



PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021



Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Registration number in the Unified State Register of Legal Entities:
No. 1027700035769.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG global organization of independent member firms. For more detail about the structure of the KPMG global organization please visit home.kpmg/governance

Impairment of Property, plant and equipment (PP&E)

Please refer to the Note 12 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Due to changes in macroeconomic factors as well as business environment conditions, there is a risk of impairment of the Group's PP&E, which are material to the consolidated financial statements as at 31 December 2021. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of impairment, this is one of the key judgmental areas that our audit is concentrated on.	In this area our audit procedures included testing of the principles and integrity of the Group's discounted cash flow models. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and interest rates. We compared the short-term price assumptions used by management to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies. We compared the volumes of oil and gas reserves and resources used in the impairment test to the volumes estimated by reservoir engineers. Analyzing the exploration and evaluation assets for impairment, we considered the license terms, the management's plans to conduct further exploration and evaluation works in the respective areas and the expenditures for exploration and evaluation, included in the approved investment programs. We also considered the adequacy of the PP&E impairment disclosure included in the consolidated financial statements.

Estimation of oil and gas reserves and resources

Please refer to the Note 4 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The estimate of oil and gas reserves and resources has a significant impact on the consolidated financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The volumes of oil and gas are	In this area our audit procedures included the assessment of the competence, capabilities and objectivity of reservoir engineers, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation. Where volumetric movements had a material impact on the consolidated financial statements, we validated these volumes against underlying information and documentation, along with checking that assumptions used to estimate reserves



mainly used by the management in its assessment of future cash flows to assess the recoverability of property, plant and equipment as described above.	and resources were made in compliance with relevant regulations.
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Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis of Financial Condition and Results of Operations but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, the Annual Report and the Report of the issuer of securities for 2021 year, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The general director and engagement partner on the audit resulting in this independent auditors' report is:

Klimanova L.V.



Principal registration number of the entry in the Register of Auditors and Audit organizations № 21906100102

JSC "KPMG"

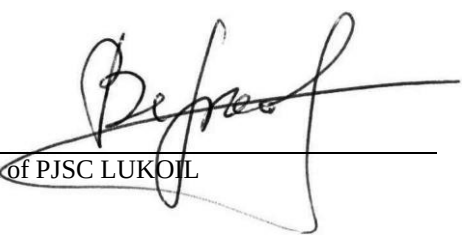
Principal registration number of the entry in the Register of Auditors and Audit Organizations No. 12006020351

Moscow, Russia
2 March 2022

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

	Note	31 December 2021	31 December 2020
Assets			
Current assets			
Cash and cash equivalents	6	677,482	343,832
Accounts receivable, net	7	741,872	370,271
Other current financial assets		12,289	8,350
Inventories	8	467,960	426,536
Prepaid taxes	9	133,326	78,822
Other current assets	10	116,228	48,649
Total current assets		2,149,157	1,276,460
Property, plant and equipment	12	4,263,130	4,264,474
Investments in associates and joint ventures	11	281,532	281,637
Other non-current financial assets	13	61,738	68,692
Deferred income tax assets	28	22,842	16,298
Goodwill and other intangible assets	15	44,342	50,159
Other non-current assets		42,008	33,859
Total non-current assets		4,715,592	4,715,119
Total assets		6,864,749	5,991,579
Liabilities and equity			
Current liabilities			
Accounts payable	16	786,463	597,932
Short-term borrowings and current portion of long-term debt	17	80,251	82,636
Taxes payable	19	282,191	142,458
Provisions	21, 22	24,367	27,136
Other current liabilities	20	71,408	35,497
Total current liabilities		1,244,680	885,659
Long-term debt	18	677,699	577,075
Deferred income tax liabilities	28	303,435	268,956
Provisions	21, 22	113,420	126,665
Other non-current liabilities		2,331	2,458
Total non-current liabilities		1,096,885	975,154
Total liabilities		2,341,565	1,860,813
Equity	23		
Share capital		938	938
Treasury shares		(85,879)	(71,920)
Additional paid-in capital		39,398	39,298
Other reserves		280,351	296,641
Retained earnings		4,280,226	3,858,057
Total equity attributable to PJSC LUKOIL shareholders		4,515,034	4,123,014
Non-controlling interests		8,150	7,752
Total equity		4,523,184	4,130,766
Total liabilities and equity		6,864,749	5,991,579


 President of PJSC LUKOIL
 Alekperov V.Y.


 Chief accountant of PJSC LUKOIL
 Verkhov V.A.

