



ОАО ЛУКОЙЛ

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

**As of December 31, 2014 and 2013
and for each of the years in the three-year period
ended December 31, 2014**



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Auditors' Report

To the Shareholders and Board of Directors

ОАО ЛУКОЙЛ

We have audited the accompanying consolidated financial statements of OAO LUKOIL and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the consolidated statements of comprehensive income, stockholders' equity and cash flows for 2014, 2013 and 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Audited entity: Open 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: ZAO 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.

Included 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 Non-commercial Partnership "Chamber of Auditors of
Russia". The Principal Registration Number of the Entry in the State
Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for 2014, 2013 and 2012 in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the Supplementary Information on Oil and Gas Exploration and Production Activities on pages 40 through 46 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Oussov A.I.

Director, power of attorney No. 79/13 dated October 1, 2013


ZAO KPMG


March 2, 2015

Moscow, Russian Federation

OAo LUKOIL
Consolidated Balance Sheets
As of December 31, 2014 and 2013
(Millions of US dollars, unless otherwise noted)

	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	3	3,004	1,712
Short-term investments		234	363
Accounts receivable, net	5	9,213	7,943
Inventories	6	6,154	8,801
Prepaid taxes and other expenses		2,174	3,801
Other current assets		500	775
Assets held for sale	11	1,480	-
Total current assets		22,759	23,395
Investments	7	4,808	4,255
Property, plant and equipment	8, 9	81,467	78,466
Deferred income tax assets	14	725	684
Goodwill and other intangible assets	10	1,193	1,300
Other non-current assets		848	1,339
Total assets		111,800	109,439
Liabilities and equity			
Current liabilities			
Accounts payable		7,101	7,335
Short-term borrowings and current portion of long-term debt	12	2,168	1,338
Taxes payable		1,437	2,501
Other current liabilities		3,231	1,923
Liabilities related to assets held for sale	11	275	-
Total current liabilities		14,212	13,097
Long-term debt	13, 17	11,361	9,483
Deferred income tax liabilities	14	2,778	4,724
Asset retirement obligations	8	1,573	2,764
Other long-term liabilities		524	516
Total liabilities		30,448	30,584
Equity	16		
OAo LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(5,189)	(5,189)
Equity-linked notes		(2,500)	(2,500)
Additional paid-in capital		4,524	4,574
Retained earnings		84,317	81,733
Accumulated other comprehensive loss		(37)	(55)
Total OAo LUKOIL stockholders' equity		81,130	78,578
Non-controlling interests		222	277
Total equity		81,352	78,855
Total liabilities and equity		111,800	109,439


 President of OAo LUKOIL
 Alekperov V.Y.


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

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

OAo LUKOIL
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2014, 2013 and 2012
(Millions of US dollars, unless otherwise noted)

	Note	2014	2013	2012
Revenues				
Sales (including excise and export tariffs)	22	144,167	141,452	139,171
Costs and other deductions				
Operating expenses		(10,115)	(10,086)	(9,359)
Cost of purchased crude oil, gas and products		(71,245)	(65,924)	(64,148)
Transportation expenses		(5,894)	(6,290)	(6,171)
Selling, general and administrative expenses		(3,858)	(3,849)	(3,755)
Depreciation, depletion and amortization		(8,816)	(5,756)	(4,832)
Taxes other than income taxes	14	(12,892)	(13,803)	(13,666)
Excise and export tariffs		(21,364)	(22,334)	(22,836)
Exploration expenses		(1,104)	(602)	(364)
(Loss) gain on disposals and impairments of assets		(1,753)	(2,561)	30
Income from operating activities		7,126	10,247	14,070
Interest expense		(637)	(488)	(538)
Interest and dividend income		275	239	257
Equity share in income of affiliates	7	552	575	518
Currency translation loss		(355)	(443)	(512)
Other non-operating (expense) income		(189)	328	(72)
Income before income taxes		6,772	10,458	13,723
Current income taxes		(2,876)	(2,051)	(2,738)
Deferred income taxes		818	(780)	(60)
Total income tax expense	14	(2,058)	(2,831)	(2,798)
Net income		4,714	7,627	10,925
Net loss attributable to non-controlling interests		32	205	79
Net income attributable to OAo LUKOIL		4,746	7,832	11,004
Earnings per share of common stock attributable to OAo LUKOIL (US dollars):	16			
Basic		6.29	10.38	14.47
Diluted		6.20	10.18	14.17
Other comprehensive income, net of tax:				
Defined benefit pension plan:				
Prior service cost arising during the period		8	8	-
Actuarial gain (loss)		10	6	(15)
Other comprehensive income (loss)		18	14	(15)
Comprehensive income		4,732	7,641	10,910
Comprehensive loss attributable to non-controlling interests		32	205	79
Comprehensive income attributable to OAo LUKOIL		4,764	7,846	10,989

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

OAo LUKOIL
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2014, 2013 and 2012
(Millions of US dollars, unless otherwise noted)

	2014		2013		2012	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
Common stock						
Balance as of January 1	15		15		15	
Balance as of December 31	15		15		15	
Treasury stock						
Balance as of January 1	(5,189)		(5,189)		(4,081)	
Stock purchased	-		-		(128)	
Equity-linked notes conversion	-		-		(980)	
Balance as of December 31	(5,189)		(5,189)		(5,189)	
Equity-linked notes						
Balance as of January 1	(2,500)		(2,500)		(980)	
Equity-linked notes purchased	-		-		(2,500)	
Equity-linked notes conversion	-		-		980	
Balance as of December 31	(2,500)		(2,500)		(2,500)	
Additional paid-in capital						
Balance as of January 1	4,574		4,734		4,798	
Effect of stock compensation plan	-		-		(197)	
Changes in non-controlling interests	(50)		(160)		133	
Balance as of December 31	4,524		4,574		4,734	
Retained earnings						
Balance as of January 1	81,733		76,216		67,940	
Net income	4,746	4,746	7,832	7,832	11,004	11,004
Dividends on common stock	(2,162)		(2,315)		(2,728)	
Balance as of December 31	84,317		81,733		76,216	
Accumulated other comprehensive loss, net of tax						
Balance as of January 1	(55)		(69)		(54)	
Pension benefits:						
Prior service cost	8	8	8	8	-	-
Actuarial gain (loss)	10	10	6	6	(15)	(15)
Balance as of December 31	(37)		(55)		(69)	
Total comprehensive income		4,764		7,846		10,989
Total OAo LUKOIL stockholders' equity as of December 31	81,130		78,578		73,207	
Non-controlling interests						
Balance as of January 1	277		981		(172)	
Net loss attributable to non-controlling interests	(32)		(205)		(79)	
Changes in non-controlling interests	(23)		(499)		1,232	
Balance as of December 31	222		277		981	
Total equity as of December 31	81,352		78,855		74,188	

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

OA O LUKOIL
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2014, 2013 and 2012
(Millions of US dollars, unless otherwise noted)

	Share activity		
	2014	2013	2012
	(thousands of shares)	(thousands of shares)	(thousands of shares)
Common stock, issued			
Balance as of January 1	850,563	850,563	850,563
Balance as of December 31	850,563	850,563	850,563
Treasury stock			
Balance as of January 1	(95,697)	(95,697)	(76,101)
Purchase of treasury stock	-	-	(2,096)
Equity-linked notes conversion	-	-	(17,500)
Balance as of December 31	(95,697)	(95,697)	(95,697)

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

OA O LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2014, 2013 and 2012
(Millions of US dollars)

	Note	2014	2013	2012
Cash flows from operating activities				
Net income attributable to OA O LUKOIL		4,746	7,832	11,004
Adjustments for non-cash items:				
Depreciation, depletion and amortization		8,816	5,756	4,832
Equity share in income of affiliates, net of dividends received		(214)	(20)	102
Dry hole write-offs		794	314	127
Loss (gain) on disposals and impairments of assets		1,753	2,561	(30)
Change in net deferred income tax liability		(2,130)	600	171
Non-cash currency translation (gain) loss		(31)	128	68
Non-cash investing activities		(25)	(5)	(18)
All other items – net		(640)	58	211
Changes in operating assets and liabilities:				
Trade accounts receivable		(1,321)	816	641
Inventories		2,702	(1,105)	(126)
Accounts payable		(731)	(78)	1,057
Taxes payable		(1,020)	(313)	468
Other current assets and liabilities		2,869	(95)	490
Net cash provided by operating activities		15,568	16,449	18,997
Cash flows from investing activities				
Acquisition of licenses		(98)	(849)	(921)
Capital expenditures		(14,545)	(14,957)	(11,647)
Proceeds from sale of property, plant and equipment		63	99	412
Purchases of investments		(403)	(559)	(453)
Proceeds from sale of investments		159	315	252
Sale of subsidiaries and equity method affiliates, net of cash disposed		132	97	27
Acquisitions of subsidiaries and equity method affiliates, net of cash acquired		49	(2,785)	(886)
Net cash used in investing activities		(14,643)	(18,639)	(13,216)
Cash flows from financing activities				
Net movements of short-term borrowings		282	25	(32)
Proceeds from issuance of long-term debt		3,940	5,049	597
Principal repayments of long-term debt		(1,698)	(949)	(1,831)
Dividends paid on Company common stock		(1,357)	(2,383)	(2,800)
Dividends paid to non-controlling interest stockholders		(80)	(126)	(113)
Financing received from non-controlling interest stockholders		2	2	2
Purchases of Company's stock		-	-	(128)
Purchases of equity-linked notes		-	-	(740)
Purchases of non-controlling interest		(29)	(589)	(635)
Net cash provided by (used in) financing activities		1,060	1,029	(5,680)
Effect of exchange rate changes on cash and cash equivalents		(293)	(41)	60
Cash included in "Assets held for sale"	11	(400)	-	-
Net increase (decrease) in cash and cash equivalents		1,292	(1,202)	161
Cash and cash equivalents at beginning of year		1,712	2,914	2,753
Cash and cash equivalents at end of year	3	3,004	1,712	2,914
Supplemental disclosures of cash flow information				
Interest paid		565	405	497
Income taxes paid		2,300	2,452	1,585

