Management's discussion and analysis of financial condition and results of operations

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2015 and the results of its operations for each of the years ended 31 December 2015 and 2014, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards ("IFRS") consolidated financial statements, including notes and supplementary information on oil and gas exploration and production activities.

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

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statement" on page 33 for a discussion of some factors that could cause actual results to differ materially.

Key financial and operational results

	2015	2014	Change, %
	(millions of rubles)		
Sales	5,749,050	5,504,856	4.4
Profit for the year attributable to LUKOIL shareholders	291,135	395,525	(26.4)
Adjusted profit for the year attributable to LUKOIL shareholders[1]	452,265	483,078	(6.4)
EBITDA	768,931	798,084	(3.7)
Adjusted EBITDA[1]	946,434	890,211	6.3
Taxes other than income taxes, excise and export tariffs	(1,098,129)	(1,275,133)	(13.9)
Earning per share of common stock attributable to LUKOIL:	(rubles)		
Basic	408.36	554.79	(26.4)
Diluted	405.15	541.90	(25.2)
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	868,325	844,469	2.8
Daily hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE per day)	2,379	2,314	2.8
Crude oil and natural gas liquids produced by the Group including our share in equity affiliates (thousands of barrels)	749,150	726,955	3.1
Crude oil produced by the Group including our share in equity affiliates (thousands of tonnes)	100,688	97,208	3.6
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	20,251	19,968	1.4
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes)	60,900	64,118	(5.0)
Hydrocarbon proved reserves including our share in equity affiliates (millions of BOE)	16,558	17,585	(5.8)

(1) Adjusted for losses on disposal and impairment of assets and dry hole write-offs.

Our financial results for 2015 and 2014 were significantly affected by sharp decrease in international crude oil prices and ruble devaluation. As a result, decrease in export sales and international revenue was partially compensated for by the effect of the ruble devaluation. Moreover, the weakening of ruble led to sizeable currency translation gains. Nevertheless, adverse changes in macroeconomic environment as a result of the decrease in crude oil prices triggered the correction of the value of certain assets in accordance with amended economic parameters. As a result, the Group recognized impairment losses and write-offs in the total amount of 161 billion RUB in 2015 and 88 billion RUB in 2014 (net of tax). In 2015, our net income, adjusted for those write-offs, decreased by 31 billion RUB, or by 6.4%, compared to 2014, and our adjusted EBITDA increased by 56 billion, or by 6.3%. In 2015, our free cash flow was 248 billion RUB, a significant increase from 72 billion RUB in 2014.

Non-recurring losses and gains

As a result of impairment tests in 2014 and 2015 and against the background of sharp decrease in crude oil prices and overall adverse economic environment, the Group recognized losses on assets impairment and dry hole write-offs. Table below sets forth summary of data on these losses in the context of consolidated statement of profit and loss and their impact on the Group's profit for 2014 and 2015.

	2015	**2014**
	(millions of rubles)	
Impairment losses included in *Other expense*		
Impairment losses in Exploration and Production segment	124,613	65,328
Impairment losses in Refining, Marketing and Distribution segment	45,695	17,572
Other write-offs in Exploration and Production segment	16,742	–
Total impairment losses and write-offs included in *Other expense*	187,050	82,900
Dry holes write-offs included in *Exploration expenses*	24,816	9,227
Impairment losses included in *Equity share in income of affiliates*	2,568	–
Foreign exchange gain reclassified from other comprehensive income after the sale of Caspian Investment Resources Ltd included in *Other expense*	(36,931)	–
Total non-recurring losses and gains	**177,503**	**92,127**
Deferred tax effect	(16,373)	(4,574)
Total non-recurring losses and gains (after tax)	**161,130**	**87,553**

In 2015, the Company recognized an impairment loss in respect of its exploration and production assets in the total amount of 141 billion RUB. Of these impairment losses, 67 billion RUB related to our projects in Africa, 38 billion RUB in Western Siberia, 10 billion RUB in other regions of Russia and 26 billion RUB in other regions outside Russia.

In the Refining, marketing and distribution segment, we recognized impairment losses in related to our international subsidiaries in amount of 27 billion RUB and to our subsidiaries in Russia in amount of 19 billion RUB.

Dry hole write-offs primarily related to our offshore projects in Romania.

In 2015, the cumulative impact of the above mentioned impairment losses and write-offs on the net profit attributable to LUKOIL shareholders totaled 161 billion RUB and on our EBITDA – 178 billion RUB.

In 2014, the Company recognized an impairment loss for its exploration and production assets related to the Tsentralno-Astrakhanskoe gas-condensate field in the Volga region of the Russian Federation in amount of 24 billion RUB and to other projects in Russia in amount of 14 billion RUB. Impairment losses and write-offs related to upstream projects outside of Russia totaled 20 billion RUB. Moreover, the Group wrote off signing bonuses in the total amount of 7 billion RUB related to projects in Ghana, Sierra Leone and Cote d'Ivoire.

In 2014, dry hole write-offs primarily related to our projects in West Africa.

In 2014, the cumulative impact of the above mentioned impairment losses and write-offs on the net profit attributable to LUKOIL shareholders totaled 88 billion RUB and on our EBITDA – 92 billion RUB.

Transition to IFRS

The Group's consolidated financial statements for 2015 are the first financial statements prepared in accordance with IFRS. The date of transition to IFRS is 1 January 2015. The transition from accounting principles generally accepted in the United States of America ("US GAAP") to IFRS was due to the requirements of Russian legislation. The presentation currency of our IFRS consolidated financial statements is the Russian ruble.

Some requirements and principles of accounting for certain operations under IFRS differ from those under US GAAP. Cases where the effect of these differences on the Group's financial results is significant are covered in this document.

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

Change of functional currency. Under US GAAP, the US dollar was the functional currency of all the Group companies. Therefore, translation differences were based on the net monetary position in currencies other than the US dollar. IFRS requirements for determining functional currency differ from those of US GAAP. Under IFRS, the majority of the Group companies have their local currency as functional currency (i.e., ruble for Russian subsidiaries). As a result, translation differences arise from recalculation of the value of assets and liabilities denominated in foreign currency to the functional currency of each subsidiary. At the same time, translation differences arising from the recalculation of subsidiaries' financial statements to the Group's presentation currency, Russian 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 US dollars.