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

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

	Note	2021	2020
Revenues			
Sales (including excise and export tariffs)	32	9,435,143	5,639,401
Costs and other deductions			
Operating expenses		(509,192)	(439,973)
Cost of purchased crude oil, gas and products		(5,484,824)	(3,000,916)
Transportation expenses		(291,135)	(292,899)
Selling, general and administrative expenses		(215,190)	(199,027)
Depreciation, depletion and amortisation		(425,466)	(405,440)
Taxes other than income taxes		(1,308,882)	(569,078)
Excise and export tariffs		(214,433)	(444,300)
Exploration expenses		(7,076)	(6,114)
Profit from operating activities		978,945	281,654
Finance income	25	16,519	13,051
Finance costs	25	(37,568)	(44,122)
Equity share in income of associates and joint ventures	11	29,980	11,474
Foreign exchange gain (loss)		2,731	(26,110)
Other expenses	26	(23,643)	(137,160)
Profit before income taxes		966,964	98,787
Current income taxes		(163,807)	(61,362)
Deferred income taxes		(27,644)	(20,792)
Total income tax expense	28	(191,451)	(82,154)
Profit for the year		775,513	16,633
Profit for the year attributable to:			
PJSC LUKOIL shareholders		773,442	15,175
Non-controlling interests		2,071	1,458
Other comprehensive income, net of income taxes			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		(20,263)	268,707
<i>Items that will never be reclassified to profit or loss:</i>			
Change in fair value of equity instruments at fair value through other comprehensive income		2,572	(767)
Remeasurements of defined benefit liability / asset of pension plan	22, 28	1,403	(1,423)
Other comprehensive (loss) income		(16,288)	266,517
Total comprehensive income for the year		759,225	283,150
Total comprehensive income for the year attributable to:			
PJSC LUKOIL shareholders		757,152	281,675
Non-controlling interests		2,073	1,475

Earnings per share

Profit for the year attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles):

	23		
Basic		1,185.60	23.31
Diluted		1,129.17	22.46

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

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

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2020	938	(71,920)	39,298	296,641	3,858,057	4,123,014	7,752	4,130,766
Profit for the year	-	-	-	-	773,442	773,442	2,071	775,513
Other comprehensive (loss) income	-	-	-	(16,290)	-	(16,290)	2	(16,288)
Total comprehensive (loss) income				(16,290)	773,442	757,152	2,073	759,225
Dividends on common stock	-	-	-	-	(360,316)	(360,316)	-	(360,316)
Stock purchased	-	(13,959)	-	-	-	(13,959)	-	(13,959)
Equity-settled share-based compensation plan	-	-	-	-	9,043	9,043	-	9,043
Changes in non-controlling interests	-	-	100	-	-	100	(1,675)	(1,575)
31 December 2021	938	(85,879)	39,398	280,351	4,280,226	4,515,034	8,150	4,523,184
31 December 2019	968	(308,160)	39,277	30,141	4,203,138	3,965,364	8,085	3,973,449
Profit for the year	-	-	-	-	15,175	15,175	1,458	16,633
Other comprehensive income	-	-	-	266,500	-	266,500	17	266,517
Total comprehensive income				266,500	15,175	281,675	1,475	283,150
Dividends on common stock	-	-	-	-	(258,389)	(258,389)	-	(258,389)
Stock purchased	-	(2,026)	-	-	-	(2,026)	-	(2,026)
Equity-settled share-based compensation plan	-	-	-	-	15,381	15,381	-	15,381
Obligation to repurchase common shares	-	120,988	-	-	-	120,988	-	120,988
Share capital reduction	(30)	117,278	-	-	(117,248)	-	-	-
Changes in non-controlling interests	-	-	21	-	-	21	(1,808)	(1,787)
31 December 2020	938	(71,920)	39,298	296,641	3,858,057	4,123,014	7,752	4,130,766

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

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

	Note	2021	2020
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		773,442	15,175
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		425,466	405,440
Equity share in income of associates and joint ventures		(29,980)	(11,474)
Dry hole write-offs		5,488	4,425
Loss on disposals and impairments of assets		19,055	125,535
Income tax expense		191,451	82,154
Non-cash foreign exchange (gain) loss		(2,595)	26,037
Finance income		(16,519)	(13,051)
Finance costs		37,568	44,122
Allowance for expected credit losses		9,091	5,811
Equity-settled share-based compensation plan		31,366	31,366
All other items, net		(9,563)	5,538
Changes in operating assets and liabilities:			
Trade accounts receivable		(363,337)	128,139
Inventories		(44,657)	37,868
Accounts payable		185,047	(69,305)
Other taxes		83,061	10,200
Other current assets and liabilities		(44,010)	(15,154)
Income tax paid		(161,698)	(57,250)
Dividends received		25,168	9,448
Interests received		12,770	11,550
Net cash provided by operating activities		1,126,614	776,574
Cash flows from investing activities			
Acquisition of licences		(337)	(235)
Capital expenditures		(433,042)	(495,443)
Proceeds from sale of property, plant and equipment		4,417	657
Purchases of financial assets		(2,630)	(8,232)
Proceeds from sale of financial assets		5,073	12,323
Sale of subsidiaries, net of cash disposed		193	17
Sale of associates		83	312
Acquisitions of interests in the projects and subsidiaries, net of cash acquired		(10,911)	(1,040)
Acquisitions of associates		(901)	(1,128)
Net cash used in investing activities		(438,055)	(492,769)
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		1,019	1,971
Principal repayments of short-term borrowings		(11,112)	(815)
Proceeds from issuance of long-term debt		187,361	108,796
Principal repayments of long-term debt		(125,382)	(171,980)
Interest paid		(30,823)	(39,100)
Dividends paid on Company common shares		(357,672)	(407,309)
Dividends paid to non-controlling interest shareholders		(3,930)	(3,589)
Financing received from non-controlling interest shareholders		134	47
Purchase of Company's stock		(13,958)	(2,026)
Purchases of non-controlling interest		(14)	-
Net cash used in financing activities		(354,377)	(514,005)
Effect of exchange rate changes on cash and cash equivalents		(532)	58,000
Net increase (decrease) in cash and cash equivalents		333,650	(172,200)
Cash and cash equivalents at beginning of year		343,832	516,032
Cash and cash equivalents at end of year	6	677,482	343,832