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

Note 1. Organization and environment

The primary activities of OA O 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 November 17, 1992. Under this decree, on April 5, 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 September 1, 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.

Business and economic environment

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

Basis of preparation

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Note 2. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of the Company, controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless non-controlling stockholders have substantive participating rights, and variable interest entities where the Group is determined to be the primary beneficiary. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in companies of which the Company directly or indirectly owns more than 50% of the voting interest but where non-controlling stockholders have substantive participating rights are also accounted for using the equity method of accounting. Undivided interests in oil and gas joint ventures are accounted for using the proportionate consolidation method. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in “Investments” in the consolidated balance sheet.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties and other property, plant and equipment, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Note 2. Summary of significant accounting policies (continued)

Revenues

Revenues are recognized when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenues from non-cash sales are recognized at the fair value of the crude oil and petroleum products sold.

Foreign currency translation

The Company maintains its accounting records in Russian rubles. The Company's functional currency is the US dollar and the Group's reporting currency is the US dollar.

For the majority of operations in the Russian Federation and outside the Russian Federation, the US dollar is the functional currency. Where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in profit or loss.

For certain other operations, where the US dollar is not the functional currency and the economy is not highly inflationary, assets and liabilities are translated into US dollars at period-end exchange rates and revenues and expenses are translated at average exchange rates for the period. Resulting translation adjustments are reflected as a separate component of other comprehensive income.

In all cases, foreign currency transaction gains and losses are included in profit or loss.

As of December 31, 2014, 2013 and 2012, exchange rates of 56.26, 32.73 and 30.37 Russian rubles to the US dollar, respectively, have been used for translation purposes.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

Accounts receivable

Accounts receivable are recorded at their transaction amounts less provisions for doubtful debts. Provisions for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be collected. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

Inventories

The cost of finished goods and purchased products is determined using the first-in, first-out cost method (FIFO). The cost of all other inventory categories is determined using the "average cost" method.

Note 2. Summary of significant accounting policies (continued)

Investments

Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity.

Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities in which a Group company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in profit or loss. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividends and interest income are recognized in profit or loss when earned.

A permanent decline in the market value of any available-for-sale or held-to-maturity security below cost is accounted for as a reduction in the carrying amount to fair value. The impairment is charged to profit or loss and a new cost base for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method and such amortization and accretion is recorded in profit or loss.

Property, plant and equipment

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes and the Group's share of operators' expenses during the development stage of production sharing and risk service contracts), and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

The Group continues to capitalize costs of exploratory wells and exploratory-type stratigraphic wells after the completion of drilling if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress towards assessing the reserves and the economic and operating viability of the project. If these conditions are not met or if information that raises substantial doubt about the economic or operational viability of the project is obtained, the well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense.

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Depreciation, depletion and amortization of the capitalized costs of risk service contract oil and gas properties is calculated using a depletion factor calculated as the ratio of value of the applicable crude oil production for the period to the total capitalized costs to be recovered.

Depreciation of assets not directly associated with oil production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	5 – 20 years

Production and related overhead costs are expensed as incurred.

Note 2. Summary of significant accounting policies (continued)

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalized only to the extent that they are expected to result in future economic benefits to the Group. If capitalized, they are depreciated over their estimated economic lives.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

Asset retirement obligations

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the unit-of-production method.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquired entity over the fair value of net assets acquired. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires assessing qualitative factors and then, if it is necessary, estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Impairment of long-lived assets

Long-lived assets, such as oil and gas properties (other than unproved properties), other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Income taxes

Deferred income tax assets and liabilities are recognized in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in profit or loss in the reporting period which includes the enactment date.

Note 2. Summary of significant accounting policies (continued)

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to income tax in income tax expense.

Interest-bearing borrowings

Interest-bearing borrowings from third parties (except convertible notes) are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in profit or loss and the carrying amounts are adjusted as amortization accumulates.

For borrowings from related parties (except convertible notes) issued with an interest rate lower than the market interest rate, the Group determines book value using a market interest rate at the moment the borrowing is made. The resulting difference is allocated to additional paid-in capital and is amortized at a constant rate over the term of the borrowings. Amortization is included in profit or loss each period and the carrying amounts are adjusted as amortization accumulates.

For convertible notes issued with a cash conversion option, the Group allocates the proceeds from issuance between a liability component and an equity component. The Group records the equity component at an amount equal to the difference between the proceeds received and the fair value of the liability component, measured as the fair value of a similar liability that does not have an associated equity component. The Group recognizes the interest cost in subsequent periods at its borrowing rate for non-convertible debt.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in profit or loss in the period in which the repurchase or settlement occurs.

Pension benefits

The expected costs in respect of pension obligations of Group companies are determined by management based on the amount of pension obligations for the previous financial year calculated by an independent actuary. Obligations in respect of each employee are accrued over the periods during which the employee renders service in the Group.

Treasury stock

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Shares shown as Authorized and Issued include treasury stock. Shares shown as Outstanding do not include treasury stock.

Earnings per share

Basic earnings per share is computed by dividing net income available for distribution to common stockholders of the Company by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share is presented.

Note 2. Summary of significant accounting policies (continued)

Contingencies

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

If a Group company's assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to profit or loss. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be reasonably estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote or related to unasserted claims are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

Use of derivative instruments

The Group's derivative activity is limited to certain petroleum products' marketing and trading operations and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in profit or loss on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

Comparative amounts

Certain prior period amounts have been reclassified to conform with the current period's presentation.

Changes in accounting policy

In April 2014, the FASB issued ASU No. 2014-08, "*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360). Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*," which changes the requirements for reporting discontinued operations in Subtopic 205-20. This ASU defines that only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. ASU No. 2014-08 is effective for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods but early adoption is permitted. The Group adopted the requirements of ASU No. 2014-08 starting from the first quarter of 2014. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Note 2. Summary of significant accounting policies (continued)

In July 2013, the FASB issued ASU No. 2013-11, “*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*,” which clarifies Topic 740 of the Codification. This ASU states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Group adopted the requirements of ASU No. 2013-11 starting from the first quarter of 2014. This adoption did not have a material impact on the Group’s results of operations, financial position or cash flows and did not require additional disclosures.

In March 2013, the FASB issued ASU No. 2013-05, “*Foreign Currency Matters (Topic 830)*,” that requires entities to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity ceases to have financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon occurrence of those events. ASU No. 2013-05 is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods. The Group adopted the requirements of ASU No. 2013-05 starting from the first quarter of 2014. This adoption did not have a material impact on the Group’s results of operations, financial position or cash flows.

Recent accounting pronouncements

In June 2014, the FASB issued ASU No. 2014-12, “*Compensation – Stock Compensation (Topic 718)*,” that clarifies issues regarding accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Entities should apply Topic 718 to awards with performance conditions that affect vesting. ASU No. 2014-12 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods and can be applied prospectively or retrospectively. The Group is evaluating the effect of the adoption of ASU No. 2014-12 on its results of operations, financial position and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*,” that introduces new principles of revenue recognition and will replace the existing guidance. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Group is evaluating the effect of the adoption of ASU No. 2014-09 and has not yet selected a transition method.

