



## **PJSC LUKOIL**

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(prepared in accordance with IFRS)**

**As of and for the three and nine-month periods ended 30 September 2016  
(unaudited)**

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



JSC "KPMG"  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123112  
Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **Auditors' Report on Review of Condensed Interim Consolidated Financial Statements**

To the Shareholders and Board of Directors

PJSC LUKOIL

### ***Introduction***

We have reviewed the accompanying consolidated statement of financial position of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group") as at 30 September 2016, and the related consolidated statements of profit or loss and other comprehensive income for the three- and nine-month periods ended 30 September 2016 and the related consolidated statements of changes in equity and cash flows for the nine - month period ended 30 September 2016, and notes to the condensed interim consolidated financial statements (the "condensed interim consolidated financial statements"). Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

### ***Scope of review***

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

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

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

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

11, Sretensky Boulevard, Moscow, Russia, 101000.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

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

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No. 11603053203.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements as at 30 September 2016, and for the three –and nine-month periods ended 30 September 2016 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Oussov A.I.

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

JSC "KPMG"

28 November 2016

Moscow, Russian Federation

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

	Note	30 September 2016 (unaudited)	31 December 2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	345,175	257,263
Accounts receivable, net	7	338,701	440,489
Other current financial assets		7,314	23,768
Inventories	8	361,871	340,196
Income tax prepaid		14,474	7,413
Other taxes receivable	9	63,195	81,692
Other current assets	10	43,093	62,826
<b>Total current assets</b>		<b>1,173,823</b>	<b>1,213,647</b>
Property, plant and equipment	12	3,413,480	3,411,153
Investments in associates and joint ventures	11	166,988	181,744
Other non-current financial assets	13	112,494	102,067
Deferred income tax assets		26,995	28,735
Goodwill and other intangible assets		46,127	51,749
Other non-current assets		32,657	31,512
<b>Total non-current assets</b>		<b>3,798,741</b>	<b>3,806,960</b>
<b>Total assets</b>		<b>4,972,564</b>	<b>5,020,607</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable	14	404,374	394,339
Short-term borrowings and current portion of long-term debt	15	125,107	60,506
Income tax payable		10,724	11,640
Other taxes payable	17	86,627	73,277
Provisions	19	24,731	25,553
Other current liabilities	18	33,653	129,853
<b>Total current liabilities</b>		<b>685,216</b>	<b>695,168</b>
Long-term debt	16	714,397	799,207
Deferred income tax liabilities		235,929	234,107
Provisions	19	59,133	51,115
Other non-current liabilities		7,246	9,636
<b>Total non-current liabilities</b>		<b>1,016,705</b>	<b>1,094,065</b>
<b>Total liabilities</b>		<b>1,701,921</b>	<b>1,789,233</b>
<b>Equity</b>	20		
Share capital		1,151	1,151
Treasury shares		(241,615)	(241,615)
Additional paid-in capital		129,510	129,403
Other reserves		65,056	104,150
Retained earnings		3,309,726	3,229,379
<b>Total equity attributable to PJSC LUKOIL shareholders</b>		<b>3,263,828</b>	<b>3,222,468</b>
Non-controlling interests		6,815	8,906
<b>Total equity</b>		<b>3,270,643</b>	<b>3,231,374</b>
<b>Total liabilities and equity</b>		<b>4,972,564</b>	<b>5,020,607</b>

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President of PJSC LUKOIL  
Alekperov V.Y.

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

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

**PJSC LUKOIL**

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

	Note	For the three months ended 30 September 2016 (unaudited)	For the three months ended 30 September 2015 (unaudited)	For the nine months ended 30 September 2016 (unaudited)	For the nine months ended 30 September 2015 (unaudited)
<b>Revenues</b>					
Sales (including excise and export tariffs)	28	1,309,488	1,464,053	3,826,121	4,381,324
<b>Costs and other deductions</b>					
Operating expenses		(112,133)	(116,833)	(339,086)	(328,342)
Cost of purchased crude oil, gas and products		(654,871)	(733,220)	(1,869,901)	(2,210,925)
Transportation expenses		(71,169)	(71,371)	(235,533)	(218,533)
Selling, general and administrative expenses		(52,658)	(40,838)	(145,783)	(122,051)
Depreciation, depletion and amortization		(74,790)	(100,061)	(230,746)	(265,582)
Taxes other than income taxes		(122,245)	(134,256)	(324,522)	(405,310)
Excise and export tariffs		(129,440)	(145,685)	(358,209)	(442,143)
Exploration expenses		(1,082)	(8,819)	(5,634)	(23,602)
<b>Profit from operating activities</b>		<b>91,100</b>	<b>112,970</b>	<b>316,707</b>	<b>364,836</b>
Finance income	22	3,778	4,210	11,120	12,777
Finance costs	22	(11,949)	(11,667)	(33,418)	(34,153)
Equity share in income of affiliates		198	2,131	5,976	8,606
Foreign exchange (loss) gain		(10,207)	83,762	(84,530)	60,283
Other income (expenses)	23	2,872	36,542	(4,676)	27,986
<b>Profit before income taxes</b>		<b>75,792</b>	<b>227,948</b>	<b>211,179</b>	<b>440,335</b>
Current income taxes		(19,389)	(33,843)	(47,048)	(76,177)
Deferred income taxes		(1,300)	(5,508)	(3,364)	(6,866)
<b>Total income tax expense</b>		<b>(20,689)</b>	<b>(39,351)</b>	<b>(50,412)</b>	<b>(83,043)</b>
<b>Profit for the period</b>		<b>55,103</b>	<b>188,597</b>	<b>160,767</b>	<b>357,292</b>
Profit for the period attributable to non-controlling interests		(300)	(204)	(572)	(1,120)
<b>Profit for the period attributable to PJSC LUKOIL shareholders</b>		<b>54,803</b>	<b>188,393</b>	<b>160,195</b>	<b>356,172</b>
<b>Other comprehensive income (loss), net of income taxes</b>					
<i>Items that may be reclassified to profit or loss:</i>					
Foreign currency translation differences for foreign operations		(1,715)	26,574	(39,029)	(9,067)
<i>Items that will never be reclassified to profit or loss:</i>					
Remeasurements of defined benefit liability / asset of pension plan		(9)	304	24	956
<b>Other comprehensive (loss) income</b>		<b>(1,724)</b>	<b>26,878</b>	<b>(39,005)</b>	<b>(8,111)</b>
<b>Total comprehensive income for the period</b>		<b>53,379</b>	<b>215,475</b>	<b>121,762</b>	<b>349,181</b>
Total comprehensive income for the period attributable to non-controlling interests		(311)	(189)	(609)	(1,156)
<b>Total comprehensive income for the period attributable to PJSC LUKOIL shareholders</b>		<b>53,068</b>	<b>215,286</b>	<b>121,153</b>	<b>348,025</b>
<b>Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):</b>					
Basic	20	76.87	264.25	224.70	499.59
Diluted	20	76.87	264.25	224.70	492.85