Impairment of assets. According to the US GAAP, 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 recognized in the amount of excess of the assets' carrying amount over their estimated fair value, generally determined as discounted future net cash flows. Impairment reversal is not allowed.

According to the IFRS, the 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). Impairment charge is also recognized 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. The Group analyzed its 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 recognized 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. According to IFRS, the Group's 50% share in Caspian Investment Resources Ltd was accounted for as joint venture rather than proportionately consolidate as was required by 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 consolidated financial statements for 2015 for a detailed reconciliation of IFRS and US GAAP financial statements.

For convenient analysis of the Group's consolidated financial statements, page 30 of this report contains selected unaudited quarterly data derived from IFRS statements of profit and loss and other comprehensive income, statements of cash flows and breakdown of capital expenditures for the four quarters of 2015.

Business overview

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

LUKOIL 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 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 35 countries on four continents.

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

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

Our operations are divided into three main business segments:

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

Each of our three main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on page 13, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyse either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 32 "Segment information" to our consolidated financial statements.

Recent developments and outlook

The following has been achieved in 2015:

Exploration and production

- 14 new oil and gas fields were brought into production (2014 – 17 oil and gas fields).
- 18 new oilfields discovered, including three on the Baltic offshore, best result since 2001.
- Crude oil production increased by 3.6% as a result of development of the West Qurna-2 oilfield in Iraq and other new projects. For the first time in the Group's history, the production exceeded 100 million tonnes.

Refining

- Completion of modernization cycle: putting in operation catalytic cracking units at the Burgas and Nizhny Novgorod refineries, a coking unit at the Perm refinery and a preliminary distillation unit at our refinery in Volgograd.

Power generation

- Putting in operation combined cycle gas turbine with a capacity of 135 GW at our Budennovsk power plant.

These and other achievements in 2015 are described in detail further in this report.

Changes in Group structure

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 (70.1 billion RUB). The transaction's closing was subject to requisite governmental consents and approvals and was completed on 20 August 2015.

In April 2015, in line with the strategy to optimize the downstream portfolio, a Group company sold a 100% interest in LUKOIL Ukraine, a distribution company operating in Ukraine, to AMIC Energy Management GmbH. Also, in December 2014, Group companies sold 100% of their shares in LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd and LUKOIL Czech Republic s.r.o. to Slovnaft Česká Republica, Spol. s.r.o. and Norm Benzinkút Kft at the price of €98 million (approximately 5.8 billion RUB).

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 production sharing agreement. 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 as a development of economic cooperation between Russia and Venezuela. In 2010, NOC and PDVSA, the Venezuelan state-owned oil company, established a joint venture, PetroMiranda, to develop the "Junin-6" block in the Orinoko river basin.

West Qurna-2 project

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

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

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

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

	2015		**2014**	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production	140,071	20,418	72,676	11,030
Production related to cost compensation and remuneration	73,574	10,725	41,749	6,087
Shipment of compensation crude oil[(1)]	71,802[(2)]	10,467	29,746[(2)]	4,337
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	176,791	2,928	138,934	3,616
Remuneration fee	8,087	132	2,536	66
Cost of compensation crude oil, received as debt settlement (included in *Cost of purchased crude oil, gas and products)*[(1)]	184,665	3,068	80,686	2,100
Extraction expenses	47,277	780	26,473	689
Depreciation, depletion and amortization	127,071	2,109	114,497	2,980
EBITDA	137,285	2,275	117,417	3,056

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

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

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.

Sectorial sanctions against the Russian companies

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a number of sectorial sanctions on Russian entities, including the Company. These sanctions prohibit 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.

Resource base

The table below summarizes the net proved reserves of consolidated subsidiaries and our share in equity affiliates under the standards of the US Securities and Exchange Commission (until the economic limit of commercial production is reached) that have been derived from our reserve reports audited by Miller and Lents Ltd, our independent reservoir engineers, at 1 January 2016 and 2015.

(millions of BOE)	1 January 2016	Changes in 2015 Production[1]	Extensions, discoveries and changes in structure	Revision of previous estimates	1 January 2015
Western 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
Proved oil and gas reserves	**16,558**	**(890)**	**506**	**(643)**	**17,585**
Probable oil and gas reserves	**6,760**				**6,823**
Possible oil and gas reserves	**3,216**				**3,375**

[1] Gas production shown before own consumption.

The Company's proved reserves at 1 January 2016 amount to 16,558 million BOE and comprise of 12,585 million barrels of crude oil and 23,838 billion cubic feet of gas.

The increase in proved reserves related to geological exploration and production drilling totaled 546 million BOE and was a result of the exploration activities in the traditional regions of the Group's operations in Russia and abroad. At the same time, 49 million BOE of our reserves outside of Russia was disposed off with the sale of the Group's 50% share in Caspian Investment Resources Ltd.

A nearly two-fold oil price drop affected the economic feasibility of development of some of the Group's reserves. As a result, 1,006 million BOE of proved reserved were transferred to lower categories. As soon as the economic situation improves, we expect these hydrocarbon volumes to return to the proved reserves category.