Note 3. Cash and cash equivalents

	As of December 31, 2014	As of December 31, 2013
Cash held in Russian rubles	993	260
Cash held in US dollars	1,344	1,120
Cash held in other currencies	333	241
Cash held in related party banks in Russian rubles	311	78
Cash held in related party banks in other currencies	23	13
Total cash and cash equivalents	3,004	1,712

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Notes to Consolidated Financial Statements
(Millions of US dollars, unless otherwise noted)

Note 4. Non-cash transactions

The consolidated statement of cash flows excludes the effect of non-cash transactions, which are described in the following table:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Non-cash investing activity	25	5	18
Total non-cash transactions	25	5	18

The following table shows the effect of non-cash transactions on investing activity:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net cash used in investing activity	14,643	18,639	13,216
Non-cash investing activity	25	5	18
Total investing activity	14,668	18,644	13,234

Note 5. Accounts receivable, net

	As of December 31, 2014	As of December 31, 2013
Trade accounts receivable (net of provisions of \$215 million and \$217 million as of December 31, 2014 and 2013, respectively)	7,004	6,030
Current VAT and excise recoverable	778	1,518
Other current accounts receivable (net of provisions of \$36 million and \$53 million as of December 31, 2014 and 2013, respectively)	1,431	395
Total accounts receivable, net	9,213	7,943

Note 6. Inventories

	As of December 31, 2014	As of December 31, 2013
Crude oil and petroleum products	5,220	7,461
Materials for extraction and drilling	306	411
Materials and supplies for refining	77	110
Other goods, materials and supplies	551	819
Total inventories	6,154	8,801

Note 7. Investments

	As of December 31, 2014	As of December 31, 2013
Investments in equity method affiliates and joint ventures	3,297	2,872
Long-term loans to equity method affiliates and joint ventures	1,494	1,369
Other long-term investments	17	14
Total long-term investments	4,808	4,255

Investments in equity method affiliates and corporate joint ventures

The summarized financial information below is in respect of equity method affiliates and corporate joint ventures. The companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan, and refining operations in Europe.

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Notes to Consolidated Financial Statements
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Note 7. Investments (continued)

	Year ended December 31, 2014		Year ended December 31, 2013		Year ended December 31, 2012	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	26,498	2,458	29,821	3,011	29,618	4,160
Income before income taxes	13,930	842	13,572	848	13,617	945
Less income taxes	(5,476)	(290)	(4,414)	(273)	(5,387)	(427)
Net income	8,454	552	9,158	575	8,230	518

	As of December 31, 2014		As of December 31, 2013	
	Total	Group's share	Total	Group's share
Current assets	6,001	863	6,352	924
Property, plant and equipment	24,206	4,494	21,105	4,260
Other non-current assets	522	139	572	169
Total assets	30,729	5,496	28,029	5,353
Short-term debt	426	233	1,241	334
Other current liabilities	2,529	345	3,525	454
Long-term debt	9,424	1,433	7,949	1,409
Other non-current liabilities	730	188	1,574	284
Net assets	17,620	3,297	13,740	2,872

Note 8. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of December 31, 2014	As of December 31, 2013	As of December 31, 2014	As of December 31, 2013
Exploration and Production:				
Russia	77,661	72,944	50,505	47,957
International	12,648	12,770	8,102	10,052
Total	90,309	85,714	58,607	58,009
Refining, Marketing, Distribution and Chemicals:				
Russia	17,859	14,684	11,001	8,631
International	10,840	10,577	7,406	7,274
Total	28,699	25,261	18,407	15,905
Power generation and other:				
Russia	5,892	5,655	4,162	4,285
International	457	411	291	267
Total	6,349	6,066	4,453	4,552
Total property, plant and equipment	125,357	117,041	81,467	78,466

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually. The fair value of tested assets is determined using the present value of the expected cash flows. Fair value measurements models used in the impairment tests were Level 3 (unobservable inputs) fair value measurements.

As a result of the test, during the year ended December 31, 2014, the Company recognized an impairment loss for its exploration and production assets in Russia in the amount of \$900 million, including \$761 million related to the Tsentralno-Astrakhanskoe gas-condensate field in the European part of Russia. An impairment loss of \$197 million relates to its international exploration and production assets. These losses were recognized due to adverse changes in the economic environment and the sharp decrease in oil prices. An impairment loss of \$114 million was recognized in the refining, marketing and distribution segment due to changes in the economic environment.

Note 8. Property, plant and equipment and asset retirement obligations (continued)

As a result of the test, during the year ended December 31, 2013, the Company recognized an impairment loss for its exploration and production assets in the amount of \$941 million, including \$510 million related to the Yuzhnoye Khylychuyu oil field in the Timan-Pechora region of the Russian Federation, due to a revision of geological models. An impairment loss of \$178 million was recognized in the refining, marketing and distribution segment due to unfavorable market conditions. The Company recognized an impairment loss for assets of OOO Karpatnaftochim, a petrochemical plant in Ukraine, in the amount of \$411 million due to unfavorable economic conditions. The Company also recognized an impairment loss for assets of OOO LUKOIL-Ecoenergo, a power generating company in European Russia, in the amount of \$270 million due to unfavorable market conditions in the energy sector in Southern Russia.

The following table sets out values of property, plant and equipment measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

	Fair value	Level 3 fair value measurements	Before-tax loss
Year ended December 31, 2014			
Property, plant and equipment	133	133	1,211
Year ended December 31, 2013			
Property, plant and equipment	374	374	1,800
Year ended December 31, 2012			
Property, plant and equipment	-	-	-

As of December 31, 2014 and 2013, the asset retirement obligations amounted to \$1,579 million and \$2,769 million of which \$6 million and \$5 million were included in "Other current liabilities" in the consolidated balance sheets.

During 2014 and 2013, asset retirement obligations changed as follows:

	2014	2013
Asset retirement obligations as of January 1	2,769	2,200
Accretion expense	228	181
New obligations	53	814
Changes in estimates of existing obligations	(353)	(270)
Spending on existing obligations	(11)	(4)
Property dispositions	(5)	(2)
Foreign currency translation and other adjustments	(1,102)	(150)
Asset retirement obligations as of December 31	1,579	2,769

The asset retirement obligations incurred during 2014 and 2013 were Level 3 (unobservable inputs) fair value measurements.

Note 9. Suspended wells

Net changes in capitalized exploratory suspended well costs during 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Balance as of January 1	470	524	542
Additions pending the determination of proved reserves	12	62	25
Charged to expenses	(404)	(92)	-
Reclassification to proved properties	(12)	(24)	(43)
Balance as of December 31	66	470	524

Note 10. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2014 and 2013 was as follows:

	As of December 31, 2014	As of December 31, 2013
Amortized intangible assets		
Software	332	382
Licenses and other assets	257	311
Goodwill	604	607
Total goodwill and other intangible assets	1,193	1,300

All goodwill relates to the refining, marketing and distribution segment. In 2014, as a result of finalization of valuation process the Group recognized goodwill of \$16 million related to distribution companies acquired in 2013. The value of goodwill was based on the value of assets determined by the independent appraiser. As result of an increase of political and economic instability in Ukraine during 2014, the Group recognized an impairment loss of \$19 million with respect to goodwill relating to LUKOIL Ukraine, a distribution company operating in Ukraine.

Note 11. Assets held for sale

On April 15, 2014, a Group company entered into a contract with a Sinopec group company, to sell for \$1.2 billion the Group's 50% interest in Caspian Investment Resources Ltd., an exploration and production company operating in Kazakhstan. As of December 31, 2014, the Group has classified the associated assets and liabilities as "held for sale" in the consolidated balance sheet. "Assets held for sale" include property, plant and equipment of \$1,137 million, cash and cash equivalents of \$398 million, other current assets of \$181 million and other non-current assets of \$36 million. "Liabilities related to assets held for sale" include current liabilities of \$90 million and non-current liabilities of \$176 million, consisting primarily of long-term debt and accounts payable, directly related to and to be transferred with the assets held for sale. As of December 31, 2014, the Group recognized an impairment loss related to assets held for sale amounting to \$358 million. Assets and liabilities held for sale relate to the exploration and production segment. Subsequent to December 31, 2014, Sinopec group company failed to close the sale and purchase under the contract, arguing that the conditions precedent had not been satisfied by the agreed longstop date of January 15, 2015. The Group contends that those conditions precedent were satisfied prior to the longstop date. On February 9, 2015, the Group company commenced arbitration proceedings in London against Sinopec group companies seeking damages. The quantum of that claim remains to be determined.

Note 12. Short-term borrowings and current portion of long-term debt

	As of December 31, 2014	As of December 31, 2013
Short-term borrowings from third parties	323	124
Short-term borrowings from related parties	84	32
Current portion of long-term debt	1,761	1,182
Total short-term borrowings and current portion of long-term debt	2,168	1,338

Short-term borrowings from third parties include amounts repayable in US dollars of \$230 million and \$66 million and amounts repayable in other currencies of \$93 million and \$58 million as of December 31, 2014 and 2013, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.44% and 4.71% per annum as of December 31, 2014 and 2013, respectively. Approximately 56% of total short-term borrowings from third parties are secured by inventories.