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

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

	Share capital	Treasury shares	Equity-linked notes	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2015	1,151	(241,615)	-	129,403	104,150	3,229,379	<b>3,222,468</b>	8,906	<b>3,231,374</b>
Profit for the period	-	-	-	-	-	160,195	<b>160,195</b>	572	<b>160,767</b>
<b>Other comprehensive income:</b>									
Foreign currency translation differences	-	-	-	-	(39,066)	-	<b>(39,066)</b>	37	<b>(39,029)</b>
Remeasurements of defined benefit liability / asset of pension plan	-	-	-	-	24	-	<b>24</b>	-	<b>24</b>
<b>Total comprehensive income (loss)</b>					<b>(39,042)</b>	<b>160,195</b>	<b>121,153</b>	<b>609</b>	<b>121,762</b>
Dividends on common stock	-	-	-	-	-	(79,848)	<b>(79,848)</b>	-	<b>(79,848)</b>
Changes in non-controlling interests	-	-	-	107	(52)	-	<b>55</b>	(2,700)	<b>(2,645)</b>
<b>30 September 2016</b>	<b>1,151</b>	<b>(241,615)</b>	<b>-</b>	<b>129,510</b>	<b>65,056</b>	<b>3,309,726</b>	<b>3,263,828</b>	<b>6,815</b>	<b>3,270,643</b>
31 December 2014	1,151	(158,615)	(83,000)	128,846	93,454	3,055,542	<b>3,037,378</b>	12,164	<b>3,049,542</b>
Profit for the period	-	-	-	-	-	356,172	<b>356,172</b>	1,120	<b>357,292</b>
<b>Other comprehensive income:</b>									
Foreign currency translation differences	-	-	-	-	(9,103)	-	<b>(9,103)</b>	36	<b>(9,067)</b>
Remeasurements of defined benefit liability / asset of pension plan	-	-	-	-	956	-	<b>956</b>	-	<b>956</b>
<b>Total comprehensive income (loss)</b>					<b>(8,147)</b>	<b>356,172</b>	<b>348,025</b>	<b>1,156</b>	<b>349,181</b>
Dividends on common stock	-	-	-	-	-	(70,957)	<b>(70,957)</b>	-	<b>(70,957)</b>
Equity-linked notes conversion	-	(83,000)	83,000	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	(721)	-	-	<b>(721)</b>	1,931	<b>1,210</b>
<b>30 September 2015</b>	<b>1,151</b>	<b>(241,615)</b>	<b>-</b>	<b>128,125</b>	<b>85,307</b>	<b>3,340,757</b>	<b>3,313,725</b>	<b>15,251</b>	<b>3,328,976</b>