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

Operational highlights

Hydrocarbon production

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

	2015	2014
Crude oil and natural gas liquids production[1]	(thousand BOE per day)	
Consolidated subsidiaries		
Western Siberia	914	970
Timan-Pechora	336	313
Ural region	317	308
Volga region	139	136
Other in Russia	37	38
Total in Russia	1,743	1,765
Iraq[2]	201	114
Other regions outside Russia	40	37
Total outside Russia	241	151
Total consolidated subsidiaries	**1,984**	**1,916**
Our share in equity affiliates		
in Russia	16	11
outside Russia	52	65
Total share in equity affiliates	**68**	**76**
Total crude oil and natural gas liquids	**2,052**	**1,992**
Natural gas production available for sale[3]		
Consolidated subsidiaries		
Western Siberia	174	187
Timan-Pechora	13	14
Ural region	19	19
Volga region	6	6
Total in Russia	212	226
Total outside Russia	104	85
Total consolidated subsidiaries	**316**	**311**
Share in equity affiliates		
in Russia	1	1
outside Russia	10	10
Total share in production of equity affiliates	**11**	**11**
Total natural gas available for sale	**327**	**322**
Total daily hydrocarbon production	**2,379**	**2,314**
	(millions of rubles)	
Hydrocarbon extraction expenses	217,174	173,809
- in Russia	155,373	142,582
- outside Russia	61,801	31,227
Exploration expenses	29,177	12,228
- in Russia	682	1,079
- outside Russia	28,495	11,149
Mineral extraction tax in Russia	470,013	420,946
	(ruble per BOE)	
Hydrocarbon extraction expenses	257.74	213.70
- in Russia	218.16	196.62
- outside Russia	473.91	354.25
	(US dollar per BOE)	
Hydrocarbon extraction expenses	4.25	5.56
- in Russia	3.60	5.12
- outside Russia	7.80	9.22

(1) Natural gas liquids produced at the Group gas processing plants.
(2) Compensation oil that represented approximately 52% of production from the West Qurna-2 field in 2015 and 55% in 2014.
(3) Including petroleum gas sold to third parties.

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

Crude oil production. In 2015, we produced (including the Company's share in equity affiliates) 100.7 million tonnes, or 736.5 million barrels, of crude oil.

The following table represents our crude oil production in 2015 and 2014 by major regions.

(thousands of tonnes)	2015	Change to 2014 Total, %	Change in structure	Organic change	2014
Western Siberia	44,205	(5.6)	–	(2,635)	46,840
Timan-Pechora	16,976	7.3	–	1,162	15,814
Ural region	15,020	3.0	–	435	14,585
Volga region	6,761	1.5	–	102	6,659
Other in Russia	1,904	(0.4)	–	(7)	1,911
Crude oil produced in Russia	84,866	(1.1)	–	(943)	85,809
Iraq[1]	10,725	76.2	–	4,638	6,087
Other outside of Russia	1,887	10.2	–	174	1,713
Crude oil produced internationally	12,612	61.7	–	4,812	7,800
Total crude oil produced by consolidated subsidiaries	**97,478**	**4.1**	–	**3,869**	**93,609**
Our share in crude oil produced by equity affiliates:					
in Russia	746	43.7	–	227	519
outside of Russia	2,464	(20.0)	(373)	(243)	3,080
Total crude oil produced	**100,688**	**3.6**	**(373)**	**3,853**	**97,208**

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

The main oil producing region for the Company is Western Siberia where we produced 45.3% of our crude oil in 2015 (50.0% in 2014).

Crude oil production in Western Siberia continued to decline due to natural depletion of reserves and an increase in water cut. Nevertheless, this was compensated for by the development of greenfields, successful employment of new technologies and an increase in drilling footage.

The increase in our international production was a result of commencement of commercial production at the West Qurna-2 oilfield in Iraq in the second quarter of 2014 (for details see p. 5).

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

The decrease in our share in crude oil produced by equity affiliates outside of Russia was due to the disposal of our 50% share in Caspian Investment Resources Ltd in the middle of 2015. According to IFRS, this share was accounted for as an investment in an equity affiliate, whereas under US GAAP the proportional consolidation method was applied.

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

	2015		2014	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of 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	92,864	12,669	88,473	12,070
The West Qurna-2 compensation crude oil	76,723	10,467	31,790	4,337
Total crude oil purchased	**320,820**	**43,768**	**249,219**	**34,000**

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

Production of gas and natural gas liquids. During 2015, we produced 20,251 million cubic meters (119.2 million BOE) of gas available for sale (including our share in equity affiliates), that is 1.4% more than in 2014.

		Change to 2014			
(millions of cubic meters)	**2015**	**Total, %**	**Change in structure**	**Organic change**	**2014**
Western Siberia	10,805	(6.8)	–	(791)	11,596
Timan-Pechora	813	(3.9)	–	(33)	846
Ural region	1,175	(1.1)	–	(13)	1,188
Volga region	374	(1.1)	–	(4)	378
Other in Russia	23	–	–	–	23
Gas produced in Russia	13,190	(6.0)	–	(841)	14,031
Gas produced internationally	6,450	22.5	–	1,186	5,264
Total gas produced by consolidated subsidiaries	**19,640**	**1.8**	–	**345**	**19,295**
Our share in gas produced by equity affiliates:					
in Russia	45	(13.5)	–	(7)	52
outside Russia	566	(8.9)	(43)	(12)	621
Total gas produced	**20,251**	**1.4**	**(43)**	**326**	**19,968**

Our major gas production field is the Nakhodkinskoe field, where we produced 7,469 million cubic meters of natural gas in 2015 (8,247 million cubic meters in 2014). Our international gas production increased by 19.2%, compared to 2014, largely resulting from the increase in production in Uzbekistan and Azerbaijan.

In 2015, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volgograd regions of Russia was 12.7 million BOE, compared to 13.9 million BOE in 2014.

Refining, marketing and trading

Refining. We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. Under 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. According to US GAAP, Zeeland was an equity affiliate and it's volumes of production were included in the third party refineries total.

Compared to 2014, the total volume of refined products produced by the Group decreased by 5.0%. 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 the refining margins. At the same time, in June 2015, we put in operation a preliminary distillation unit at our refinery in Volgograd with a capacity of 6 million tonnes per year.

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

The following table summarizes key figures for our refining activities.

	2015	2014
	(thousand barrels per day)	
Refinery throughput at the Group refineries	1,295	1,337
- in Russia	840	909
- outside Russia[1]	455	428
Refinery throughput at third party refineries	18	37
Total refinery throughput	**1,313**	**1,374**
	(thousands of tonnes)	
Production of the Group refineries in Russia	39,692	43,673
Production of the Group refineries outside Russia	21,208	20,445
Refined products produced by the Group	**60,900**	**64,118**
Refined products produced at third party refineries	850	1,687
Total refined products produced	**61,750**	**65,805**
	(millions of RUB)	
Refining expenses at the Group refineries	94,449	84,816
- in Russia	44,145	41,280
- outside Russia	50,304	43,536
Refining expenses at third party refineries	2,604	2,900
Capital expenditures	73,325	102,400
- in Russia	55,042	73,907
- outside Russia	18,283	28,493

[1] Including refined product processed.