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

Note 1. Organisation and environment

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

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

In July – September 2014, the United States (“US”), the European Union (“EU”) and several other countries imposed a set of sanctions on Russia, including sectoral sanctions which affect several Russian oil and gas companies. The US Department of the Treasury has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4 of the Office of foreign assets control (OFAC). Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area spreading from the Russian territory and claimed by the Russian Federation.

From January 2018 (based on acts adopted in August – October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests. Management believes these sanctions do not have a material adverse effect on the current or planned Group’s oil projects.

In recent days, due to the events in Ukraine, the US has imposed additional sanctions on the Russian government, as well as Russian entities and individuals. This includes full blocking sanctions on certain Russian state-owned financial institutions. There have been restrictions put in place on the opening and maintenance of, or transacting with, certain correspondent and payable-through accounts at foreign financial institutions. Additionally, there have been new debt and equity restrictions imposed on major state-owned and private entities and Russian sovereign debt. Similarly, the UK and EU have announced additional sanctions in recent days. The UK has imposed blocking and asset freezing sanctions on certain Russian banks, entities, and individuals operating in financial and defense sectors. The EU has designated certain Russian government officials, entities (including Russian banks), and other individuals, and imposed restrictions on capital markets, loans, and credit that target Russian sovereign debt. Moreover, there is a risk that further sanctions may be introduced. This may have significant adverse impact on Russia’s economy. These events have led to depreciation of the Russian ruble and increased volatility and uncertainty in the Russian economy.

At the same time, it is a stated goal to minimise the impact of these sanctions on energy companies and consumers. The US has specifically authorised certain transactions related to the energy sector, highlighting the need for continued, legitimate energy-related trade.

The consolidated financial statements reflect management’s assessment of the impact of the business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment. Management will continue monitoring the situation closely to ensure prompt reaction to the rapidly changing environment.

Note 2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been prepared on a historical cost basis, except certain assets and liabilities measured at fair value.

The consolidated financial statements were authorised by the President of the Company on 2 March 2022.

Functional and presentation currency

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

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

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

Note 3. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of operations of the Company and controlled subsidiaries. A company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in companies that the Group does not control, but where it has the ability to exercise significant influence (Group’s interests are between 20% and 50%) over operating and financial policies, are accounted for using the equity method. These investments include the Group’s interests in associates, joint ventures and investments where the Company owns the majority of the voting interest but has no control. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Note 3. Summary of significant accounting policies (continued)

Group's share in jointly controlled operations is recognised in the consolidated financial statements based on its share in assets, liabilities, income and expenses. Jointly controlled operations are arrangements in which parties that have joint control over operating or financial policies have respective rights to use assets and responsibility for liabilities in the arrangements.

Certain of Group's unincorporated joint exploration and production activities are conducted through arrangements that are not jointly controlled, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. Such activities where control can be achieved through agreement between more than one combination of involved parties are considered to be outside the scope of IFRS 11 *Joint Arrangements*. In relation to its interests in these arrangements, the Group recognises its share of any assets, liabilities, income and expenses.

Business combinations

For each business combination the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the fair value of acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated during the process of consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Note 3. Summary of significant accounting policies (continued)

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of financial assets measured at fair value through other comprehensive income which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in a way that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Revenues

Revenues are recognised when a customer obtains control of the goods or services which usually occurs when the title is passed, provided that risks and rewards of ownership are assumed by the customer and the customer obtains obligation to pay for the goods or services.

Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenue from the production of oil and natural gas in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts.

Revenues from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold. If the fair value of the non-cash consideration cannot be reasonably estimated, the consideration shall be measured indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration.