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

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

Note	For the nine months ended 30 September 2016 (unaudited)	For the nine months ended 30 September 2015 (unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit for the period attributable to PJSC LUKOIL shareholders</b>	<b>160,195</b>	<b>356,172</b>
Adjustments for non-cash items:		
Depreciation, depletion and amortization	230,746	265,582
Equity share in income of affiliates, net of dividends received	(2,918)	568
Dry hole write-offs	631	21,877
Loss (gain) on disposal and impairment of assets	5,083	(27,466)
Income tax expense	50,412	83,043
Non-cash foreign exchange loss (gain)	80,201	(64,074)
Non-cash investing activities	(70)	(165)
Finance income	(11,120)	(12,777)
Finance costs	33,418	34,153
Bad debt provision	6,762	2,532
All other items – net	11,374	7,196
Changes in operating assets and liabilities:		
Trade accounts receivable	44,088	96,843
Inventories	(65,706)	(1,397)
Accounts payable	56,671	(52,184)
Other taxes	33,980	47,652
Other current assets and liabilities	(35,046)	(78,976)
Income tax paid	(50,878)	(72,182)
Dividends received	3,106	-
Interests received	6,950	11,270
<b>Net cash provided by operating activities</b>	<b>557,879</b>	<b>617,667</b>
<b>Cash flows from investing activities</b>		
Acquisition of licenses	(2,556)	(502)
Capital expenditures	(357,392)	(445,969)
Proceeds from sale of property, plant and equipment	1,672	1,490
Purchases of financial assets	(15,160)	(8,153)
Proceeds from sale of financial assets	8,929	9,833
Sale of subsidiaries, net of cash disposed	537	3,837
Sale of equity method affiliates	-	79,327
Acquisitions of subsidiaries, net of cash acquired	-	(665)
Acquisitions of equity method affiliates	(3,216)	(4,399)
<b>Net cash used in investing activities</b>	<b>(367,186)</b>	<b>(365,201)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of short-term borrowings	39,800	84,880
Principal repayments of short-term borrowings	(17,298)	(68,938)
Proceeds from issuance of long-term debt	89,276	70,411
Principal repayments of long-term debt	(14,722)	(105,791)
Interests paid	(30,622)	(24,267)
Dividends paid on Company common shares	(127,007)	(111,846)
Dividends paid to non-controlling interest shareholders	(2,297)	(3,003)
Financing received from non-controlling interest shareholders	68	87
Sale of non-controlling interests	-	2,568
Purchases of non-controlling interests	(1,285)	-
<b>Net cash used in financing activities</b>	<b>(64,087)</b>	<b>(155,899)</b>
Effect of exchange rate changes on cash and cash equivalents	(38,694)	(3,126)
<b>Net increase in cash and cash equivalents</b>	<b>87,912</b>	<b>93,441</b>
Cash and cash equivalents at beginning of period	257,263	169,023
<b>Cash and cash equivalents at end of period</b>	<b>6</b>	<b>345,175</b>
		<b>262,464</b>

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

## **Note 1. Organization and environment**

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

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

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

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

### ***Business and economic environment***

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

## **Note 2. Basis of preparation**

### ***Statement of compliance***

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

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

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

The condensed interim consolidated financial statements were authorised by the President of the Company on 28 November 2016.

### ***Functional and presentation currency***

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



## **Note 2. Basis of preparation (continued)**

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

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

## **Note 3. Summary of significant accounting policies**

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

## **Note 4. Use of estimates and judgments**

Preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are the following:

- Estimation of oil and gas reserves;
- Estimation of useful lives of property, plant and equipment;
- Impairment of non-current assets;
- Assessment of asset retirement obligations;
- Assessment and recognition of provisions and contingent liabilities;
- Assessment of deferred income tax assets and liabilities;
- Determination of whether a joint arrangement is a joint venture or a joint operation.

## **Note 5. Income taxes**

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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

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

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

**Note 6. Cash and cash equivalents**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Cash held in RUB	39,665	98,253
Cash held in US dollars	253,251	141,863
Cash held in other currencies	52,259	17,147
<b>Total cash and cash equivalents</b>	<b>345,175</b>	<b>257,263</b>

**Note 7. Accounts receivable, net**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Trade accounts receivable (net of allowances of 20,991 million RUB and 17,322 million RUB at 30 September 2016 and 31 December 2015, respectively)	310,318	375,531
Other current accounts receivable (net of allowances of 1,886 million RUB and 1,599 million RUB at 30 September 2016 and 31 December 2015, respectively)	28,383	64,958
<b>Total accounts receivable, net</b>	<b>338,701</b>	<b>440,489</b>

**Note 8. Inventories**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Crude oil and petroleum products	297,431	275,941
Materials for extraction and drilling	20,186	21,345
Materials and supplies for refining	3,354	3,732
Other goods, materials and supplies	40,900	39,178
<b>Total inventories</b>	<b>361,871</b>	<b>340,196</b>

**Note 9. Other taxes receivable**

	<b>30 September 2016</b>	<b>31 December 2015</b>
VAT and excise tax recoverable	36,656	39,171
Export duties prepaid	12,213	21,824
Other taxes prepaid	14,326	20,697
<b>Total other taxes receivable</b>	<b>63,195</b>	<b>81,692</b>

**Note 10. Other current assets**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Advance payments	11,051	16,341
Prepaid expenses	20,646	31,960
Other assets	11,396	14,525
<b>Total other current assets</b>	<b>43,093</b>	<b>62,826</b>

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

**Note 11. Investments in associates and joint ventures**

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership, %		30 September 2016	31 December 2015
		30 September 2016	31 December 2015		
<i>Joint Ventures:</i>					
Tengizchevroil	Kazakhstan	5.0%	5.0%	88,091	99,843
Caspian Pipeline Consortium	Kazakhstan	12.5%	12.5%	25,602	27,574
Turgai Petroleum	Kazakhstan	50.0%	50.0%	1,955	1,675
Shakh-Deniz Midstream	Azerbaijan	10.0%	10.0%	23,507	22,284
<i>Associates:</i>					
Other associates				27,833	30,368
<b>Total</b>				<b>166,988</b>	<b>181,744</b>

