5,132)
Bonds repaid in 2014 USD 000's	-		(900,000) -	
Amortised bond cost 31 December 2013 USD 000's	(498,691) (497,898) (897 <u>.</u> 974)	(593,017) (996,239) (1,496,700) (1,496,780) (1,496,513)	897,974 -	(7,075,838)
Re-classification of short term bond – 2014 Bond USD 000's	1 1 1		897,974 -	897,974
Effective interest on bonds at fair value as at transaction date 2013 USD 000's	(316) (174) (2.064)	(1933) (1		(6,680)
Bonds issued in 2013 USD 000's		- - (1,496,311) (1,496,311)		(2,992,622)
Amortised cost using effective interest method at 31 December 2012 11SD 000°s	(498,375) (497,724) (895,910)	(592,124) (995,820) (1,494,557) -	1 1	(4,974,510)
Effective interest rate	6.440% 6.722% 6.635%	7.497% 6.193% 2.778% 3.470% 4.594%		I
	2017 Bond 2022 Bond 2014 Bond	2019 Bond 2020 Bond 2015 Convertible Bond 2018 Bond 2023 Bond	Reclassification of short term bond – 2014 Bond Reclassification of short term bond – 2015 Bond	

The effective interest is included in "Interest expense" in the profit and loss account.

Bonds issued to third parties (continued)

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7 Bonds issued to third parties (continued)

The fair values of the bonds are estimated as follows, based on the market value per the London Stock Exchange:

London etook Exonango.	31 December 2014 USD 000's	31 December 2013 USD 000's
Bonds due 7 June 2017	(487,500)	(560,000)
Bonds due 7 June 2022	(453,500)	(552,500)
Bonds due 5 November 2014		(939,960)
Bonds due 5 November 2019	(586,500)	(693,900)
Bonds due 9 November 2020	(841,510)	(1,087,200)
Convertible Bonds due 16 June 2015	(1,441,860)	(1,621,350)
Bonds due 24 April 2018	(1,291,875)	(1,517,925)
Bonds due 24 April 2023	(1,226,250)	(1,410,885)
Reclassification of short term		
bond	1,441,860	939,960
	(4,887,135)	(7,443,760)

8 Capital and reserves

As at the balance sheet date the Company has an authorised share capital of 90 thousand shares of EUR 1 each, of which 18 thousand shares have been issued and fully paid up (2013: 18 thousand shares of EUR 1 each). The share capital was translated using an exchange rate of EUR 1 = USD 1.2155 at 31 December 2014 (1.3767 at 31 December 2013).

The exchange difference resulting from translating the issued and paid-up capital to the reporting currency (US dollars) is reported as a currency translation reserve as part of equity.

Movements in capital and reserves for the year ending 31 December 2014 and 2014 are as follows:

	Share capital	Share premium	Currency translation reserve	Retained earnings	Result for the year	Total
USD 000's						
Balance at 1 January 2013	24	8,063	(1)	1,745	1,312	11,143
Appropriation of prior year result	-	-	-	1,312	(1,312)	-
Translation adjustment	1	-	(1)	-	-	-
Result for the year	-	-	-		1,479	1,479
Balance at 31 December 2013	25	8,063	(2)	3,057	1,479	12,622
Appropriation of prior		,		,	,	,
year result	-	-	-	1,479	(1,479)	-
Translation adjustment	(3)	-	3	-	-	-
Result for the year	-	-	-		(716)	(716)
Balance at 31	00	0.000	4	4 500	(710)	11.000
December 2014	22	8,063	1	4,536	(716)	11,906

9 Interest income and other similar revenues

	2014 USD 000's	2013 USD 000's
Interest income from loans to LUKOIL Finance Limited, Gibraltar	384,052	358,568
Interest income from loans to LUKInter Finance B.V., Netherlands	3,010	-
Guarantee fee re-charged to LUKInter Finance B.V. , Netherlands	35,884	-
Other interest income	10	7
	422,956	358,575

10 Interest expense and other similar charges

	2014 USD 000's	2013 USD 000's
Interest expense relating to bonds	(384,600)	(355,545)
OAO LUKOIL Guarantee fee	(35,884)	-
	(420,484)	(355,545)

The interest expense relating to the bonds is based on the effective interest rates detailed in Note 5.