Note 13. Long-term debt

	As of December 31, 2014	As of December 31, 2013
Long-term loans and borrowings from third parties (including loans from banks in the amount of \$5,897 million and \$2,660 million as of December 31, 2014 and 2013, respectively)	5,898	2,662
6.375% non-convertible US dollar bonds, maturing 2014	-	899
2.625% convertible US dollar bonds, maturing 2015	1,488	1,462
6.356% non-convertible US dollar bonds, maturing 2017	500	500
3.416% non-convertible US dollar bonds, maturing 2018	1,500	1,500
7.250% non-convertible US dollar bonds, maturing 2019	597	597
6.125% non-convertible US dollar bonds, maturing 2020	998	998
6.656% non-convertible US dollar bonds, maturing 2022	500	500
4.563% non-convertible US dollar bonds, maturing 2023	1,500	1,500
Capital lease obligations	141	47
Total long-term debt	13,122	10,665
Current portion of long-term debt	(1,761)	(1,182)
Total non-current portion of long-term debt	11,361	9,483

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of \$4,121 million and \$2,121 million, amounts repayable in euros of \$640 million and \$521 million, amounts repayable in Russian rubles of \$1,121 million and \$1 million and amounts repayable in other currencies of \$16 million and \$19 million as of December 31, 2014 and 2013, respectively. This debt has maturity dates from 2015 through 2024. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.65% and 2.94% per annum as of December 31, 2014 and 2013, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 8% of total long-term loans and borrowings from third parties are secured by export sales and property, plant and equipment.

The Company has an unsecured loan agreement with Sberbank with an outstanding amount of \$1,500 million as of December 31, 2014, maturing in 2018. Borrowings under this agreement bear interest at twelve month LIBOR plus 2.50% per annum.

The Company has an unsecured loan agreement with Sberbank denominated in Russian rubles with an outstanding amount of RUB 63 billion (\$1,120 million) as of December 31, 2014, maturing in 2017. Borrowings under this agreement bear interest at 12.66% per annum as of December 31, 2014.

A Group company has an unsecured loan agreement with Citibank and J.P. Morgan Limited with an outstanding amount of \$1,000 million as of December 31, 2014, maturing in 2017. Borrowings under this agreement bear interest at three month LIBOR plus 1.75% per annum.

The Group company has an unsecured loan agreement with ING Bank, a branch of ING-DIBA AG, Societe Generale, UniCredit Bank Austria AG, UniCredit S.p.A. and BNP Paribas Fortis SA/NV with an outstanding amount of \$511 million as of December 31, 2014, maturing up to 2023. Borrowings under this agreement bear interest at six month EURIBOR plus 2.50% per annum.

The Company has an unsecured loan agreement with Sberbank with an outstanding amount of \$500 million as of December 31, 2014, maturing in 2021. Borrowings under this agreement bear interest at twelve month LIBOR plus 2.75% per annum.

The Company has an unsecured loan agreement with Promsvyazbank with an outstanding amount of \$300 million as of December 31, 2014, maturing in 2019. Borrowings under this agreement bear interest at three month LIBOR plus 2.75% per annum.

Note 13. Long-term debt (continued)

The Company has an unsecured loan agreement with UniCredit bank with an outstanding amount of \$300 million as of December 31, 2014, maturing in 2019. Borrowings under this agreement bear interest at three month LIBOR plus 2.90% per annum.

A Group company has a secured loan agreement with Asian Development bank, BNP Paribas (Suisse), Credit Agricole Corporate and Investment bank, the Korea Development bank and Islamic Development bank with an outstanding amount of \$200 million as of December 31, 2014, maturing up to 2017. Borrowings under this agreement, depending on the tranche, bear interest at a floating rate of three month LIBOR plus 3.00%, three month LIBOR plus 4.50% or a fixed rate of 6.08% per annum.

A Group company has a secured loan agreement with the European Bank for Reconstruction and Development with an outstanding amount of \$180 million as of December 31, 2014, maturing up to 2019. Borrowings under this agreement bear interest at six month LIBOR plus 1.50% per annum.

As of December 31, 2014, the Group has a number of other loan agreements with a number of banks and other organizations totaling \$287 million, maturing up to 2024. The weighted average interest rate under these loans was 1.48% per annum.

US dollar convertible bonds

In December 2010, a Group company issued unsecured convertible bonds totaling \$1.5 billion with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds are convertible into LUKOIL ADRs (each representing one ordinary share of the Company) and as of December 31, 2014 had a conversion price of \$69.39 per ADR. Bondholders have the right to convert the bonds into LUKOIL ADRs during the period starting from 40 days after the issue date and ending 6 dealing days before the maturity date. The issuer has the right to redeem the bonds starting from December 31, 2013.

US dollar non-convertible bonds

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion. The first tranche totaling \$1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling \$1.5 billion. The first tranche totaling \$900 million with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling \$600 million with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In June 2007, a Group company issued non-convertible bonds totaling \$1 billion. \$500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

Note 13. Long-term debt (continued)

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are \$1,761 million in 2015, \$267 million in 2016, \$2,820 million in 2017, \$3,158 million in 2018, \$1,319 million in 2019 and \$3,797 million thereafter.

Note 14. Taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The total cost of taxation to the Group is reported in the consolidated statements of comprehensive income as “Total income tax expense” for income taxes, as “Excise and export tariffs” for excise taxes, export tariffs and petroleum products sales taxes and as “Taxes other than income taxes” for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

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.

As of January 1, 2014 and 2013, and during 2014, 2013 and 2012, the Group did not have any unrecognized tax benefits with respect to uncertain tax positions and thus, no interest and penalties related to unrecognized tax benefits were accrued.

The Company and its Russian subsidiaries file income tax returns in Russia. With a few exceptions, income tax returns in Russia are open to examination by the Russian tax authorities for tax years beginning in 2012. 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.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Domestic	8,294	11,387	12,458
Foreign	(1,522)	(929)	1,265
Income before income taxes	6,772	10,458	13,723

Domestic and foreign components of income taxes were:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Current			
Domestic	2,479	1,608	2,178
Foreign	397	443	560
Current income taxes	2,876	2,051	2,738
Deferred			
Domestic	(446)	804	131
Foreign	(372)	(24)	(71)
Deferred income taxes	(818)	780	60
Total income tax expense	2,058	2,831	2,798

Note 14. Taxes (continued)

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to income before income taxes to total income taxes:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Income before income taxes	6,772	10,458	13,723
Notional income tax at the Russian statutory rate	1,354	2,091	2,745
Increase (reduction) in income tax due to:			
Non-deductible items, net	1,567	900	227
Foreign rate differences	(60)	(67)	(60)
Domestic regional rate differences	(231)	(242)	(311)
Change in valuation allowance	(572)	149	197
Total income tax expense	2,058	2,831	2,798

Taxes other than income taxes were:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Mineral extraction tax	11,647	12,410	12,354
Social taxes and contributions	586	640	604
Property tax	502	571	535
Other taxes and contributions	157	182	173
Taxes other than income taxes	12,892	13,803	13,666

Deferred income taxes are included in the consolidated balance sheets as follows:

	As of December 31, 2014	As of December 31, 2013
Other current assets	77	71
Deferred income tax assets – non-current	725	684
Other current liabilities	(152)	(325)
Deferred income tax liabilities – non-current	(2,778)	(4,724)
Net deferred income tax liability	(2,128)	(4,294)

Note 14. Taxes (continued)

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

	As of December 31, 2014	As of December 31, 2013
Accounts receivable	5	4
Long-term liabilities	292	539
Inventories	32	9
Property, plant and equipment	268	311
Accounts payable	2	4
Long-term investments	7	-
Operating loss carry forwards	806	1,003
Other	90	128
Total gross deferred income tax assets	1,502	1,998
Less valuation allowance	(327)	(899)
Deferred income tax assets	1,175	1,099
Property, plant and equipment	(3,028)	(4,911)
Accounts payable	-	(24)
Accounts receivable	(2)	(5)
Long-term liabilities	(33)	(33)
Inventories	(61)	(107)
Investments	(38)	(53)
Other	(141)	(260)
Deferred income tax liabilities	(3,303)	(5,393)
Net deferred income tax liability	(2,128)	(4,294)

As of December 31, 2014, retained earnings of foreign subsidiaries included \$22,021 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be indefinitely invested. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

In accordance with Topic 830, “*Foreign currency matters*” of the Codification and Topic 740, “*Income Taxes*” of the Codification deferred tax assets and liabilities are not recognized for the changes in exchange rate effects resulting from the translation of transactions and balances from the Russian ruble to the US dollar using historical exchange rates. Also, in accordance with Topic 740 of the Codification, no deferred tax assets or liabilities are recognized for the effects of the related statutory indexation of property, plant and equipment.

Based upon the levels of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2014 and 2013.