**Note 12. Property, plant and equipment**

	Exploration and production	Refining, marketing and distribution	Other	Total
<b>Cost</b>				
1 January 2016	3,232,673	1,206,252	103,587	<b>4,542,512</b>
Additions	319,058	43,409	1,986	<b>364,453</b>
Capitalised borrowing costs	7,854	327	1	<b>8,182</b>
Disposals	(8,396)	(18,919)	(813)	<b>(28,128)</b>
Foreign currency translation differences	(156,851)	(51,873)	(2,044)	<b>(210,768)</b>
Other	(3,913)	6,678	(482)	<b>2,283</b>
<b>30 September 2016</b>	<b>3,390,425</b>	<b>1,185,874</b>	<b>102,235</b>	<b>4,678,534</b>
<b>Depreciation and impairment</b>				
1 January 2016	(953,254)	(259,515)	(14,627)	<b>(1,227,396)</b>
Depreciation for the period	(157,165)	(64,925)	(4,550)	<b>(226,640)</b>
Impairment loss	-	(82)	-	<b>(82)</b>
Disposals	1,751	10,315	453	<b>12,519</b>
Foreign currency translation differences	87,721	18,825	448	<b>106,994</b>
Other	(63)	(1,419)	14	<b>(1,468)</b>
<b>30 September 2016</b>	<b>(1,021,010)</b>	<b>(296,801)</b>	<b>(18,262)</b>	<b>(1,336,073)</b>
<b>Advance payments for property, plant and equipment</b>				
1 January 2016	94,619	1,280	138	<b>96,037</b>
<b>30 September 2016</b>	<b>70,230</b>	<b>625</b>	<b>164</b>	<b>71,019</b>
<b>Carrying amounts</b>				
1 January 2016	2,374,038	948,017	89,098	<b>3,411,153</b>
<b>30 September 2016</b>	<b>2,439,645</b>	<b>889,698</b>	<b>84,137</b>	<b>3,413,480</b>

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**Note 12. Property, plant and equipment (continued)**

	Exploration and production	Refining, marketing and distribution	Other	Total
<b>Cost</b>				
1 January 2015	2,556,173	1,030,097	95,392	3,681,662
Additions	336,214	84,993	2,750	423,957
Acquisitions through business combinations	605	417	-	1,022
Capitalised borrowing costs	250	686	-	936
Disposals	(29,780)	(5,677)	(622)	(36,079)
Foreign currency translation differences	140,451	32,193	1,837	174,481
Other	1,005	(709)	(899)	(603)
<b>30 September 2015</b>	<b>3,004,918</b>	<b>1,142,000</b>	<b>98,458</b>	<b>4,245,376</b>
<b>Depreciation and impairment</b>				
1 January 2015	(444,128)	(142,713)	(8,525)	(595,366)
Depreciation for the period	(214,206)	(48,212)	(4,391)	(266,809)
Disposals	1,241	2,757	128	4,126
Foreign currency translation differences	(65,382)	(8,621)	(300)	(74,303)
Other	500	28	24	552
<b>30 September 2015</b>	<b>(721,975)</b>	<b>(196,761)</b>	<b>(13,064)</b>	<b>(931,800)</b>
<b>Advance payments for property, plant and equipment</b>				
1 January 2015	58,558	8,258	467	67,283
<b>30 September 2015</b>	<b>91,072</b>	<b>1,354</b>	<b>383</b>	<b>92,809</b>
<b>Carrying amounts</b>				
1 January 2015	2,170,603	895,642	87,334	3,153,579
<b>30 September 2015</b>	<b>2,374,015</b>	<b>946,593</b>	<b>85,777</b>	<b>3,406,385</b>

The cost of assets under construction included in Property, plant and equipment was 638,927 million RUB and 676,908 million RUB at 30 September 2016 and 31 December 2015, respectively.

**Exploration and evaluation assets:**

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
1 January	52,302	46,906
Capitalized expenditures	20,719	15,781
Reclassified to development assets	(4,103)	(9,683)
Charged to expense	(591)	(238)
Foreign currency translation differences	(1,316)	-
Other movements	(125)	82
<b>30 September</b>	<b>66,886</b>	<b>52,848</b>

**Note 13. Other non-current financial assets**

	30 September 2016	31 December 2015
Long-term loans	100,409	89,770
Non-current accounts and notes receivable	8,222	8,148
Other non-current financial assets	3,863	4,149
<b>Total other non-current financial assets</b>	<b>112,494</b>	<b>102,067</b>

**Note 14. Accounts payable**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Trade accounts payable	357,211	339,091
Other accounts payable	47,163	55,248
<b>Total accounts payable</b>	<b>404,374</b>	<b>394,339</b>

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

	<b>30 September 2016</b>	<b>31 December 2015</b>
Short-term borrowings from third parties	47,004	33,611
Short-term borrowings from related parties	5,126	5,609
Current portion of long-term debt	72,977	21,286
<b>Total short-term borrowings and current portion of long-term debt</b>	<b>125,107</b>	<b>60,506</b>

Short-term borrowings from third parties include amounts repayable in US dollars of 29,821 million RUB and 22,951 million RUB and amounts repayable in other currencies of 17,183 million RUB and 10,660 million RUB at 30 September 2016 and 31 December 2015, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.63% and 5.43% per annum at 30 September 2016 and 31 December 2015, respectively. Approximately 76% of total short-term borrowings from third parties at 30 September 2016 are secured by inventories.