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

The Group retails its refined products in 23 countries through nearly 5.1 thousand petrol stations (including franchisees). Most of the stations operate under the LUKOIL brand.

The table below summarizes figures for our trading activities.

	2015	2014
	(thousands of tonnes)	
Retail sales	19,401	20,021
Wholesale sales	105,861	98,206
Total refined products sales	**125,262**	**118,227**
Refined products purchased in Russia	1,674	2,041
Refined products purchased internationally	68,536	58,910
Total refined products purchased	**70,210**	**60,951**

In April 2015, in line with the strategy to optimize its downstream operations, a Group company sold 100% of the Group's interest in LUKOIL Ukraine, a distribution company operating in Ukraine. Also, in December 2014, Group companies sold 100% of shares in LUKOIL Slovakia, LUKOIL Hungary and LUKOIL Czech Republic that together operated approximately 140 petrol stations.

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

	2015		2014	
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil to Customs Union	28,235	3,852	27 920	3,809
Exports of crude oil beyond Customs Union	222,334	30,332	190 756	26,024
Total crude oil exports	**250,569**	**34,184**	**218 676**	**29,833**
Exports of refined products		**20,446**		**23,377**

Following the amendments in tax legislation in the Russian oil industry, we increased our exports of crude oil and decreased the refined products exports. During 2015, the volume of our crude oil exports from Russia increased by 14.6%, 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). The volume of our refined products exports decreased by 12.5% compared to 2014. Primarily, we export diesel fuel, fuel oil and gasoil. These products accounted for approximately 77% of our exported refined products volumes.

Substantially, we use the Transneft infrastructure to export our crude oil. Nevertheless, during 2015, we exported 7,599 thousand tonnes through our own infrastructure (5,617 thousand tonnes during 2014). All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

In 2015, the Company exported 1,519 thousand tonnes of light crude oil through the Eastern Siberia – Pacific Ocean pipeline compared to 1,499 thousand tonnes in 2014. This allowed us to preserve the premium quality of crude oil and thus increased the efficiency of exports, compared to exports to traditional Western markets.

During 2015, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to 691 billion RUB and 440 billion RUB, respectively (716 billion RUB for crude oil and 581 billion RUB for refined products in 2014).

Power generation. In 2015, we continued to develop the power generation sector of our business as part of our strategic development program. This new sector encompasses all aspects of the power generation business, from generation to transmission and sale of heat and electrical power. Our power generation business sector now includes OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Kubanenergo, OOO LUKOIL-Astrakhanenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-Stavropolenergo, OOO LUKOIL-TTK, OOO LUKOIL-Ecoenergo, our own power generating facilities at our oil and gas fields in Russia and power generators in Bulgaria, Romania and Italy. Our total output of electrical energy was 17.8 billion kW-h in 2015 (17.1 billion kW-h in 2014) and our total output of heat energy was approximately 12.8 million Gcal (14.1 million Gcal in 2014).

Main macroeconomic factors affecting our results of operations

Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. Compared to 2014, crude oil price dropped nearly two-fold and in 2015 the price for Brent crude oil fluctuated between $35 and $66 per barrel and reached its maximum of $66.7 in the middle of May and minimum of $35.63 in the end of December. Nevertheless, as a result of ruble devaluation, the prices expressed in rubles decreased less significantly.

Substantially all the crude oil the Group exports is Urals blend. The following tables show the average crude oil and refined product prices in 2015 and 2014.

	2015	2014	Change, %
	(in US dollars per barrel, except for figures in percent)		
Brent crude	52.39	98.95	(47.1)
Urals crude (CIF Mediterranean) [1]	51.87	97.95	(47.0)
Urals crude (CIF Rotterdam) [1]	50.97	97.23	(47.6)
	(in US dollars per metric tonne, except for figures in percent)		
Fuel oil 3.5% (FOB Rotterdam)	256.23	527.06	(51.4)
Diesel fuel 10 ppm (FOB Rotterdam)	499.55	855.17	(41.6)
High-octane gasoline (FOB Rotterdam)	569.25	918.87	(38.0)

Source: Platts.

	2015	2014	Change, %
	(in rubles per barrel, except for figures in percent)		
Brent crude	3,193.39	3,801.69	(16.0)
Urals crude (CIF Mediterranean) [1]	3,162.09	3,763.52	(16.0)
Urals crude (CIF Rotterdam) [1]	3,106.94	3,735.60	(16.8)
	(in rubles per metric tonne, except for figures in percent)		
Fuel oil 3.5% (FOB Rotterdam)	15,619.08	20,250.54	(22.9)
Diesel fuel 10 ppm (FOB Rotterdam)	30,451.42	32,857.22	(7.3)
High-octane gasoline (FOB Rotterdam)	34,699.98	35,304.68	(1.7)

Translated into rubles using annual average exchange rate.

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

Domestic crude oil and refined products prices

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

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

The table below represents average domestic wholesale prices of refined products in 2015 and 2014.

	2015	2014	Change, %
	(in rubles per metric tonne, except for figures in percent)		
Fuel oil	6,604.17	9,341.52	(29.3)
Diesel fuel	29,215.42	28,205.52	3.6
High-octane gasoline (Regular)	32,120.41	30,993.41	3.6
High-octane gasoline (Premium)	33,612.29	32,050.40	4.9

Source: InfoTEK (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

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

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

	2015	2014
Ruble inflation (CPI), %	12.0	11.4
Average exchange rate for the period (ruble to US dollar)	60.96	38.42
Exchange rate at the end of the period (ruble to US dollar)	72.88	56.26
Average exchange rate for the period (ruble to euro)	67.78	50.81
Exchange rate at the end of the period (ruble to euro)	79.70	68.34

Tax burden

Given the relative size of our activities in Russia, our tax profile is largely determined by the taxes payable in Russia (based on records maintained under Russian legislation – not IFRS). In 2015 and 2014, the tax charge on the operations in Russia was approximately 81% and 84% of our total tax charge, respectively.