Note 3. Summary of significant accounting policies (continued)

Cash and cash equivalents

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

Financial assets

The Group classifies non-derivative financial assets into the following categories, as appropriate: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Company may make an irrevocable election at initial recognition for particular instruments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Group initially recognises as financial assets loans and receivables on the date when they are originated and debt securities on the date when they are acquired. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Note 3. Summary of significant accounting policies (continued)

Derivative instruments

The Group uses various derivative financial instruments to hedge its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. The Group does not use hedge accounting.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other delivery costs. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The disposal of finished goods is accounted for using the first-in first-out principle, the disposal of other inventories by using the “average cost” method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment of major subsidiaries at 1 January 2014, the Group’s date of transition to IFRSs, was determined by reference to its fair value at that date.

The Group recognises exploration and evaluation costs using the successful efforts method. Under this method, all costs related to exploration and evaluation are capitalised and accounted for as construction in progress in the amount incurred less impairment (if any) until the discovery (or absence) of economically feasible oil and gas reserves has been established. When the technical feasibility and commercial viability of reserves extraction is confirmed, exploration and evaluation assets should be reclassified into property, plant and equipment. Prior to reclassification these assets should be reviewed for impairment and impairment loss (if any) expensed to the financial results. If the exploration and evaluation activity is evaluated as unsuccessful, the costs incurred should be expensed.

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

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

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

Buildings and constructions	5 – 40 years
Machinery and equipment	3 – 20 years

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Production and related overhead costs are expensed as incurred.

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

Note 3. Summary of significant accounting policies (continued)

Impairment of non-current non-financial assets

The carrying amounts of the Group's non-current non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or related cash-generating unit ("CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to group of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Asset retirement obligations

The Group records the present value of the estimated future costs to settle its legal obligations to abandon, dismantle or otherwise retire tangible non-current non-financial assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related non-current non-financial assets is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired. Changes in the estimates of asset retirement obligations ("ARO") occur as a result of changes in cost and timing of liquidation or change of discount rates and are accounted as part of cost of property, plant and equipment in the current period.

Lease

A single, on-balance sheet lease accounting model is used by lessees. A contract is, or contains, a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group has elected not to apply provided exemptions for short-term leases and leases for which the underlying asset is of low value. Lessors classify leases as finance or operating leases.

Note 3. Summary of significant accounting policies (continued)

The Group recognises a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Assets classified as held for sale

Assets classified as held for sale are separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the consolidated statement of financial position.

Income taxes

Deferred income tax assets and liabilities are recognised in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated statement of financial position and their respective tax bases. But as opposed to deferred tax liabilities, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Similarly a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available. At the end of each reporting period realisability of deferred tax assets (both recognised and unrecognised) should be reassessed. In case of existence of previously unrecognised deferred tax assets, they can be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

Note 3. Summary of significant accounting policies (continued)

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Treasury shares

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

Earnings per share

Basic earnings per share is computed by dividing profit available for distribution to common shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting profit available for distribution to common shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Provisions and contingencies

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

Liabilities of the Group with high level of probability of loss are recognised in the consolidated financial statements as provisions. Liabilities of the Group with the level of probability that do not meet the conditions in order to be recognised as provisions are considered to be contingent liabilities. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements if probability of disposal of certain resources aimed to settle this liability is not remote. If probability of disposal of certain resources is remote the information about such contingencies is not disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognised no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Share-based payments

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

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendments to the existing standards effective as of 1 January 2021. These amendments related to interest rate benchmark reform and did not have a significant impact on the consolidated financial statements:

- amendments to IFRS 9 *Financial Instruments*;
- amendments to IFRS 39 *Financial Instruments: Recognition and Measurement*;
- amendments to IFRS 16 *Leases*;
- amendments to IFRS 4 *Insurance Contracts*.

Note 4. Use of estimates and judgments

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

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

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

- estimation of oil and gas reserves;
- estimation of useful lives of property, plant and equipment;
- impairment of non-current assets;
- assessment and recognition of provisions and contingent liabilities;
- definition of leases.

Oil and gas reserves estimates that are used for the reporting purposes are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission. Estimates are reassessed on an annual basis.

Note 5. New standards and interpretations not yet adopted

The following amendments to the standards are effective for annual periods beginning 1 January 2022 and after, available for early adoption:

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16 *Property, Plant and Equipment*);
- Reference to Conceptual Framework (Amendments to IFRS 3 *Business Combinations*);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 *Presentation of Financial Statements*);
- Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*);
- Definition of Accounting Estimate (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*);
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*).

However, the Group did not make an early adoption of the amended standards in the preparation of these consolidated financial statements, which are not expected to have a significant impact on the Group's consolidated financial statements.