**Note 16. Long-term debt**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Long-term loans and borrowings from third parties	430,559	408,781
Long-term borrowings from related parties	-	138
6.356% non-convertible US dollar bonds, maturing 2017	31,579	36,441
3.416% non-convertible US dollar bonds, maturing 2018	94,498	108,983
7.250% non-convertible US dollar bonds, maturing 2019	37,792	43,583
6.125% non-convertible US dollar bonds, maturing 2020	63,079	72,778
6.656% non-convertible US dollar bonds, maturing 2022	31,579	36,441
4.563% non-convertible US dollar bonds, maturing 2023	94,498	108,983
Capital lease obligations	3,790	4,365
Total long-term debt	787,374	820,493
Current portion of long-term debt	(72,977)	(21,286)
<b>Total non-current portion of long-term debt</b>	<b>714,397</b>	<b>799,207</b>

***Long-term loans and borrowings***

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 298,556 million RUB and 336,842 million RUB, amounts repayable in euros of 60,694 million RUB and 70,447 million RUB, amounts repayable in other currencies of 1,309 million RUB and 1,492 million RUB at 30 September 2016 and 31 December 2015, respectively, and amounts repayable in RUB of 70,000 million RUB at 30 September 2016. This debt has maturity dates from 2016 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.41% and 3.77% per annum at 30 September 2016 and 31 December 2015, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 14% of total long-term loans and borrowings from third parties at 30 September 2016 are secured by shares of an associated company, export sales and property, plant and equipment.

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**Note 17. Other taxes payable**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Mineral extraction tax	30,470	24,566
VAT	27,939	21,532
Excise tax	18,149	15,553
Property tax	4,373	4,583
Other taxes	5,696	7,043
<b>Total other taxes payable</b>	<b>86,627</b>	<b>73,277</b>

**Note 18. Other current liabilities**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Advances received	23,855	79,424
Dividends payable	1,397	47,615
Other	8,401	2,814
<b>Total other current liabilities</b>	<b>33,653</b>	<b>129,853</b>

**Note 19. Provisions**

	<b>Asset retirement obligation</b>	<b>Provision for employee compensations</b>	<b>Provision for environmental liabilities</b>	<b>Pension provisions</b>	<b>Provision for compensated absences</b>	<b>Other provisions</b>	<b>Total</b>
<b>30 September 2016</b>	<b>33,677</b>	<b>30,385</b>	<b>4,590</b>	<b>7,587</b>	<b>3,912</b>	<b>3,713</b>	<b>83,864</b>
Incl.: Non-current	32,210	16,776	2,672	6,089	63	1,323	59,133
Current	1,467	13,609	1,918	1,498	3,849	2,390	24,731
<b>31 December 2015</b>	<b>32,919</b>	<b>19,837</b>	<b>5,455</b>	<b>7,913</b>	<b>3,591</b>	<b>6,953</b>	<b>76,668</b>
Incl.: Non-current	32,632	6,733	3,575	6,392	134	1,649	51,115
Current	287	13,104	1,880	1,521	3,457	5,304	25,553

Assets retirement obligation:

	<b>For the nine months ended 30 September 2016</b>	<b>For the nine months ended 30 September 2015</b>
1 January	32,919	19,604
Provisions made during the period	1,811	338
Reversal of provisions	(67)	(133)
Provisions used during the period	(88)	(20)
Accretion expense	1,692	680
Changes in estimates	43	(370)
Foreign currency translation differences	(2,447)	2,247
Other	(186)	100
<b>30 September</b>	<b>33,677</b>	<b>22,446</b>

**Note 20. Equity**

***Common shares***

	<b>30 September 2016 (thousands of shares)</b>	<b>31 December 2015 (thousands of shares)</b>
Authorized common shares, par value of 0.025 RUB each	850,563	850,563
Issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(137,630)	(137,630)
<b>Outstanding common shares</b>	<b>712,933</b>	<b>712,933</b>

***Dividends***

At the annual shareholders' meeting on 23 June 2016, dividends for 2015 were approved in the amount of 112.00 RUB per common share. At the extraordinary shareholders' meeting on 16 December 2015, interim dividends for 2015 were approved in the amount of 65.00 RUB per common share. Total dividends for 2015 were approved in the amount of 177.00 RUB per common share. At the annual shareholders' meeting on 25 June 2015, dividends for 2014 were approved in the amount of 94.00 RUB per common share. At the extraordinary shareholders' meeting on 12 December 2014, interim dividends for 2014 were approved in the amount of 60.00 RUB per common share. Total dividends for 2014 were approved in the amount of 154.00 RUB per common share.

Dividends on the Company's shares payable of 314 million RUB and 46,609 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 30 September 2016 and 31 December 2015, respectively.

***Earnings per share***

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

	<b>For the three months ended 30 September 2016</b>	<b>For the three months ended 30 September 2015</b>	<b>For the nine months ended 30 September 2016</b>	<b>For the nine months ended 30 September 2015</b>
Profit for the period attributable to PJSC LUKOIL shareholders	54,803	188,393	160,195	356,172
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	-	-	-	1,718
Total diluted profit for the period attributable to PJSC LUKOIL shareholders	54,803	188,393	160,195	357,890
Weighted average number of outstanding common shares (thousands of shares)	712,933	744,838	712,933	751,487
Equity-linked notes	-	(31,905)	-	(38,554)
Weighted average number of common shares (thousands of shares)	712,933	712,933	712,933	712,933
Add back treasury shares held in respect of convertible debt (thousands of shares)	-	-	-	13,224
Weighted average number of common shares, assuming dilution (thousands of shares)	712,933	712,933	712,933	726,157
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):				
Basic	76.87	264.25	224.70	499.59
Diluted	76.87	264.25	224.70	492.85

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**Note 21. Personnel expenses**

Personnel expenses were as follows.

	For the three months ended 30 September 2016	For the three months ended 30 September 2015	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Salary	33,071	32,420	102,923	93,002
Statutory insurance contributions	7,305	6,931	22,299	20,575
Share-based payments	5,965	(647)	12,309	2,938
<b>Total personnel expenses</b>	<b>46,341</b>	<b>38,704</b>	<b>137,531</b>	<b>116,515</b>

**Note 22. Finance income and costs**

Finance income was as follows.