Apart of income tax, fundamental taxes specific to the oil industry in Russia are mineral extraction tax, excise and export tariffs. In addition to above mentioned taxes, 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 and export tariffs, divided by income before taxes and tariffs) for 2015 and 2014 were 80%. In 2015, tax expenses in Russia were about 46% of the domestic and export sales revenue of Russian companies of 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 tax authority audits 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.

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

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

Crude oil extraction tax rate is determined by adjusting the base rate depending on the international market price of Urals blend and the ruble-dollar exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase in the tax rate by 179 rubles per tonne extracted above the base rate.

During 2015, the base rate was 766 rubles per metric tonne extracted (493 rubles in 2014).

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

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

Natural gas extraction tax rate. The 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 471 rubles per thousand cubic meters.

Starting from July 1, 2014, the base rate amounts to 35 rubles per thousand cubic meters and is adjusted depending on average wholesale natural gas price in Russia, share of gas production in total hydrocarbon production of particular taxpayer, and complexity of particular gas field. In 2015, actual average natural gas extraction tax rate calculated for our major gas field – Nakhodkinskoe in Western Siberia amounted to 161.9 rubles per thousand cubic meters (132.1 rubles in the second half of 2014).

Crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to $15.00 per barrel ($109.50 per metric tonne). If the Urals blend price is between $15.00 and $20.00 per barrel ($146.00 per metric tonne), each $1.00 per barrel increase in the Urals blend price over $15.00 results in an increase in the crude oil export duty rate by $0.35 per barrel exported. If the Urals blend price is between $20.00 and $25.00 per barrel ($182.50 per metric tonne), each $1.00 per barrel increase in the Urals blend price over $20.00 results in an increase in the crude oil export duty rate by $0.45 per barrel exported. Each $1.00 per barrel increase in the Urals blend price over $25.00 per barrel resulted in an increase in the crude oil export duty rate by no more than $0.65 per barrel exported. From 1 January 2014 to 31 December 2014, the maximum increase in export duty rate was $0.59 per barrel for each $1.00 per barrel increase in the Urals blend price. From 1 January 2015 to 31 December 2015, the maximum increase in export duty rate was $0.42 per barrel for each $1.00 per barrel increase in the Urals blend price. In 2016, the maximum increase in export duty rate is the same.

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

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

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

		2015	**2014**	**Change, %**
Export tariffs on crude oil	$/tonne	120.31	366.53	(67.2)
Export tariffs on refined products				
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)

		2015	**2014**	**Change, %**
Export tariffs on crude oil(1)	RUB/tonne	7,333.79	14,082.59	(47.9)
Export tariffs on refined products(1)				
Light and middle distillates	RUB/tonne	3,516.97	9,293.45	(62.2)
Fuel oil	RUB/tonne	5,570.72	9,293.45	(40.1)
Gasoline	RUB/tonne	5,717.62	12,672.70	(54.9)
Straight-run gasoline	RUB/tonne	6,230.93	12,672.70	(50.8)
Diesel fuel	RUB/tonne	3,516.97	9,164.39	(61.6)
Mineral extraction tax				
Crude oil	RUB/tonne	6,312.22	5,827.45	8.3

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

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

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

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

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

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

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

Excise rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for 2015 and 2014 are listed below.

		2015	2014	Change, %
Gasoline				
Below Euro-3	RUB/tonne	7,300.00	11,110.00	(34.3)
Euro-3	RUB/tonne	7,300.00	10,725.00	(31.9)
Euro-4	RUB/tonne	7,300.00	9,916.00	(26.4)
Euro-5	RUB/tonne	5,530.00	6,450.00	(14.3)
Diesel fuel				
Below Euro-3	RUB/tonne	3,450.00	6,446.00	(46.5)
Euro-3	RUB/tonne	3,450.00	6,446.00	(46.5)
Euro-4	RUB/tonne	3,450.00	5,427.00	(36.4)
Euro-5	RUB/tonne	3,450.00	4,767.00	(27.6)
Motor oils	RUB/tonne	6,500.00	8,260.00	(21.3)
Straight-run gasoline	RUB/tonne	11,300.00	11,252.00	0.4

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

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

Amendments in 2016

Starting from 1 January 2016, the base crude oil extraction tax rate is 857 RUB per metric tonne extracted. The maximum increase in crude oil export duty rate is 200 rubles per tonne for each $1.00 increase in the Urals blend price above the level of 15 dollars per barrel.

Starting from 1 January 2016, export duty rates on refined products are to be calculated by multiplying the current crude oil export duty rate by coefficients listed below:

	During 2016
Multiplier for:	
Light and middle distillates	0.40
Diesel fuel	0.40
Gasolines	0.61
Straight-run gasoline	0.71
Fuel oil	0.82

Excise tax rates for 2016 are listed below.

		Before 1April 2016	After 1 April 2016
Gasoline			
Below Euro-5	RUB/tonne	10,500.00	13,100.00
Euro-5	RUB/tonne	7,530.00	10,130.00
Diesel fuel			
All ecological classes	RUB/tonne	4,150.00	5,293.00
Motor oils	RUB/tonne	6,000.00	6,000.00
Straight-run gasoline	RUB/tonne	10,500.00	13,100.00

Transportation of crude oil and refined products in Russia

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

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

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

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

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

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

	2015	2014
	(millions of rubles)	
Revenues		
Sales (including excise and export tariffs)	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 amortization	(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	17,763	10,999
Finance costs	(48,224)	(29,727)
Equity share in income of affiliates	7,047	19,888
Foreign exchange gain	110,912	167,235
Other expenses	(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	**(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**
Earning per share of common stock attributable to PJSC LUKOIL (in rubles):		
Basic	408.36	554.79
Diluted	405.15	541.90