As of December 31, 2014, the Group had operating loss carry forwards of \$3,742 million of which \$9 million expire during 2015, \$107 million expire during 2016, \$143 million expire during 2017, \$68 million expire during 2018, \$263 million expire during 2019, \$197 million expire during 2020, \$49 million expire during 2021, \$5 million expire during 2037 and \$2,901 million have an indefinite carry forward.

Note 15. Pension benefits

The Group sponsors a postretirement defined benefit pension program that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on the salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payoffs are managed by a non-state pension fund, LUKOIL-GARANT. The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2014 and 2013.

The following table provides information about the benefit obligations and plan assets as of December 31, 2014 and 2013. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2014	2013
Benefit obligations		
Benefit obligations as of January 1	294	294
Effect of exchange rate changes	(119)	(21)
Service cost	15	18
Interest cost	18	21
Plan amendments	2	5
Actuarial loss	(15)	(12)
Benefits paid	(33)	(40)
Curtailment gain	(2)	(3)
Other	-	32
Benefit obligations as of December 31	160	294
Plan assets		
Fair value of plan assets as of January 1	120	120
Effect of exchange rate changes	(54)	(9)
Return on plan assets	6	6
Employer contributions	40	43
Benefits paid	(33)	(40)
Fair value of plan assets as of December 31	79	120
Funded status	(81)	(174)
Amounts recognized in the consolidated balance sheet as of December 31, 2014 and 2013		
Accrued benefit liabilities included in "Other long-term liabilities"	(70)	(157)
Accrued benefit liabilities included in "Other current liabilities"	(11)	(17)

Weighted average assumptions used to determine benefit obligations as of December 31, 2014 and 2013:

	2014	2013
Discount rate	13.00%	7.70%
Rate of compensation increase	9.65%	7.12%

Note 15. Pension benefits (continued)

Weighted average assumptions used to determine net periodic benefit costs for the year ended December 31, 2014 and 2013:

	2014	2013
Discount rate	7.70%	7.10%
Rate of compensation increase	7.12%	7.10%
Expected rate of return on plan assets	7.70%	8.14%

Included in accumulated other comprehensive loss as of December 31, 2014 and 2013, are the following after-tax amounts that have not yet been recognized in net periodic benefit cost:

	2014	2013
Prior service cost	43	51
Net loss	5	15
Total costs	48	66

Amounts recognized in other comprehensive loss during the years ended December 31, 2014 and 2013:

	2014	2013
Additional gain arising during the period	(10)	(6)
Additional prior service cost from plan amendment	2	4
Re-classified prior service cost amortization	(10)	(12)
Net amount recognized for the period	(18)	(14)

The real returns on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

In addition to the plan assets, LUKOIL-GARANT holds assets in the form of an insurance reserve. The purpose of this insurance reserve is to satisfy pension obligations should the plan assets not be sufficient to meet pension obligations. The Group's contributions to the pension plan are determined without considering the assets in the insurance reserve.

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients was as follows:

Type of assets	As of December 31, 2014	As of December 31, 2013
Eurobonds	7%	7%
Russian corporate bonds	66%	25%
Bank deposits	9%	54%
Shares in investment funds	8%	12%
Cash	9%	1%
Other assets	1%	1%
	100%	100%

Note 15. Pension benefits (continued)

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing the principal amount invested. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of investments: bank deposits and securities with fixed yield. The securities with fixed yield include mainly high yield corporate bonds with low and medium risk ratings. Maturities range from one to three years.

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Service cost	15	18	14
Interest cost	18	21	19
Less expected return on plan assets	(8)	(9)	(9)
Amortization of prior service cost	13	15	13
Curtailment gain	(2)	(2)	-
Total net periodic benefit cost	36	43	37

Total employer contributions for 2015 are expected to be \$25 million. An amount of \$9 million before-tax is included in other comprehensive income and expected to be recognized in the net periodic benefit cost in 2015.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2015	2016	2017	2018	2019	5-year period 2015 – 2019	5-year period 2020 – 2024
Pension benefits	14	10	10	10	10	54	43
Other long-term employee benefits	11	8	8	7	8	42	30
Total expected benefits to be paid	25	18	18	17	18	96	73

Note 16. Stockholders' equity

Common stock

	As of December 31, 2014 (thousands of shares)	As of December 31, 2013 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Treasury stock	(95,697)	(95,697)
Outstanding common stock	754,866	754,866

Dividends and dividend limitations

Profits available for distribution to common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the net profits of the reporting year as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

Note 16. Stockholders' equity (continued)

The Company's net profits were 371,857 million Russian rubles, 209,871 million Russian rubles and 217,807 million Russian rubles respectively for 2014, 2013 and 2012, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2014, 2013 and 2012, amounted to \$6,610 million, \$6,412 million and \$7,171 million, respectively.

At the extraordinary stockholders' meeting on December 12, 2014, interim dividends for 2014 were declared in the amount of 60.00 RUB per common share, which at the date of the meeting was equivalent to \$1.10. Dividends payable of \$733 million and \$10 million are included in "Other current liabilities" in the consolidated balance sheets as of December 31, 2014 and 2013, respectively.

Total dividends for 2013 including interim dividends were declared in the amount of 110.00 Russian rubles per common share, which was equivalent to \$3.32. Total dividends for 2012 including interim dividends were declared in the amount of 90.00 Russian rubles per common share, which was equivalent to \$2.82.

Earnings per share

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

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net income	4,746	7,832	11,004
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	66	65	64
Total diluted net income	4,812	7,897	11,068
Weighted average number of outstanding common shares (thousands of shares)	754,866	754,866	760,588
Add back treasury shares held in respect of convertible debt (thousands of shares)	21,617	21,189	20,509
Weighted average number of outstanding common shares, assuming dilution (thousands of shares)	776,483	776,055	781,097
Earnings per share of common stock attributable to OAo LUKOIL (US dollars):			
Basic	6.29	10.38	14.47
Diluted	6.20	10.18	14.17

Note 17. Financial and derivative instruments

Fair value

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 financial statements. 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 debt differs from the carrying amount in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2014 and 2013 was \$11,259 million and \$11,170 million, respectively. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. The fair value of bonds (Level 1) was determined based on market quotations as of December 31, 2014 and 2013, respectively.

Note 17. Financial and derivative instruments (continued)

During the year ended December 31, 2014, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Derivative instruments

The Group uses financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices, or to exploit market opportunities. Since the Group is not currently using hedge accounting, defined by Topic 815, “*Derivative and hedging*,” of the Codification, all gains and losses, realized or unrealized, from derivative contracts have been recognized in profit or loss.

Topic 815 of the Codification requires purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) to be recorded on the balance sheet as derivatives unless the contracts are for quantities the Group expects to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). The Group does apply the normal purchases and normal sales exception to certain long-term contracts to sell oil products. This normal purchases and normal sales exception is applied to eligible crude oil and refined product commodity purchase and sales contracts. However, the Group may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of a purchase or sales contract but hedge accounting will not be applied; in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

The fair value hierarchy for the Group’s derivative assets and liabilities accounted for at fair value on a recurring basis was:

	As of December 31, 2014				As of December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Commodity derivatives	-	7,688	-	7,688	-	645	-	645
Total assets	-	7,688	-	7,688	-	645	-	645
Liabilities								
Commodity derivatives	-	(6,688)	-	(6,688)	-	(761)	-	(761)
Total liabilities	-	(6,688)	-	(6,688)	-	(761)	-	(761)
Net assets (liabilities)	-	1,000	-	1,000	-	(116)	-	(116)

The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by Topic 820, “*Fair Value Measurements and Disclosures*,” of the Codification. Therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

Commodity derivatives are valued using quotations provided by brokers and price index developers. These quotes are corroborated with market data and are classified as Level 2 fair value measurements. Commodity derivatives are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures.

Note 17. Financial and derivative instruments (continued)

Commodity derivative contracts

The Group operates in the worldwide crude oil, refined product, natural gas and natural gas liquids markets and is exposed to fluctuations in the prices for these commodities. These fluctuations can affect the Group's revenues as well as the cost of operating, investing and financing activities. Generally, the Group's policy is to remain exposed to the market prices of commodities. However, the Group uses futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do an immaterial amount of trading not directly related to the Group's physical business. These activities may move the Group's profile away from market average prices.

The fair value of commodity derivative assets and liabilities was:

	As of December 31, 2014	As of December 31, 2013
Assets		
Accounts receivable	7,688	645
Liabilities		
Accounts payable	(6,688)	(761)

Hedge accounting has not been used for items in the table.

As required under Topic 815 of the Codification the amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist). Derivative assets and liabilities resulting from eligible commodity contracts have been netted in the consolidated balance sheet and are recorded as accounts receivable in the amount of \$1,046 million and accounts payable in the amount of \$46 million.