	For the three months ended 30 September 2016	For the three months ended 30 September 2015	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Interest income from deposits	1,884	2,514	4,733	7,428
Interest income from loans	1,770	1,602	5,467	4,517
Other finance income	124	94	920	832
<b>Total finance income</b>	<b>3,778</b>	<b>4,210</b>	<b>11,120</b>	<b>12,777</b>

Finance costs were as follows.

	For the three months ended 30 September 2016	For the three months ended 30 September 2015	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Interest expenses	10,096	11,295	30,280	31,862
Accretion expenses	578	257	1,702	699
Loss on financial assets disposals	965	47	1,104	303
Other finance expenses	310	68	332	1,289
<b>Total finance costs</b>	<b>11,949</b>	<b>11,667</b>	<b>33,418</b>	<b>34,153</b>

**Note 23. Other income and expenses**

Other income was as follows.

	For the three months ended 30 September 2016	For the three months ended 30 September 2015	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Gain on disposal of assets	1,781	38,639	2,697	41,389
Other income	6,685	3,080	14,493	10,207
<b>Total other income</b>	<b>8,466</b>	<b>41,719</b>	<b>17,190</b>	<b>51,596</b>

Other expenses were as follows.

	For the three months ended 30 September 2016	For the three months ended 30 September 2015	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Loss on disposal of assets	1,927	2,791	7,097	8,918
Impairment loss	219	135	683	5,305
Charity expenses	2,771	2,026	9,114	5,731
Other expenses	677	225	4,972	3,656
<b>Total other expenses</b>	<b>5,594</b>	<b>5,177</b>	<b>21,866</b>	<b>23,610</b>



**Note 24. Operating lease**

At 30 September 2016 and 31 December 2015, Group companies had commitments primarily related to the lease of vessels and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows.

	<b>30 September 2016</b>	<b>31 December 2015</b>
Less than a year	32,757	35,858
1-5 years	55,451	46,589
More than 5 years	92,724	80,924
<b>Total</b>	<b>180,932</b>	<b>163,371</b>

**Note 25. Commitments and contingencies**

*Capital commitments*

At 30 September 2016, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 469,681 million RUB.

*Taxation environment*

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

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

*Litigation and claims*

On 27 November 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against AO Arkhangelskgeoldobycha (“AGD”), a Group company, and the Company (together the “Defendants”). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of \$1.2 billion (75.8 billion RUB) and punitive damages of \$3.6 billion (227.4 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.

**Note 25. Commitments and contingencies (continued)**

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

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) issued an order on initiation of criminal proceedings and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor’s Office added bad faith use of the company’s credit and money laundering charges for 2008-2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim is not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group are also considered to be suspects in this criminal case. At the moment a preliminary investigation of the criminal case is being conducted. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. In July 2015, a new charge in respect of bad faith use of the company’s credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. A similar charge was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011-2014. On 3 August 2015, the Prosecutor’s Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company’s credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor’s Office revised the amount of damage claimed from \$2.2 billion (138.9 billion RUB) to \$1.5 billion (94.7 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor’s Office. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal on 22 January 2016. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. At the current stage of the hearings the defendants are making oral statements. Next hearing on the merits will take place on 21 December 2016. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor’s Office. Management does not believe that the outcome of this matter will have a material adverse effect on the Group’s financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the dispute related to cost recovery and calculation of the “fairness index” in accordance with the Final Production Sharing Agreement in respect of the Karachaganak field in Kazakhstan. An estimated total of claims filed by the Republic of Kazakhstan is about \$1.8 billion (113.7 billion RUB), a share of LUKOIL Overseas Karachaganak B.V. is about \$243 million (15.3 billion RUB). At the moment the parties are negotiating an amicable settlement of this dispute. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group’s financial position.

**Note 25. Commitments and contingencies (continued)**

The Commission for Protection of Competition in Bulgaria issued ruling alleging violations of applicable antimonopoly laws by Lukoil Bulgaria EOOD, a Group company, and a number of other legal entities not affiliated with the Group, in connection with concerted actions and anti-competitive agreements to fix petrol and diesel fuel retail market prices in Bulgaria. The maximum amount of fines for this violation is evaluated at \$150 million (9.5 billion RUB). Lukoil Bulgaria EOOD filed written objections in required period. The announcement of the date of the open hearing is expected and after that the closing hearing will be held. This hearing will state whether there is any violations or not and the amount of fines if any. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

***Political situation***

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

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a set of economic sanctions on Russia, including certain sectoral sanctions which affect Russian oil and gas companies. Such sectoral sanctions prohibit US and the EU companies and individuals from providing, exporting, or reexporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects on the territory of the Russian Federation. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

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

**Note 26. Related party transactions**

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from associated companies.

Outstanding balances with related parties were as follows.

	<b>30 September 2016</b>	<b>31 December 2015</b>
Accounts receivable	10,294	10,925
Other financial assets	96,962	98,538
<b>Total assets</b>	<b>107,256</b>	<b>109,463</b>
Accounts payable	5,782	8,458
Loans and borrowings	5,126	5,747
<b>Total liabilities</b>	<b>10,908</b>	<b>14,205</b>

**Note 26. Related party transactions (continued)**

Related party transactions were as follows.