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

Sales revenues

Sales breakdown

	2015	2014
	(millions of rubles)	
Crude oil		
Exports and sales on international markets other than Customs Union countries	1,340,778	1,218,581
Exports and sales to Customs Union countries	49,177	60,550
Domestic sales	145,688	128,431
	1,535,643	**1,407,562**
Refined products		
Exports and sales on international markets		
Wholesale	2,591,027	2,582,871
Retail	647,312	599,527
Domestic sales		
Wholesale	244,404	269,735
Retail	360,283	343,800
	3,843,026	**3,795,933**
Petrochemicals		
Exports and sales on international markets	34,490	32,231
Domestic sales	28,248	10,346
	62,738	**42 577**
Gas and gas products		
Exports and sales on international markets	100,097	83 025
Domestic sales	38,229	42 405
	138,326	**125,430**
Sales of energy and related services		
Sales on international markets	12,516	7,585
Domestic sales	58,237	54,922
	70,753	**62,507**
Other		
Exports and sales on international markets	57,430	38,660
Domestic sales	41,134	32,187
	98,564	**70,847**
Total sales	**5,749,050**	**5,504,856**

Sales volumes

	2015	2014
Crude oil	(thousands of barrels)	
Exports and sales on international markets other than Customs Union countries	474,999	339,445
Exports and sales to Customs Union countries	24,174	34,194
Domestic sales	79,457	81,260
	578,630	**454,899**
Crude oil	(thousands of tonnes)	
Exports and sales on international markets other than Customs Union countries	64,802	46,309
Exports and sales to Customs Union countries	3,298	4,665
Domestic sales	10,840	11,086
	78,940	**62,060**
Refined products	(thousands of tonnes)	
Exports and sales on international markets		
Wholesale	95,614	86,610
Retail	9,839	10,250
Domestic sales		
Wholesale	10,247	11,596
Retail	9,562	9,771
	125,262	**118,227**
Total sales volume of crude oil and refined products	**204,202**	**180,287**

Realized average sales prices

		2015	2014
Average realized price international			
Oil (excluding Customs Union countries)	(RUB/barrel)	2,822.70	3,589.90
Oil (Customs Union countries)	(RUB/barrel)	2,034.31	1,770.87
Refined products			
Wholesale	(RUB/tonne)	27,098.82	29,821.84
Retail	(RUB/tonne)	65,790.43	58,491.34
Oil (excluding Customs Union countries)	($/barrel)	46.31	93.43
Oil (Customs Union countries)	($/barrel)	33.37	46.09
Refined products			
Wholesale	($/tonne)	444.55	776.17
Retail	($/tonne)	1,079.28	1,522.34
Average realized price within Russia			
Oil	(RUB/barrel)	1,833.54	1,580.43
Refined products			
Wholesale	(RUB/tonne)	23,851.27	23,263.25
Retail	(RUB/tonne)	37,678.62	35,184.75

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

Sales of crude oil

Our international sales revenue increased by 10.0%, or by 122 billion RUB, compared to 2014. Our international sales volumes (beyond the Customs Union) increased by 18,493 thousand tonnes, or by 39.9%, in 2015 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. At the same time, that 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 price expressed in rubles only decreased by 21.4%.

Our realized domestic crude oil price increased by 16.0%, as compared to 2014. The significant increase in exports from Russia was compensated by the decrease in the throughput at the domestic refineries and 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, in 2015, our domestic sales revenue increased by 13.4%, or by 17 billion RUB.

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

Sales of refined products

Compared to 2014, our revenue from the wholesale of refined products outside of Russia didn’t change significantly. Our dollar and ruble realized prices decreased by 42.7% and 9.1%, respectively. That was offset by the increase in sales volumes by 10.4% as a result of higher volumes of trading.

In 2015, our ruble realized retail prices outside of Russia increased by 12.5% and sales volumes decreased by 4.0%, that resulted in the increase in retail revenue by 48 billion RUB, or by 8.0%, compared to 2014.

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

In 2015, our revenue from retail sales in Russia increased by 16 billion RUB, or by 4.8%. 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 440 billion RUB (581 billion RUB in 2014).

Sales of petrochemical products

In 2015, our revenue from sales of petrochemical products increased by 20 billion RUB, or by 47.4%, largely due to the increase in sales volumes by 44.1% against the background of low productions as a consequence of a fire at our plant in the Stavropol region of Russia at the end of the first quarter of 2014. In early April 2015, production at the plant was resumed.

Sales of gas and gas products

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

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

Sales of energy and related services

In 2015, our revenue from sales of electricity, heat and related services increased by 8 billion RUB, or by 13.2%. In Russia, the increase was due to putting in operation a combined cycle gas turbine at the Group's power plant in the Stavropol region of Russia in March 2015. Internationally, the increase was a result of the acquisition of ISAB Energy in the third quarter of 2014 and of the ruble devaluation.

Sales of other products

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

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

Operating expenses

Operating expenses include the following:

	2015	2014
	(millions of rubles)	
Hydrocarbon extraction expenses	217,174	173,809
Own refining expenses	94,449	84,816
Refining expenses at third parties 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 consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

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

Hydrocarbon extraction expenses

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

In 2015, our extraction expenses increased by 43 billion RUB, or by 24.9%, 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 47 billion RUB and 26 billion RUB, respectively. Our domestic expenses also increased driven by higher costs of materials and services.

Our average hydrocarbon extraction expenses increased from 213.70 RUB per BOE in 2014 to 257.74 RUB per BOE in 2015, or by 20.6%. In Russia, average hydrocarbon extraction expenses increased by 11.0% to 218.16 RUB per BOE in 2015.

At the same time, 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 expense

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

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

Refining expenses at our refineries outside of Russia increased by 7 billion RUB, or by 15.5%, as a result of the euro appreciation to the Russian 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 0.3 billion RUB, as a result of a two-fold decrease in volumes of refining at third party refineries that was 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 delivery of the Group's own crude oil to refineries for further processing.

Our expenses for crude oil transportation to refineries increased by 2 billion RUB, or by 6.3%. The decrease in crude oil refining volumes in Russia and in supplies of 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 4 billion RUB, or by 11.9%, largely as a result of the effect of 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 4 billion RUB, or by 56.2%, due to the increase of domestic production volumes after commencement of production at our petrochemical plant in the Stavropol region of Russia in April 2015 (the plant's operations were limited after a fire in February 2014).