Financial results from commodity derivatives were included in the consolidated statements of comprehensive income in "Cost of purchased crude oil, gas and products" and during the year ended December 31, 2014 and 2013 amounted to net gain of \$1,892 million (of which realized gain was \$729 million and unrealized gain was \$1,163 million) and net loss of \$200 million (of which realized loss was \$132 million and unrealized loss was \$68 million), respectively.

For each Group trading company there is a limit (being a combination of quantity and value-at-risk) to the amount of unhedged fixed-price commodity positions permissible. The Group's net commodity position is reviewed daily.

Financial and commodity-based derivative contracts are subject to fluctuations in value. These fluctuations are generally offset by the value of the underlying exposures being hedged. Future changes in the market values of certain financial instruments may result in off-balance-sheet risk in excess of the amounts currently recognized in the consolidated balance sheets.

Currency exchange rate derivative contracts

The Group has foreign currency exchange rate risk resulting from its international operations. The Group does not comprehensively hedge the exposure to currency rate changes, although the Group selectively hedges certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivatives assets and liabilities open as of December 31, 2014 was not significant.

The impact from foreign currency derivatives during the year ended December 31, 2014 on the consolidated statement of comprehensive income was not significant. The net position of outstanding foreign currency swap contracts as of December 31, 2014 also was not significant.

Note 17. Financial and derivative instruments (continued)

Credit risk

The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter derivative contracts and trade receivables. Cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the IntercontinentalExchange (ICE Futures).

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group's credit rating falls below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit the Group to post letters of credit as collateral.

There were no derivative instruments with such credit-risk-related contingent features that were in a liability position as of December 31, 2014. The Group posted \$1 million in collateral in the normal course of business for the over-the-counter derivatives. If the Group's credit rating was lowered by one level from its "BBB-" rating (per Standard and Poors) as of December 31, 2014, and it would be below investment grade, the Group would be required to post additional collateral of \$8 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be \$20 million in total.

Note 18. Business combinations

In December 2013, after approval by European regulatory authorities, the Group acquired the remaining 20% interest in the joint venture which operates the ISAB refining complex (Priolo, Italy) for €446 million (approximately \$613 million) after final adjustments increasing its stake in the joint venture from 80% to 100%. This transaction was exercised in line with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor – ERG S.p.A. a step-by-step put option to sell its share in the joint venture to the Group. The Group obtained control over the ISAB in September 2012, when within this agreement it acquired a 20% interest in the joint venture for €494 million (approximately \$621 million) and increased its stake to 80%.

In April 2013, after approval by the Federal Anti-monopoly Service, in line with the strategy to increase crude oil production in Russia the Company purchased 100% of the shares of ZAO Samara-Nafta for \$2.1 billion after final adjustments. ZAO Samara-Nafta is an exploration and production company operating in the Samara and Uljanovsk regions of the Russian Federation. The Group allocated \$2,384 million to property, plant and equipment, \$183 million to current assets, \$311 million to deferred tax liability and \$142 million to current liabilities. The value of property, plant and equipment was determined by an independent appraiser.

In April-May 2013, Group companies acquired the remaining 50% of the shares of ZAO Kama-oil for \$400 million increasing the Group's ownership up to 100%. As a result of this acquisition the Group obtained control and consolidated ZAO Kama-oil, an exploration and production company operating in the Perm region of the Russian Federation.

Note 19. Commitments and contingencies

Capital expenditure, exploration and investment programs

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain obligations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

In February 2013, the Group started to construct a vacuum gasoil refinery complex at OOO LUKOIL-Volgogradneftepererabotka. Completion is expected at the end of 2015. As of December 31, 2014, the amount of capital commitment related to this construction is evaluated as \$437 million.

In 2012, a construction agreement for a heavy-residue hydrocracking complex at LUKOIL Neftochim Bourgas AD in Bulgaria was signed. Commissioning of the complex is expected in 2015. As of December 31, 2014, the amount of capital commitment related to this construction is evaluated as \$52 million.

Group companies have commitments for capital expenditure contributions in the amount of \$253 million related to various production sharing agreements over the next 23 years.

The Company has signed a three-year agreement for the years 2013-2015 for drilling services with EDC Group Advisory Company Limited. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2014, the amount of capital commitment under this agreement for 2015 is evaluated as \$861 million.

The Company has signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2014, the amount of capital commitment under this agreement for 2015 is evaluated as \$44 million.

The Group has signed a number of agreements for construction of offshore platforms in the Caspian region. As of December 31, 2014, the amount of this capital commitment is evaluated as \$564 million.

Operating lease obligations

Group companies have commitments of \$374 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were \$286 million, \$295 million and \$218 million during the years ended December 31, 2014, 2013 and 2012, respectively. Commitments for minimum rentals under these leases as of December 31, 2014 are as follows:

	As of December 31, 2014
2015	146
2016	61
2017	46
2018	38
2019	33
beyond	50

Note 19. Commitments and contingencies (continued)

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor entities have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are recognized in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalized (only to the extent that they are expected to result in future economic benefits to the Group) or expensed as incurred.

Taxation environment

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

Note 19. Commitments and contingencies (continued)

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

Litigation and claims

On November 27, 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 and punitive damages of \$3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. However, on November 21, 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 October 20, 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. On August 23, 2012, the Colorado Court of Appeals affirmed this decision. On July 1, 2013, the Colorado Supreme Court denied ADC’s Petition for Writ of Certiorari. The case in the state court is therefore over.

On January 6, 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 December 18, 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 and the case is now pending in the US Court of Appeals for the Tenth Circuit. 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 condition.

In 2011, the Prahova Police Inspectorate (Fraud Investigation Unit), Romania, initiated an investigation of several Romanian third parties (individuals and companies) in connection with alleged tax evasion and money laundering. The investigation was later extended to PETROTEL-LUKOIL S.A., a Group company. In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter – the “Prosecutor’s office”) issued an order on initiation of criminal proceedings against PETROTEL-LUKOIL S.A. refinery and its general director based on alleged tax evasion and money laundering. In September 2014, criminal proceedings were initiated against two other Group companies, LUKOIL LUBRICANTS EAST EUROPE S.R.L. and LUKOIL ENERGY & GAS ROMANIA S.R.L., for aiding and abetting tax evasion and money laundering. At the same time the Prosecutor’s office has brought charges against PETROTEL-LUKOIL S.A. and its general director for tax evasion and money laundering. The amount of the claim is approximately €230 million. The following precautionary measures were adopted against the refinery: arrest of strategic inventory, fixed assets and money on accounts. The general director is subject to the undertaking not to leave the place. At the moment preliminary investigation of the criminal case is being conducted. According to preliminary estimate this investigation will take at least six months. At the same time, management of PETROTEL-LUKOIL S.A. and its tax and legal consultants are actively defending the lawful rights and interests of the refinery, providing all required reports, clarifications and comments, and preparing an exhaustive set of evidence for challenging the claims of the Prosecutor’s office. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group’s financial condition.

Note 19. Commitments and contingencies (continued)

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

Political situation

During 2014, 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. As of December 31, 2014, the Group recognized an impairment loss related to assets held for sale amounting to \$85 million and relating to goodwill amounting to \$19 million. Management believes that there are no other potential losses that can be identified and reasonably estimated with respect to the situation in Ukraine at present.

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 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 deepwater exploration and production of crude oil, exploration and production of crude oil in Arctic offshore and shale projects. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

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

Note 20. Related party transactions

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

Below are related party transactions not disclosed elsewhere in the consolidated financial statements. Refer also to Notes 3, 7, 12 and 21 for other transactions with related parties.

Sales of oil and oil products to related parties were \$403 million, \$487 million and \$1,038 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Other sales to related parties were \$31 million, \$62 million and \$50 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Purchases of oil and oil products from related parties were \$2,184 million, \$1,426 million and \$1,368 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Purchases of processing services from related parties were \$188 million, \$228 million and \$702 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Other purchases from related parties were \$209 million, \$195 million and \$92 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Note 20. Related party transactions (continued)

Amounts receivable from related parties, including short-term loans and advances, were \$235 million and \$470 million as of December 31, 2014 and 2013, respectively. Amounts payable to related parties were \$246 million and \$176 million as of December 31, 2014 and 2013, respectively.

Note 21. Compensation plan

During the period from 2010 to 2012, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts.

The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses were contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company's common stock appreciation from 2010 to 2012, with rights vested in December 2012. The number of assigned shares for this compensation plan was approximately 17.3 million shares.

For the first part of the share plan the Group recognized a liability based on expected dividends and number of assigned shares. The second part of the share plan originally was classified as equity settled. In 2012, this compensation plan was amended in relation to all participants, which resulted in reclassification of the plan as a liability settled. The liability for this part of the share plan was settled in January-April 2013.

In December 2012, the Company introduced a new compensation plan to certain members of management for the period from 2013 to 2017. Its conditions are similar to the conditions of the previous compensation plan after modification. The number of assigned shares is approximately 19 million shares.