	For the three months ended 30 September 2016	For the three months ended 30 September 2015	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Sales of oil and oil products	5,182	6,673	15,016	22,708
Other sales	510	329	1,356	1,070
Purchases of oil and oil products	17,852	15,905	53,294	49,418
Other purchases	637	2,105	3,322	5,540
Loans given	1,279	5,812	13,808	7,681
Loans received	1,553	2,401	3,791	13,734

**Note 27. Compensation plan**

In December 2012, the Company introduced a compensation plan available to certain members of management for the period from 2013 to 2017, which is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company's common shares appreciation from 2013 to 2017, with rights vesting after the date of the compensation plan's termination. The number of assigned shares is approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The reporting date fair value of this part of the plan was estimated at 22,368 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 8.89% per annum, an expected dividend yield of 6.84% per annum, an expected time to maturity of one year and one quarter and a volatility factor of 14.99%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous ten years from 2006 till 2015.

Related to this share plan the Group recognised 5,965 million RUB of compensation expenses during the three months ended 30 September 2016, 647 million RUB of income during the three months ended 30 September 2015, 12,309 million RUB and 2,938 million RUB of compensation expenses during the nine months ended 30 September 2016 and 2015, respectively. At 30 September 2016 and 31 December 2015, 19,298 million RUB and 9,698 million RUB related to this plan are included in "Provisions" of the consolidated statement of financial position, respectively.

At 30 September 2016, there was 5,592 million RUB of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2017.

**Note 28. Segment information**

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

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

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**Note 28. Segment information (continued)**

**Operating segments**

**For the three months ended 30 September 2016**

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues					
Third parties	31,095	1,269,095	9,298	-	1,309,488
Inter-segment	363,665	17,265	8,791	(389,721)	-
<b>Total revenues</b>	<b>394,760</b>	<b>1,286,360</b>	<b>18,089</b>	<b>(389,721)</b>	<b>1,309,488</b>
Operating expenses	65,681	52,875	5,994	(12,417)	112,133
Selling, general and administrative expenses	11,974	31,863	16,044	(7,223)	52,658
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	39,482	33,086	(21,827)	4,062	54,803
EBITDA	108,416	63,644	(18,972)	5,365	158,453
Income tax expense					(20,689)
Finance income					3,778
Finance costs					(11,949)
Depreciation, depletion and amortisation					(74,790)
Profit for the period attributable to PJSC LUKOIL shareholders					54,803

**For the three months ended 30 September 2015**

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues					
Third parties	72,736	1,383,564	7,753	-	1,464,053
Inter-segment	378,172	13,715	13,048	(404,935)	-
<b>Total revenues</b>	<b>450,908</b>	<b>1,397,279</b>	<b>20,801</b>	<b>(404,935)</b>	<b>1,464,053</b>
Operating expenses	67,462	50,176	6,176	(6,981)	116,833
Selling, general and administrative expenses	9,783	32,772	5,778	(7,495)	40,838
Profit for the period attributable to PJSC LUKOIL shareholders	43,870	47,764	54,668	42,091	188,393
EBITDA	146,250	79,651	69,341	40,020	335,262
Income tax expense					(39,351)
Finance income					4,210
Finance costs					(11,667)
Depreciation, depletion and amortisation					(100,061)
Profit for the period attributable to PJSC LUKOIL shareholders					188,393

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

**Note 28. Segment information (continued)**

**For the nine months ended 30 September 2016**

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues					
Third parties	126,557	3,669,804	29,760	-	3,826,121
Inter-segment	1,057,211	49,248	34,697	(1,141,156)	-
<b>Total revenues</b>	<b>1,183,768</b>	<b>3,719,052</b>	<b>64,457</b>	<b>(1,141,156)</b>	<b>3,826,121</b>
Operating expenses	199,304	157,520	15,518	(33,256)	339,086
Selling, general and administrative expenses	31,950	98,560	40,947	(25,674)	145,783
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	157,476	89,297	(90,554)	3,976	160,195
EBITDA	370,027	173,635	(85,394)	5,383	463,651
Income tax expense					(50,412)
Finance income					11,120
Finance costs					(33,418)
Depreciation, depletion and amortisation					(230,746)
Profit for the period attributable to PJSC LUKOIL shareholders					160,195

**For the nine months ended 30 September 2015**

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues					
Third parties	199,206	4,160,944	21,174	-	4,381,324
Inter-segment	1,246,112	41,395	41,648	(1,329,155)	-
<b>Total revenues</b>	<b>1,445,318</b>	<b>4,202,339</b>	<b>62,822</b>	<b>(1,329,155)</b>	<b>4,381,324</b>
Operating expenses	193,941	137,418	16,984	(20,001)	328,342
Selling, general and administrative expenses	29,871	93,512	24,800	(26,132)	122,051
Profit for the period attributable to PJSC LUKOIL shareholders	181,624	110,687	33,793	30,068	356,172
EBITDA	458,984	194,924	48,434	23,831	726,173
Income tax expense					(83,043)
Finance income					12,777
Finance costs					(34,153)
Depreciation, depletion and amortisation					(265,582)
Profit for the period attributable to PJSC LUKOIL shareholders					356,172