11 Corporate income tax

The applicable tax rate for 2014 is 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income (2013: 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income). Under Dutch taxation certain income and expenditure are not taxable or tax deductible ("restricted expenses"). Following an agreement with the Dutch tax authorities entered into in the year 2007, the corporate charge for 2014 is USD 1,066 thousand (2013: USD 973 thousand)

The corporate charge includes the following components:

	2014	2013
	USD 000's	USD 000's
Result before taxation	350	2,452
Tax at standard rate (approximately 25%)	88	613
Tax effect of restricted expenses	978	351
Prior year adjustments	-	9
Tax charge for current financial year	1,066	973

12 Directors

The Company has three directors (2013: three): Mr. S.G. Nikitin, TMF Netherlands B.V. and Mr. R.G.A. De Schutter. The directors received USD 8 thousand as remuneration in that capacity during the year (2013: USD 8 thousand).

13 Staff numbers and employment costs

The Company has no employees and therefore incurred no wages, salaries and related social security charges in 2014 and 2013

14 Related parties

Transactions and balances with related parties are disclosed in note 3. In addition there were the following related party activities with other LUKOIL group companies:

	2014 USD 000's	2013 USD 000's
Professional services	133	479
Guarantee fee charged by OAO LUKOIL	35,884	-
Guarantee fee recharged to LUKInter Finance B.V.	(35,884)	-
	133	479

Guarantee fees are included in the line items Other Debtors and Other Creditors in the statement of financial position.

15 Auditor's fees

	2014	2013
	USD 000's	USD 000's
Statutory audit of annual accounts - KPMG Accountants		
N.V.	29	27
Other audit engagements – other KPMG firms member		
firms and affiliates	318	481
Tax advisory services - other KPMG member firms and		
affiliates	5	11
	352	519

Amsterdam, 18 May 2015

S.G. Nikitin

TMF Netherlands B.V.

R.G.A. de Schutter

Profit appropriation

The appropriation of the result for the year shall be determined by the shareholders at the general meeting. Distributions may be made only in so far as the Company's net equity exceeds the paid up capital and legal reserves. It is proposed to include the result for the year in retained earnings.

Subsequent events

In February and April 2015 USD 3,100 million, the remaining loans granted to LUKOIL Finance Ltd, Gibraltar (as documented in Note 3) were repaid and the funds loaned to LUKInter Finance BV, Netherlands with the same terms and conditions.

There were no other events subsequent to balance sheet date until the date of these financial statements which would have an impact on the Company's 2014 financial statements.

Independent auditor's report

The Independent auditor's report is set out on the following pages.

Independent auditor's report

To: the General Meeting of Shareholders of LUKOIL International Finance B.V.

Report on the audit of the financial statements 2014

Our opinion

We have audited the financial statements 2014 of LUKOIL International Finance B.V. ('the Company'), based in Amsterdam.

In our opinion the financial statements give a true and fair view of the financial position of LUKOIL International Finance B.V. as at 31 December 2014, and of its result for 2014 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements comprise:

- 1 the Balance sheet as at 31 December 2014;
- 2 the following statements for 2014: the Profit and Loss account, the Statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of LUKOIL International Finance B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 143,000,000. The materiality is determined with reference to total assets (2%) as the volume of the bonds issued is considered more relevant than the profit before tax given the activities of the company as financing entity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Board of Directors that misstatements in excess of EUR 7,150,000 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

For a further description of our responsibilities in respect of an audit of financial statements, we refer to the website of the professional body for accountants in the Netherlands (NBA). www.nba.nl/standardtexts-auditorsreport.

Report on other legal and regulatory requirements

Report on the directors' report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the directors' report and other information):

• We have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.

We report that the directors' report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were appointed in 2008 for the first time as auditor of LUKOIL International Finance B.V. and operated as auditor since then. On 2 December 2014 we were re-appointed by the General Meeting of Shareholders for the year 2014.

Amstelveen, 18 May 2015

KPMG Accountants N.V.

R.C. Preitschopf RA

REGISTERED AND HEAD OFFICE OF THE ISSUER

LUKOIL International Finance B.V.

WTC Tower D, Level 9 Strawinskylaan 963 1077 XX Amsterdam The Netherlands

REGISTERED AND HEAD OFFICE OF THE COMPANY

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Moscow 101000 Russia

AUDITORS

To the Company **JSC KPMG** 10 Presnenskaya Naberezhnaya Moscow 123112 Russia To the Issuer **KPMG Accountants N.V.** Laan van Langerhuize 1 1186 DS Amstelveen The Netherlands

TRUSTEE

Citicorp Trustee Company Limited Citigroup Centre Canada Square, Canary Wharf London E14 5LB United Kingdom

PRINCIPAL PAYING AGENT

Citibank, N.A., London Branch

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