Note 6. Cash and cash equivalents

	31 December 2021	31 December 2020
Cash held in RUB	70,508	16,537
Cash held in US dollars	526,807	256,841
Cash held in EUR	66,268	59,009
Cash held in other currencies	13,899	11,445
Total cash and cash equivalents	677,482	343,832

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Note 7. Accounts receivable, net

	31 December 2021	31 December 2020
Trade accounts receivable (net of allowances of 36,028 million RUB and 32,762 million RUB at 31 December 2021 and 2020, respectively)	727,934	357,159
Other current accounts receivable (net of allowances of 4,485 million RUB and 4,930 million RUB at 31 December 2021 and 2020, respectively)	13,938	13,112
Total accounts receivable, net	741,872	370,271

Note 8. Inventories

	31 December 2021	31 December 2020
Crude oil and petroleum products	415,612	373,290
Materials for extraction and drilling	25,260	25,582
Materials and supplies for refining	4,008	4,681
Other goods, materials and supplies	23,080	22,983
Total inventories	467,960	426,536

Note 9. Prepaid taxes

	31 December 2021	31 December 2020
Income tax	16,810	17,983
VAT recoverable	14,735	12,940
Excise tax recoverable	35,804	8,350
Export duties	13,512	8,009
VAT	46,240	26,407
Other taxes	6,225	5,133
Total prepaid taxes	133,326	78,822

Note 10. Other current assets

	31 December 2021	31 December 2020
Advance payments	57,124	15,904
Prepaid expenses	24,162	21,622
Other assets	34,942	11,123
Total other current assets	116,228	48,649

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership		31 December 2021	31 December 2020
		31 December 2021	31 December 2020		
Joint ventures:					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	153,918	146,611
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	53,183	56,027
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	33,697	34,663
Associates:					
Associates				40,734	44,336
Total				281,532	281,637

TCO is engaged in development of hydrocarbon resources in Kazakhstan. The Group has classified its interest in TCO as a joint venture as it has rights to the net assets of the arrangement.

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

31 December 2021	TCO	CPC	SCPC	Others	Associates	Total
Current assets	253,674	53,194	34,317	-	46,285	387,470
Non-current assets	3,634,400	417,325	351,172	-	214,144	4,617,041
Current liabilities	263,141	41,799	29,454	-	30,815	365,209
Non-current liabilities	1,228,935	3,256	19,061	-	129,247	1,380,499
Net assets (100%)	2,395,998	425,464	336,974	-	100,367	3,258,803
Share in net assets	153,918	53,183	33,697	-	40,734	281,532

31 December 2020	TCO	CPC	SCPC	Others	Associates	Total
Current assets	185,179	49,950	17,923	-	37,049	290,101
Non-current assets	3,398,159	449,020	363,283	-	222,001	4,432,463
Current liabilities	153,329	39,529	17,584	-	22,011	232,453
Non-current liabilities	1,228,347	11,224	16,995	-	127,928	1,384,494
Net assets (100%)	2,201,662	448,217	346,627	-	109,111	3,105,617
Share in net assets	146,611	56,027	34,663	-	44,336	281,637

2021	TCO	CPC	SCPC	Others	Associates	Total
Revenues	1,171,624	159,904	80,204	-	144,753	1,556,485
Net income, 100%	356,088	64,411	44,835	-	6,982	472,316
Share in net income	15,216	8,051	4,484	-	2,229	29,980

2020	TCO	CPC	SCPC	Others	Associates	Total
Revenues	657,608	151,648	50,221	4,627	74,160	938,264
Net income (loss), 100%	113,342	57,684	24,251	1,402	(6,194)	190,485
Share in net income (loss)	3,407	7,210	2,425	701	(2,269)	11,474

Note 12. Property, plant and equipment

	Exploration and production assets	Refining, marketing and distribution assets	Other assets	Total
Cost				
31 December 2020	5,433,264	1,756,650	77,006	7,266,920
Additions	328,139	130,202	3,059	461,400
Acquisitions	1,909	-	-	1,909
Disposals	(39,402)	(35,387)	(1,669)	(76,458)
Foreign currency translation differences	10,568	(42,898)	(68)	(32,398)
Other	(31,720)	2,078	(2,091)	(31,733)
31 December 2021	5,702,758	1,810,645	76,237	7,589,640
Depreciation and impairment				
31 December 2020	(2,193,734)	(802,877)	(22,368)	(3,018,979)
Depreciation for the period	(304,135)	(115,827)	(3,512)	(423,474)
Impairment loss	(1,002)	(24,491)	(1,571)	(27,064)
Impairment reversal	11,273	15,361	19	26,653
Disposals	19,819	32,433	1,111	53,363
Foreign currency translation differences	(6,524)	22,939	88	16,503
Other	21,655	1,266	628	23,549
31 December 2021	(2,452,648)	(871,196)	(25,605)	(3,349,449)
Advance payments for property, plant and equipment				
31 December 2020	10,218	5,757	558	16,533
31 December 2021	17,812	4,854	273	22,939
Carrying amounts				
31 December 2020	3,249,748	959,530	55,196	4,264,474
31 December 2021	3,267,922	944,303	50,905	4,263,130

Note 12. Property, plant and equipment (continued)