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 15 billion RUB, or by 53.8%, largely as a result of the increased cost of non-petrol sales of our retail network, 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 result of hedging of crude oil and refined products sales.

The cost of purchased crude oil, gas and products increased by 110 billion RUB, or by 3.9%. 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 185 billion RUB related to 10,467 thousand tonnes of compensation crude oil received from Iraq's state-owned South Oil Company within the West Qurna-2 project (81 billion RUB related to 4,337 thousand tonnes of crude oil in 2014).

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

Transportation expenses

In 2015, our transportation expenses increased by 83 billion RUB, or by 38.5%, compared to the previous year 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, amplified by 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 to 2014 as follows: crude oil pipeline tariffs increased by 8.2%, railway tariffs for refined products transportation increased by 3.4%.

Selling, general and administrative expenses

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

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

Depreciation, depletion and amortization

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

Equity share in income of affiliates

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

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

Taxes other than income taxes

	2015	2014
	(millions of rubles)	
In Russia		
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 55 billion RUB, or by 11.7%, compared to 2014, largely driven by the increase in the mineral extraction tax rate.

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 72 billion RUB mineral extraction tax reduction (83 billion RUB in 2014).

Excise and export tariffs

	2015	2014
	(millions of rubles)	
In Russia		
Excise tax on refined products	55,451	71,093
Crude oil export tariffs	212,899	353,109
Refined products export tariffs	112,871	230,145
Total in Russia	**381,221**	**654,347**
International		
Excise tax on refined products	192,070	145,098
Crude oil export tariffs	46	57
Refined products export tariffs	2,172	7,899
Total internationally	**194,288**	**153,054**
Total	**575,509**	**807,401**

In 2015, export tariffs decreased by 263 billion RUB, or by 44.5%, due to the sharp decrease in export duty rates for crude oil and refined products, offset to some extent 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 17 billion RUB that mostly was a result of the increase in the amount of dry hole write-offs, compared to the previous year. In 2015, we charged to expense 25 billion RUB related to dry holes primarily in Romania. In 2014, dry hole write-offs related to projects in West Africa totaled 9 billion RUB.

Other expenses

Other expenses include the financial effects of the disposal of assets, impairment losses, extraordinary gains and losses, revisions of estimates and other non-operating gains and losses.

In 2015, other expenses increased by 68 billion RUB, or by 71.2%, largely as a result of higher amount of impairment losses. See the "Non-recurring losses and gains" section on page 2 for detailed description.

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 6 billion RUB, or by 6.1%, compared to 2014. At the same time, our profit before income tax decreased by 96 million RUB, 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.

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

	2015	2014
	(millions of rubles)	
Profit for the year	**291,135**	**395,525**
Add back:		
Income tax expense	96,359	90,779
Depreciation and amortization	350,976	293,052
Finance cost	48,224	29,727
Finance income	(17,763)	(10,999)
EBITDA	**768,931**	**798,084**
Add back loss on disposal of assets and dry hole related write-offs	177,503	92,127
EBITDA adjusted for one-off items	**946,434**	**890,211**
Including impact of West Qurna-2 project	137,285	117,417

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

Liquidity and capital resources

	2015	2014
	(millions of rubles)	
Net cash provided by operating activities	848,972	651,416
Net cash used in investing activities	(525,722)	(578,374)
Net cash (used in) provided by financing activities	(253,063)	30,143

Operating activities

Our primary source of cash flow is funds generated from our operations. In 2015, cash generated from operations increased by 198 billion RUB, or by 30.3%, compared to 2014, largely, as a result of changes in working capital. In 2014, our cash flows from operating activities were negatively affected by an increase of receivables for cost recovery related to commencement of cost compensation within the West Qurna-2 project. Subsequently, after commencement of shipment of compensation crude oil, changes of this receivable do not affect significantly our cash flow from operating activity.

Investing activities

In 2015, the amount of cash used in investing activities decreased 53 billion RUB, or by 9.1%, mostly due to higher proceeds from the sale of financial assets and equity method affiliates by 93 billion rubles.

Our capital expenditures, including non-cash transactions, didn't change significantly and amounted to 607 billion RUB.

	2015	2014
	(millions of rubles)	
Capital expenditures, including non-cash transactions and prepayments		
Exploration and production		
Russia	292,488	327,956
International	195,877	135,211
Total exploration and production	488,365	463,167
Refining, marketing and distribution		
Russia	83,640	105,411
International	25,285	36,049
Total refining, marketing and distribution	108,925	141,460
Corporative centre and other		
Russia	5,160	4,519
International	4,755	1,960
Total corporative centre and other	9,915	6,479
Total capital expenditures	**607,205**	**611,106**

In 2015, our capital expenditures in the exploration and production segment increased by 25 billion rubles, or by 5.4%. 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 domestic refining, marketing and distribution segment in Russia was due to approaching completion of construction of a catalytic cracking unit at our refinery in Nizhny Novgorod. The decrease in the international segment was a result of the completion of the construction of a heavy residue processing complex at our Bulgarian refinery.

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

	2015	2014
	(millions of rubles)	
Yamal	30,225	20,084
Caspian region[1]	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**

[1] Russian and international projects.

Financing activities

In 2015, net movements of short-term and long-term debt generated an outflow of 94 billion RUB, compared to an inflow of 107 billion RUB in 2014.

Credit rating

Standard & Poor's Ratings Services set its long-term corporate credit rating and all debt ratings on the Company to BBB-.

Moody's set the Company's long-term corporate family rating and long-term issuer rating of Ba1.

Fitch Ratings set the Company's long-term issuer default rating to BBB-.

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. 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 a 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 portion of LUKOIL Overseas Karachaganak B.V. equal 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 recognized 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.

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. See Note 3 “Summary of significant accounting policies” to our consolidated financial statements for descriptions of the Company’s major accounting policies. 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.