For the first part of the new share plan the Group recognized a liability based on expected dividends and number of assigned shares.

The second part of the new share plan was classified as liability settled. The grant date and reporting date fair value of this part of the plan was estimated at \$249 million and \$226 million, respectively, using the Black-Scholes-Merton option-pricing model. The reporting date fair value was estimated assuming a risk-free interest rate of 14.89% per annum, an expected dividend yield of 6.36% per annum, an expected time to maturity of three years and a volatility factor of 12.6%. 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 seven year period up to January 2013.

Related to these share plans the Group recorded \$168 million, \$109 million and \$182 million of compensation expense during the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, \$44 million and \$52 million related to the new compensation plan are included in "Other current liabilities" in the consolidated balance sheets, respectively.

As of December 31, 2014, there was \$135 million 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 22. Segment information

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2014, 2013 and 2012, in accordance with Topic 280, "*Segment reporting*," of the Codification.

Note 22. Segment information (continued)

The Group has the following operating segments – exploration and production; refining, marketing and distribution; chemicals; power generation 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 and purchases, sells and transports crude oil and refined petroleum products. The chemicals segment refines and sells chemical products. The power generation segment produces steam and electricity, distributes them and provides related services. The activities of the other business operating segment include businesses beyond the Group's traditional operations.

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

Operating segments

2014	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	5,920	135,671	1,006	1,457	113	-	144,167
Inter-segment	39,746	1,252	245	1,663	906	(43,812)	-
Total sales	45,666	136,923	1,251	3,120	1,019	(43,812)	144,167
Operating expenses	6,084	3,087	549	1,978	759	(2,342)	10,115
Depreciation, depletion and amortization	6,823	1,503	36	336	129	(11)	8,816
Interest expense	664	637	45	127	713	(1,549)	637
Income tax expense	871	1,057	1	(6)	33	102	2,058
Net income (net loss)	7,427	(2,272)	(51)	246	(1,035)	431	4,746
Total assets	79,742	70,197	735	3,998	22,567	(65,439)	111,800
Capital expenditures	11,882	2,791	253	340	125	-	15,391
2013	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	2,900	135,189	1,681	1,573	109	-	141,452
Inter-segment	43,555	1,686	302	1,779	3,205	(50,527)	-
Total sales	46,455	136,875	1,983	3,352	3,314	(50,527)	141,452
Operating expenses	5,759	3,718	784	2,156	2,730	(5,061)	10,086
Depreciation, depletion and amortization	3,698	1,545	66	362	118	(33)	5,756
Interest expense	719	527	46	103	712	(1,619)	488
Income tax expense	1,640	1,146	35	(60)	(5)	75	2,831
Net income (net loss)	7,528	1,166	(501)	(415)	(224)	278	7,832
Total assets	80,182	71,883	665	4,098	20,744	(68,133)	109,439
Capital expenditures	11,808	2,715	113	285	513	-	15,434

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Notes to Consolidated Financial Statements
(Millions of US dollars, unless otherwise noted)

Note 22. Segment information (continued)

2012	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,471	132,798	1,362	1,411	129	-	139,171
Inter-segment	43,998	1,845	307	1,557	2,926	(50,633)	-
Total sales	47,469	134,643	1,669	2,968	3,055	(50,633)	139,171
Operating expenses	5,245	3,579	568	1,867	2,299	(4,199)	9,359
Depreciation, depletion and amortization	3,085	1,347	65	248	124	(37)	4,832
Interest expense	854	698	47	73	557	(1,691)	538
Income tax expense	1,935	696	57	34	52	24	2,798
Net income (net loss)	8,447	3,518	(279)	(278)	(363)	(41)	11,004
Total assets	68,058	69,769	1,166	4,530	20,512	(65,074)	98,961
Capital expenditures	8,973	2,007	90	503	277	-	11,850

Geographical segments

	2014	2013	2012
Sales of crude oil within Russia	3,418	3,071	1,634
Export of crude oil and sales of crude oil by foreign subsidiaries	33,661	24,270	26,036
Sales of refined products within Russia	16,282	17,476	16,803
Export of refined products and sales of refined products by foreign subsidiaries	82,907	87,796	86,604
Sales of chemicals within Russia	272	886	418
Export of chemicals and sales of chemicals by foreign subsidiaries	838	936	992
Other sales within Russia	3,419	3,475	3,281
Other export sales and other sales by foreign subsidiaries	3,370	3,542	3,403
Total sales	144,167	141,452	139,171

2014	Russia	International	Elimination	Consolidated
Sales				
Third parties	24,235	119,932	-	144,167
Inter-segment	35,090	246	(35,336)	-
Total sales	59,325	120,178	(35,336)	144,167
Operating expenses	7,595	2,334	186	10,115
Depletion, depreciation and amortization	4,790	4,015	11	8,816
Interest expense	126	598	(87)	637
Income tax expense	1,934	25	99	2,058
Net income (net loss)	5,859	(1,547)	434	4,746
Total assets	89,660	37,398	(15,258)	111,800
Capital expenditures	10,780	4,611	-	15,391

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Notes to Consolidated Financial Statements
(Millions of US dollars, unless otherwise noted)

Note 22. Segment information (continued)

2013	Russia	International	Elimination	Consolidated
Sales				
Third parties	26,552	114,900	-	141,452
Inter-segment	39,193	151	(39,344)	-
Total sales	65,745	115,051	(39,344)	141,452
Operating expenses	8,117	2,048	(79)	10,086
Depletion, depreciation and amortization	4,607	1,149	-	5,756
Interest expense	34	547	(93)	488
Income tax expense	2,390	419	22	2,831
Net income (net loss)	8,724	(1,234)	342	7,832
Total assets	87,469	37,176	(15,206)	109,439
Capital expenditures	10,859	4,575	-	15,434
2012	Russia	International	Elimination	Consolidated
Sales				
Third parties	25,370	113,801	-	139,171
Inter-segment	39,355	200	(39,555)	-
Total sales	64,725	114,001	(39,555)	139,171
Operating expenses	7,333	2,113	(87)	9,359
Depletion, depreciation and amortization	3,834	998	-	4,832
Interest expense	194	504	(160)	538
Income tax expense	2,316	489	(7)	2,798
Net income	10,238	776	(10)	11,004
Total assets	78,515	36,108	(15,662)	98,961
Capital expenditures	9,343	2,507	-	11,850

The Group's international sales to third parties include sales in Switzerland of \$68,538 million, \$66,070 million and \$67,057 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Group's international sales to third parties include sales in the USA of \$9,982 million, \$12,865 million and \$12,649 million for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 23. Subsequent events

In accordance with the requirements of Topic 855, "*Subsequent events*," of the Codification, the Group evaluated subsequent events through the date the interim consolidated financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to March 2, 2015.

OA O LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of US dollars, except as indicated)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with Topic 932, “Disclosures About Oil and Gas Producing Activities,” of the Codification in six separate tables:

- I. Capitalized costs relating to oil and gas producing activities.
- II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
- III. Results of operations for oil and gas producing activities.
- IV. Reserve quantity information.
- V. Standardized measure of discounted future net cash flows.
- VI. Principal sources of changes in the standardized measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group’s share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2014	International	Russia	Total consolidated companies	Group’s share in equity companies
Unproved oil and gas properties	1,593	2,731	4,324	612
Proved oil and gas properties	11,055	74,766	85,821	2,835
Accumulated depreciation, depletion, and amortization	(4,546)	(27,083)	(31,629)	(1,087)
Net capitalized costs	8,102	50,414	58,516	2,360

As of December 31, 2013	International	Russia	Total consolidated companies	Group’s share in equity companies
Unproved oil and gas properties	1,450	3,441	4,891	635
Proved oil and gas properties	11,320	69,341	80,661	2,493
Accumulated depreciation, depletion, and amortization	(2,718)	(24,923)	(27,641)	(973)
Net capitalized costs	10,052	47,859	57,911	2,155

As of December 31, 2012	International	Russia	Total consolidated companies	Group’s share in equity companies
Unproved oil and gas properties	1,145	2,393	3,538	551
Proved oil and gas properties	8,555	59,054	67,609	2,436
Accumulated depreciation, depletion, and amortization	(2,213)	(22,150)	(24,363)	(838)
Net capitalized costs	7,487	39,297	46,784	2,149

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)
II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Year ended December 31, 2014	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	1	1	-
Acquisition of properties – unproved	-	97	97	-
Exploration costs	720	692	1,412	18
Development costs	3,011	7,459	10,470	345
Total costs incurred	3,731	8,249	11,980	363

Year ended December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	2,200	2,200	-
Acquisition of properties – unproved	15	1,914	1,929	10
Exploration costs	234	543	777	18
Development costs	3,234	7,782	11,016	162
Total costs incurred	3,483	12,439	15,922	190