	Exploration and production assets	Refining, marketing and distribution assets	Other assets	Total
Cost				
31 December 2019	4,795,674	1,510,515	76,246	6,382,435
Additions	424,751	144,941	4,864	574,556
Acquisitions	1,209	-	-	1,209
Disposals	(37,156)	(42,014)	(6,592)	(85,762)
Foreign currency translation differences	272,259	143,409	2,704	418,372
Other	(23,473)	(201)	(216)	(23,890)
31 December 2020	5,433,264	1,756,650	77,006	7,266,920
Depreciation and impairment				
31 December 2019	(1,766,575)	(589,636)	(21,153)	(2,377,364)
Depreciation for the period	(278,237)	(135,596)	(3,705)	(417,538)
Impairment loss	(48,740)	(58,129)	-	(106,869)
Disposals	18,358	38,776	3,477	60,611
Foreign currency translation differences	(144,090)	(60,206)	(1,032)	(205,328)
Other	25,550	1,914	45	27,509
31 December 2020	(2,193,734)	(802,877)	(22,368)	(3,018,979)
Advance payments for property, plant and equipment				
31 December 2019	6,791	13,314	831	20,936
31 December 2020	10,218	5,757	558	16,533
Carrying amounts				
31 December 2019	3,035,890	934,193	55,924	4,026,007
31 December 2020	3,249,748	959,530	55,196	4,264,474

The cost of assets under construction included in property, plant and equipment was 362,623 million RUB and 458,265 million RUB at 31 December 2021 and 2020, respectively.

Exploration and evaluation assets

	2021	2020
1 January	163,251	129,951
Capitalised expenditures	32,597	36,881
Acquisitions through business combinations	283	362
Reclassified to development assets	(13,388)	(5,238)
Charged to expenses	(5,176)	(3,542)
Foreign currency translation differences	380	6,244
Other movements	61	(1,407)
31 December	178,008	163,251

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programmes, which are revised on a regular basis, at least annually.

In the fourth quarter of 2021, the Group recognised an impairment loss in relation to property, plant and equipment in the total amount of 27.1 billion RUB, of which 18.5 billion RUB related to international refineries and resulted from a decline in the forecasted refining margins that followed the tightening of the EU decarbonisation policy. A loss of 6.0 billion RUB related to refining, marketing and distribution assets in Russia, a loss of 1.0 billion RUB related to exploration and production assets in Russia and a loss of 1.6 billion related to other assets in Russia. Also, as a result of improvement of economic parameters, the Group recognised an impairment reversal for its exploration and production assets in Russia in the amount of 10.0 billion RUB, for its international exploration and production assets in the amount of 1.3 billion RUB and for its refining, marketing and distribution assets in Russia in the amount of 15.4 billion RUB.

Note 12. Property, plant and equipment (continued)

The recoverable amounts of CGUs subject to impairment and impairment reversal in the fourth quarter of 2021 in the amount of 41 billion RUB and 216 billion RUB, respectively, were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets and other assets in Russia – 9.0%, for international exploration and production assets – 10.0%, for refining, marketing and distribution assets in Russia – from 12.0% to 13.6%, for international refining, marketing and distribution assets – from 6.6% to 10.3%.

For impairment test purposes at 31 December 2021 the following Brent Blend price assumptions have been used: \$75 per barrel in 2022, \$70 per barrel in 2023 and \$66 per barrel from 2024.

Due to a significant deterioration in the macroeconomic environment in the first quarter of 2020, the Company revised the scenario conditions used in the impairment test at the end of 2019 and performed an impairment test for assets at 31 March 2020.

As a result, in the first quarter of 2020, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5.2 billion RUB, for its international exploration and production assets in the amount of 2.2 billion RUB and for its international refining, marketing and distribution assets in the amount of 28.8 billion RUB.

The recoverable amounts of CGUs in the amount of 139 billion RUB, which relate to assets impaired in the first quarter of 2020, were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using 9.0% discount rate for exploration and production assets in Russia, 8.2% discount rate for international exploration and production assets and 7.5% discount rate for international refining, marketing and distribution assets.

For impairment test purposes at 31 March 2020 the following Brent Blend price assumptions have been used: \$40 per barrel in 2020–2021, \$45 per barrel in 2022, \$50 per barrel in 2023, \$55 per barrel in 2024 and \$60 per barrel from 2025.

Also, in the second quarter of 2020, the Group recognised an impairment loss for its international exploration and production assets in the amount of 38.2 billion RUB. Of this amount, 35.9 billion RUB relates to gas projects in the Republic of Uzbekistan and are determined based on the revised business model, which takes into account conservative approaches to assessing the structure of gas supplies and pricing.

The recoverable amounts of CGUs in the amount of 106 billion RUB, which relate to assets impaired in the second quarter of 2020, were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using 11.2% discount rate.

In the fourth quarter of 2020, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 3.0 billion RUB, for its international exploration and production assets in the amount of 0.1 billion RUB, for its refining, marketing and distribution assets in Russia in the amount of 7.7 billion RUB and for its international refining, marketing and distribution assets in the amount of 21.6 billion RUB.