Selected 2015 quarterly data (unaudited)

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

	For the 3 months ended			
	31 March	**30 June**	**30 September**	**31 December**
	(millions of rubles)			
Revenues				
Sales (including excise and export tariffs)	1,440,305	1,476,966	1,464,053	1,367,726
Costs and other deductions				
Operating expenses	(105,681)	(105,828)	(116,833)	(118,377)
Cost of purchased crude oil, gas and products	(700,065)	(777,640)	(733,220)	(680,749)
Transportation expenses	(78,785)	(68,377)	(71,371)	(79,444)
Selling, general and administrative expenses	(41,185)	(40,028)	(40,838)	(46,618)
Depreciation, depletion and amortization	(78,463)	(87,058)	(100,061)	(85,394)
Taxes other than income taxes	(129,835)	(141,219)	(134,256)	(117,310)
Excise and export tariffs	(172,849)	(123,609)	(145,685)	(133,366)
Exploration expenses	(1,197)	(13,586)	(8,819)	(5,575)
Profit from operating activities	**132,245**	**119,621**	**112,970**	**100,893**
Finance income	4,531	4,036	4,210	4,986
Finance costs	(11,460)	(11,026)	(11,667)	(14,071)
Equity share in income of affiliates	4,093	2,382	2,131	(1,559)
Foreign exchange gain (loss)	5,675	(29,154)	83,762	50,629
Other (expenses) income	(5,772)	(2,784)	36,542	(192,109)
Profit (loss) before income taxes	**129,312**	**83,075**	**227,948**	**(51,231)**
Current income taxes	(22,940)	(19,394)	(33,843)	(24,158)
Deferred income taxes	(1,933)	575	(5,508)	10,842
Total income tax expense	**(24,873)**	**(18,819)**	**(39,351)**	**(13,316)**
Profit (loss) for the period	**104,439**	**64,256**	**188,597**	**(64,547)**
Profit for the period attributable to non-controlling interests	(408)	(508)	(204)	(490)
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	**104,031**	**63,748**	**188,393**	**(65,037)**

Sales breakdown

	For the 3 months ended			
	31 March	**30 June**	**30 September**	**31 December**
	(millions of rubles)			
Crude oil				
Exports and sales on international markets other than Customs Union countries	365,914	376,988	288,448	309,428
Exports and sales to Customs Union countries	14,323	13,776	9,409	11,669
Domestic sales	37,373	37,859	39,147	31,309
	417,610	**428,623**	**337,004**	**352,406**
Refined products				
Exports and sales on international markets				
Wholesale	653,211	666,071	685,907	585,838
Retail	149,575	151,573	179,382	166,782
Domestic sales				
Wholesale	52,974	61,045	64,453	65,932
Retail	78,005	88,172	100,622	93,484
	933,765	**966,861**	**1,030,364**	**912,036**
Petrochemicals				
Exports and sales on international markets	8,214	8,875	10,782	6,619
Domestic sales	3,098	6,296	9,330	9,524
	11,312	**15,171**	**20,112**	**16,143**
Gas and gas products				
Exports and sales on international markets	27,672	21,187	23,691	27,547
Domestic sales	9,298	9,533	9,483	9,915
	36,970	**30,720**	**33,174**	**37,462**
Sales of energy and related services				
Sales on international markets	2,490	1,719	4,294	4,013
Domestic sales	17,897	11,523	11,521	17,296
	20,387	**13,242**	**15,815**	**21,309**
Other				
Export and sales on international markets	11,430	12,552	16,092	17,356
Domestic sales	8,831	9,797	11,492	11,014
	20,261	**22,349**	**27,584**	**28,370**
Total sales	**1,440,305**	**1,476,966**	**1,464,053**	**1,367,726**

Sales volumes

Crude oil	(thousand barrels)			
Exports and sales on international markets other than Customs Union countries	117,067	125,966	100,458	131,508
Exports and sales to Customs Union countries	6,773	6,245	4,750	6,406
Domestic sales	18,977	18,831	22,628	19,021
	142,817	**151,042**	**127,836**	**156,935**
Crude oil	(thousand tonnes)			
Exports and sales on international markets other than Customs Union countries	15,971	17,185	13,705	17,941
Exports and sales to Customs Union countries	924	852	648	874
Domestic sales	2,589	2,569	3,087	2,595
	19,484	**20,606**	**17,440**	**21,410**
Refined products	(thousand tonnes)			
Exports and sales on international markets				
Wholesale	22,947	23,617	24,792	24,258
Retail	2,164	2,466	2,624	2,585
Domestic sales				
Wholesale	2,208	2,582	2,670	2,787
Retail	2,148	2,353	2,627	2,434
	29,467	**31,018**	**32,713**	**32,064**
Total sales volume of crude oil and refined	**48,951**	**51,624**	**50,153**	**53,474**

The table below sets forth data from our consolidated statements of cash flows.

	For the 3 months ended			
	31 March	30 June	30 September	31 December
	(millions of rubles)			
Net cash:				
provided by operating activities	214,522	168,581	234,564	231,305
used in investing activities	(153,492)	(137,376)	(74,333)	(160,521)
used in financing activities	(49,744)	(39,818)	(66,337)	(97,164)
Free cash flow	62,911	16,968	91,317	76,451

	For the 3 months ended			
	31 March	30 June	30 September	31 December
	(millions of rubles)			
Capital expenditures, including non-cash transactions and prepayments				
Exploration and production				
Russia	74,058	70,084	68,885	79,461
International	48,499	49,983	51,026	46,369
Total exploration and production	**122,557**	**120,067**	**119,911**	**125,830**
Refining, marketing and distribution				
Russia	21,161	22,355	16,872	23,252
International	8,931	7,033	4,120	5,201
Total refining, marketing and distribution	**30,092**	**29,388**	**20,992**	**28,453**
Corporative centre and other				
Russia	651	846	1,218	2,445
International	770	473	541	2,971
Total corporative centre and other	**1,421**	**1,319**	**1,759**	**5,416**
Total capital expenditures	**154,070**	**150,774**	**142,662**	**159,699**

Please note that the information presented of pages 30-32 of this report has not been audited by our independent auditor. Therefore, this selected quarterly data may be amended as we issue our interim financial statements in 2016.

Forward-looking statements

Certain statements in this document are not historical facts and are “forward-looking.” 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 products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) 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. Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. 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:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- 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
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. 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 are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, 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.