Year ended December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	97	-	97	-
Acquisition of properties – unproved	37	937	974	-
Exploration costs	144	525	669	16
Development costs	1,621	6,560	8,181	490
Total costs incurred	1,899	8,022	9,921	506

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with Topic 932 of the Codification, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2014	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	5,857	19,454	25,311	1,330
Transfers	-	14,944	14,944	29
Total revenues	5,857	34,398	40,255	1,359
Production costs (excluding production taxes)	(956)	(3,762)	(4,718)	(142)
Exploration expense	(772)	(332)	(1,104)	(1)
Depreciation, depletion, and amortization, and valuation provision	(3,480)	(3,339)	(6,819)	(123)
Taxes other than income taxes	(259)	(21,378)	(21,637)	(407)
Related income taxes	(294)	(928)	(1,222)	(271)
Total results of operations for producing activities	96	4,659	4,755	415

OAO LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of US dollars, except as indicated)

Year ended December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,722	22,233	24,955	1,632
Transfers	-	17,776	17,776	49
Total revenues	2,722	40,009	42,731	1,681
Production costs (excluding production taxes)	(314)	(4,021)	(4,335)	(141)
Exploration expense	(384)	(218)	(602)	(3)
Depreciation, depletion, and amortization, and valuation provision	(544)	(3,150)	(3,694)	(140)
Taxes other than income taxes	(352)	(23,092)	(23,444)	(527)
Related income taxes	(278)	(1,717)	(1,995)	(355)
Total results of operations for producing activities	850	7,811	8,661	515
Year ended December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,910	23,011	25,921	1,728
Transfers	-	17,165	17,165	34
Total revenues	2,910	40,176	43,086	1,762
Production costs (excluding production taxes)	(299)	(3,562)	(3,861)	(126)
Exploration expense	(159)	(205)	(364)	(6)
Depreciation, depletion, and amortization, and valuation provision	(500)	(2,568)	(3,068)	(126)
Taxes other than income taxes	(399)	(24,247)	(24,646)	(564)
Related income taxes	(428)	(1,618)	(2,046)	(423)
Total results of operations for producing activities	1,125	7,976	9,101	517

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. In accordance with Topic 932 of the Codification existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies both to newly issued and old licenses and the Group has currently renewed 57% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

Estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2014, 2013 and 2012, are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Crude oil				
January 1, 2012	337	12,786	13,123	280
Revisions of previous estimates	(1)	67	66	(1)
Purchase of hydrocarbons in place	42	-	42	-
Extensions and discoveries	40	511	551	2
Production	(25)	(631)	(656)	(21)
Sales of reserves	(2)	(3)	(5)	-
December 31, 2012	391	12,730	13,121	260
Revisions of previous estimates	11	(38)	(27)	(2)
Purchase of hydrocarbons in place*	-	194	194	(7)
Extensions and discoveries	14	585	599	7
Production	(24)	(640)	(664)	(20)
December 31, 2013	392	12,831	13,223	238
Revisions of previous estimates	38	(2)	36	32
Purchase of hydrocarbons in place	-	18	18	-
Extensions and discoveries	50	729	779	1
Production	(63)	(644)	(707)	(20)
Sales of reserves	-	-	-	(6)
December 31, 2014	417	12,932	13,349	245
Proved developed reserves				
December 31, 2012	136	8,241	8,377	160
December 31, 2013	129	7,972	8,101	136
December 31, 2014	204	8,280	8,484	145

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The non-controlling interest share included in the above total proved reserves was 77 million barrels, 74 million barrels and 71 million barrels as of December 31, 2014, 2013 and 2012, respectively. The non-controlling interest share included in the above proved developed reserves was 41 million barrels, 40 million barrels and 43 million barrels as of December 31, 2014, 2013 and 2012, respectively. All non-controlling interests relate to the reserves in the Russian Federation.

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Natural gas				
January 1, 2012	6,071	16,851	22,922	274
Revisions of previous estimates	(155)	602	447	12
Purchase of hydrocarbons in place	1	-	1	-
Extensions and discoveries	93	595	688	5
Production	(248)	(571)	(819)	(26)
Sales of reserves	(17)	-	(17)	-
December 31, 2012	5,745	17,477	23,222	265
Revisions of previous estimates	325	529	854	17
Purchase of hydrocarbons in place*	-	9	9	(2)
Extensions and discoveries	-	168	168	3
Production	(247)	(618)	(865)	(29)
December 31, 2013	5,823	17,565	23,388	254
Revisions of previous estimates	1,051	(74)	977	12
Purchase of hydrocarbons in place	-	7	7	-
Extensions and discoveries	29	182	211	-
Production	(238)	(637)	(875)	(28)
December 31, 2014	6,665	17,043	23,708	238
Proved developed reserves:				
December 31, 2012	2,505	6,066	8,571	156
December 31, 2013	1,476	5,942	7,418	129
December 31, 2014	1,779	5,783	7,562	162

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The non-controlling interest share included in the above total proved reserves was 28 billion cubic feet, 26 billion cubic feet and 23 billion cubic feet as of December 31, 2014, 2013 and 2012, respectively. The non-controlling interest share included in the above proved developed reserves was 15 billion cubic feet, 14 billion cubic feet and 14 billion cubic feet as of December 31, 2014, 2013 and 2012, respectively. All non-controlling interests relate to the reserves in the Russian Federation.

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above oil and gas reserves, is calculated in accordance with the requirements of Topic 932 of the Codification. Estimated future cash inflows from production are computed by applying the 12-months average price for oil and gas to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation, prescribed under Topic 932 of the Codification, requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2014				
Future cash inflows	65,575	827,202	892,777	20,718
Future production and development costs	(42,254)	(574,572)	(616,826)	(11,823)
Future income tax expenses	(2,742)	(46,333)	(49,075)	(1,792)
Future net cash flows	20,579	206,297	226,876	7,103
Discount for estimated timing of cash flows (10% p.a.)	(12,267)	(115,102)	(127,369)	(3,714)
Discounted future net cash flows	8,312	91,195	99,507	3,389
Non-controlling share in discounted future net cash flows	-	506	506	-
	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2013				
Future cash inflows	62,620	676,195	738,815	22,027
Future production and development costs	(38,292)	(461,998)	(500,290)	(11,947)
Future income tax expenses	(3,239)	(37,321)	(40,560)	(2,154)
Future net cash flows	21,089	176,876	197,965	7,926
Discount for estimated timing of cash flows (10% p.a.)	(9,669)	(105,503)	(115,172)	(4,196)
Discounted future net cash flows	11,420	71,373	82,793	3,730
Non-controlling share in discounted future net cash flows	-	383	383	-
	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2012				
Future cash inflows	58,747	619,743	678,490	24,279
Future production and development costs	(36,468)	(424,260)	(460,728)	(12,469)
Future income tax expenses	(4,156)	(34,573)	(38,729)	(2,592)
Future net cash flows	18,123	160,910	179,033	9,218
Discount for estimated timing of cash flows (10% p.a.)	(9,964)	(96,015)	(105,979)	(4,723)
Discounted future net cash flows	8,159	64,895	73,054	4,495
Non-controlling share in discounted future net cash flows	-	397	397	-

OA O LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of US dollars, except as indicated)***VI. Principal sources of changes in the standardized measure of discounted future net cash flows***

Consolidated companies	2014	2013	2012
Discounted present value as at January 1	82,793	73,054	75,162
Net changes due to purchases and sales of minerals in place	135	1,266	256
Sales and transfers of oil and gas produced, net of production costs	(12,796)	(14,350)	(14,215)
Net changes in prices and production costs estimates	78,088	21,515	(8,480)
Net changes in mineral extraction taxes	(68,471)	(15,355)	627
Extensions and discoveries, less related costs	7,493	4,677	3,174
Previously estimated development cost incurred during the period	5,107	4,003	7,241
Revisions of previous quantity estimates	2,174	975	377
Net change in income taxes	(3,783)	(999)	1,337
Other changes	(408)	(138)	(735)
Accretion of discount	9,175	8,145	8,310
Discounted present value at December 31	99,507	82,793	73,054

Group's share in equity companies	2014	2013	2012
Discounted present value as at January 1	3,730	4,495	4,835
Net changes due to purchases and sales of minerals in place	(102)	(29)	-
Sales and transfers of oil and gas produced, net of production costs	(809)	(1,010)	(1,066)
Net changes in prices and production costs estimates	(850)	(487)	(101)
Net changes in mineral extraction taxes	409	77	(7)
Extensions and discoveries, less related costs	8	109	20
Previously estimated development cost incurred during the period	256	132	88
Revisions of previous quantity estimates	299	(80)	(3)
Net change in income taxes	174	200	139
Other changes	(172)	(207)	17
Accretion of discount	446	530	573
Discounted present value at December 31	3,389	3,730	4,495