The recoverable amounts of CGUs in the amount of 52 billion RUB, which relate to assets impairment in the fourth quarter of 2020, were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.0%, for refining, marketing and distribution assets in Russia – from 9.7% to 12.8% and for international refining, marketing and distribution assets – 6.4%.

For impairment test purposes at 31 December 2020 the following Brent Blend price assumptions have been used: \$50 per barrel in 2021, \$54 per barrel in 2022, \$57 per barrel in 2023, \$58 per barrel in 2024 and \$60 per barrel from 2025.

Note 12. Property, plant and equipment (continued)

Impairment reversal and impairment loss are included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income.

The measurement of recoverable amounts of property, plant and equipment is most sensitive to the volatility of oil and gas prices. However, price reductions would also result in changes in other factors used when estimating recoverable amounts. Quantitative assessment of suchlike impacts is very complicated, as it demands detailed technical, geological and economical evaluations based on hypothetical scenarios rather than existing business or development plans.

Note 13. Other non-current financial assets

	31 December 2021	31 December 2020
Financial assets measured at fair value through other comprehensive income		
Equity instruments	5,929	2,491
Financial assets measured at amortised cost		
Long-term loans	20,223	31,075
Non-current accounts and notes receivable	1,624	1,916
Other financial assets	230	15
Financial assets measured at fair value through profit or loss		
Long-term loans	33,732	33,195
Total other non-current financial assets	61,738	68,692

Note 14. Acquisition of interests in the projects and joint ventures

In December 2021, a Group company concluded a sale and purchase agreement with PJSC Gazprom Neft for 50% equity share of Meretoyakhaneftegaz LLC, a Gazprom Neft wholly owned subsidiary, for 52 billion RUB, including cession of claim of Gazprom Neft’s loans worth 35 billion RUB. The contract was signed as part of creating a joint venture to develop oil and gas cluster in the Nadym-Pur-Tazovsky area of the Yamal-Nenets Autonomous District. The companies also agreed upon the programme of additional exploration of the blocks of Meretoyakhaneftegaz LLC where 8.9 billion RUB of expenditures will be financed by LUKOIL. The transaction is planned to be completed in 2022 after fulfilment of a number of conditions precedent, including all necessary corporate approvals, as well as the consent of the Federal Antimonopoly Service. After acquisition, this investment is going to be accounted by the Group using the equity method.

In October 2021, a Group company signed an agreement to purchase a 15.5% interest in the Shah Deniz natural gas project in Azerbaijan sector of the Caspian sea from PETRONAS for \$2.25 billion. In December 2021, the terms of the agreement were amended as a result of negotiations with the Shah Deniz project partners on implementation of pre-emptive rights. In accordance with the new arrangement, the share acquired by the Group was reduced to 9.99% with proportional decrease in consideration to \$1.45 billion. In the fourth quarter of 2021, the Group company made an advance payment under this agreement in the amount of \$92.5 million (6.7 billion RUB). The transaction was closed on 17 February 2022 after all customary conditions, including approval by SOCAR, the State Oil Company of the Azerbaijan Republic, were fulfilled. Following the completion of the deal, the Group increased its share in the project from 10% to 19.99%.

In July 2021, a Group company entered into a contract to purchase the 50% operator interest in the Area 4 project in Mexico by acquiring the operator’s holding company for approximately \$435 million plus expenditures incurred in 2021 and 2022 as of the transaction completion date. In the second half of 2021, the Group company made an advance payment under this contract in the amount of \$43.5 million (3.2 billion RUB). The transaction was closed on 24 February 2022 after all customary conditions, including approval by the Mexican authorities, were fulfilled.

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Note 15. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2020	21,821	6,573	50,995	38,576	117,965
Additions as result of internal developments	3,948	924	-	-	4,872
Acquisitions	-	-	116	-	116
Additions - separately acquired	-	-	5,946	-	5,946
Disposals	(137)	(37)	(1,900)	-	(2,074)
Foreign currency translation differences	(83)	-	(2,298)	(1,876)	(4,257)
Other	655	(456)	68	-	267
31 December 2021	26,204	7,004	52,927	36,700	122,835
Amortisation and impairment					
31 December 2020	(15,755)	(1,612)	(37,490)	(12,949)	(67,806)
Amortisation for the period	(982)	(310)	(4,451)	-	(5,743)
Impairment loss	-	-	(186)	(9,397)	(9,583)
Impairment reversal	-	1	33	-	34
Disposals	134	34	1,889	-	2,057
Foreign currency translation differences	78	-	1,873	906	2,857
Other	(222)	25	(112)	-	(309)
31 December 2021	(16,747)	(1,862)	(38,444)	(21,440)	(78,493)
Carrying amounts					
31 December 2020	6,066	4,961	13,505	25,627	50,159
31 December 2021	9,457	5,142	14,483	15,260	44,342
Cost					
31 December 2019	19,532	4,975	52,782	32,337	109,626
Additions as result of internal developments	1,914	1,859	-	-	3,773
Additions - separately acquired	-	-	5,597	-	5,597
Disposals	(190)	(23)	(11,088)	-	(11,301)
Foreign currency translation differences	281	4	3,617	6,239	10,141
Other	284	(242)	87	-	129
31 December 2020	21,821	6,573	50,995	38,576	117,965
Amortisation and impairment					
31 December 2019	(14,797)	(1,306)	(40,491)	(9,924)	(66,518)
Amortisation for the period	(917)	(299)	(4,881)	-	(6,097)
Impairment loss	-	(1)	(18)	-	(19)
Disposals	164	-	10,950	-	11,114
Foreign currency translation differences	(260)	(4)	(2,851)	(3,025)	(6,140)
Other	55	(2)	(199)	-	(146)
31 December 2020	(15,755)	(1,612)	(37,490)	(12,949)	(67,806)
Carrying amounts					
31 December 2019	4,735	3,669	12,291	22,413	43,108
31 December 2020	6,066	4,961	13,505	25,627	50,159