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

**Note 28. Segment information (continued)**

**Geographical segments**

	<b>For the three months ended 30 September 2016</b>	<b>For the three months ended 30 September 2015</b>	<b>For the nine months ended 30 September 2016</b>	<b>For the nine months ended 30 September 2015</b>
Sales of crude oil within Russia	31,177	39,147	75,921	114,379
Export of crude oil and sales of crude oil by foreign subsidiaries	326,947	297,857	960,353	1,068,858
Sales of petroleum products within Russia	183,801	165,075	460,087	445,271
Export of petroleum products and sales of petroleum products by foreign subsidiaries	677,259	865,289	2,042,894	2,485,719
Sales of chemicals within Russia	10,521	9,330	28,615	18,724
Export of chemicals and sales of chemicals by foreign subsidiaries	7,915	10,782	26,877	27,871
Sales of gas and gas products within Russia	8,242	9,483	26,062	28,314
Export of gas products and sales of gas and gas products by foreign subsidiaries	18,824	23,691	63,109	72,550
Sales of energy and related services within Russia	12,268	11,521	42,946	40,941
Sales of energy and related services by foreign subsidiaries	3,859	4,294	10,384	8,503
Other sales within Russia	12,616	11,492	35,512	30,120
Other export sales and other sales of foreign subsidiaries	16,059	16,092	53,361	40,074
<b>Total sales</b>	<b>1,309,488</b>	<b>1,464,053</b>	<b>3,826,121</b>	<b>4,381,324</b>

**For the three months ended 30 September 2016**

	<b>Russian Federation</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	270,875	1,038,613	-	1,309,488
Inter-segment	227,660	576	(228,236)	-
<b>Total revenues</b>	<b>498,535</b>	<b>1,039,189</b>	<b>(228,236)</b>	<b>1,309,488</b>
Operating expenses	80,226	28,368	3,539	112,133
Selling, general and administrative expenses	31,125	22,600	(1,067)	52,658
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	54,093	(3,550)	4,260	54,803
<b>EBITDA</b>	<b>123,831</b>	<b>29,473</b>	<b>5,149</b>	<b>158,453</b>

**For the three months ended 30 September 2015**

	<b>Russian Federation</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	255,067	1,208,986	-	1,464,053
Inter-segment	266,628	1,800	(268,428)	-
<b>Total revenues</b>	<b>521,695</b>	<b>1,210,786</b>	<b>(268,428)</b>	<b>1,464,053</b>
Operating expenses	81,565	35,306	(38)	116,833
Selling, general and administrative expenses	21,366	20,274	(802)	40,838
Profit for the period attributable to PJSC LUKOIL shareholders	142,767	3,557	42,069	188,393
<b>EBITDA</b>	<b>221,464</b>	<b>70,832</b>	<b>42,966</b>	<b>335,262</b>

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

**Note 28. Segment information (continued)**

**For the nine months ended 30 September 2016**

	<b>Russian Federation</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	700,827	3,125,294	-	3,826,121
Inter-segment	737,097	1,903	(739,000)	-
<b>Total revenues</b>	<b>1,437,924</b>	<b>3,127,197</b>	<b>(739,000)</b>	<b>3,826,121</b>
Operating expenses	236,085	89,643	13,358	339,086
Selling, general and administrative expenses	79,999	68,658	(2,874)	145,783
Profit for the period attributable to PJSC LUKOIL shareholders	153,105	3,727	3,363	160,195
<b>EBITDA</b>	<b>343,040</b>	<b>115,990</b>	<b>4,621</b>	<b>463,651</b>

**For the nine months ended 30 September 2015**

	<b>Russian Federation</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	699,584	3,681,740	-	4,381,324
Inter-segment	915,115	4,557	(919,672)	-
<b>Total revenues</b>	<b>1,614,699</b>	<b>3,686,297</b>	<b>(919,672)</b>	<b>4,381,324</b>
Operating expenses	229,518	97,542	1,282	328,342
Selling, general and administrative expenses	63,475	61,631	(3,055)	122,051
Profit for the period attributable to PJSC LUKOIL shareholders	322,641	4,352	29,179	356,172
<b>EBITDA</b>	<b>525,069</b>	<b>173,480</b>	<b>27,624</b>	<b>726,173</b>

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

	<b>For the three months ended 30 September 2016</b>	<b>For the three months ended 30 September 2015</b>	<b>For the nine months ended 30 September 2016</b>	<b>For the nine months ended 30 September 2015</b>
Sales revenues				
in Switzerland	584,328	641,921	1,732,717	2,010,827
in the USA	98,983	98,746	309,288	311,244

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

**Note 29. Fair value**

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

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

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

Level 3: unobservable inputs.



**Note 29. Fair value (continued)**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 30 September 2016 and 31 December 2015.

<b>30 September 2016</b>	<b>Carrying amount</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets:</b>					
Commodity derivative contracts	9,851	-	9,851	-	<b>9,851</b>
Available for sale securities	3,768	-	-	3,768	<b>3,768</b>
<b>Financial liabilities:</b>					
Commodity derivative contracts	8,914	-	8,914	-	<b>8,914</b>
Long-term debt	787,374	374,631	-	446,146	<b>820,777</b>

<b>31 December 2015</b>	<b>Carrying amount</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets:</b>					
Commodity derivative contracts	41,648	-	41,648	-	<b>41,648</b>
Available for sale securities	4,045	-	-	4,045	<b>4,045</b>
<b>Financial liabilities:</b>					
Commodity derivative contracts	10,827	-	10,827	-	<b>10,827</b>
Long-term debt	820,493	400,140	-	392,952	<b>793,092</b>

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar periods, repayment schedules and similar other main terms. The fair value of bonds (Level 1) was determined based on market quotations at 30 September 2016 and 31 December 2015.

**Note 30. Subsequent events**

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion (63.2 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. The proceeds will be used for general corporate purposes, primarily on refinancing of existing debt.