In the fourth quarter of 2021, the Group recognised an impairment loss in the amount of 9.4 billion RUB for goodwill incurred on acquisition of one of international refineries due to a decline in the forecasted refining margins that followed the tightening of the EU decarbonisation policy.

Note 16. Accounts payable

	31 December 2021	31 December 2020
Trade accounts payable	701,864	533,598
Other accounts payable	84,599	64,334
Total accounts payable	786,463	597,932

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

	31 December 2021	31 December 2020
Short-term borrowings from third parties	7,993	18,736
Short-term borrowings from related parties	899	2,522
Current portion of long-term debt	71,359	61,378
Total short-term borrowings and current portion of long-term debt	80,251	82,636

Short-term borrowings from third parties include amounts repayable in US dollars of 6,914 million RUB and 17,510 million RUB and amounts repayable in other currencies of 1,079 million RUB and 1,226 million RUB at 31 December 2021 and 2020, respectively. The weighted-average interest rate on short-term borrowings from third parties was 3.20% and 2.63% per annum at 31 December 2021 and 2020, respectively. Short-term borrowings from third parties are unsecured at 31 December 2021.

Note 18. Long-term debt

	31 December 2021	31 December 2020
Long term loans and borrowings from third parties	58,728	112,660
6.656% non-convertible US dollar bonds, maturing 2022	37,131	36,901
4.563% non-convertible US dollar bonds, maturing 2023	111,393	110,737
4.750% non-convertible US dollar bonds, maturing 2026	74,186	73,751
2.80% non-convertible US dollar bonds, maturing 2027	85,299	-
3.875% non-convertible US dollar bonds, maturing 2030	111,181	110,532
3.60% non-convertible US dollar bonds, maturing 2031	85,297	-
Lease obligations	185,843	193,872
Total long-term debt	749,058	638,453
Current portion of long-term debt	(71,359)	(61,378)
Total non-current portion of long-term debt	677,699	577,075

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 56,678 million RUB and 101,376 million RUB, amounts repayable in euros of 122 million RUB and 11,284 million RUB at 31 December 2021 and 2020, respectively, and amounts repayable in Russian rubles and other currencies of 1,928 million RUB at 31 December 2021. This debt has maturity dates from 2022 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 2.03% and 2.54% per annum at 31 December 2021 and 2020, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Long-term loans and borrowings from third parties are unsecured at 31 December 2021.

Note 18. Long-term debt (continued)

Non-convertible bonds

On 26 October 2021, a Group company issued two tranches of non-convertible bonds totaling \$2.3 billion (170.9 billion RUB). The first tranche of \$1.15 billion (85.45 billion RUB) was placed with a maturity of 5.5 years and a coupon yield of 2.80% per annum, the second tranche of \$1.15 billion (85.45 billion RUB) was placed with a maturity of 10 years and a coupon yield of 3.60% per annum. All bonds were placed at face value and have a half year coupon period.

On 6 May 2020, a Group company issued non-convertible bonds totaling \$1.5 billion (111.45 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 3.875% per annum. All bonds were placed at face value and have a half year coupon period.

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion (74.3 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion (222.9 billion RUB). The first tranche totaling \$1.5 billion (111.45 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion (111.45 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period. In April 2018, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (74.3 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (59.4 billion RUB) was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling \$200 million (14.9 billion RUB) was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period. In November 2020, a Group company redeemed all issued bonds in accordance with the conditions of the bond issue.

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (74.3 billion RUB). \$500 million (37.15 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (37.15 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

Note 18. Long-term debt (continued)

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Lease obligations	Other liabilities	Total
31 December 2020	133,918	331,921	193,872	3,265	662,976
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	1,019	-	-	-	1,019
Principal repayments of short-term borrowings	(11,112)	-	-	-	(11,112)
Proceeds from issuance of long-term debt	26,319	161,042	-	-	187,361
Principal repayments of long-term debt	(80,158)	-	(45,224)	-	(125,382)
Interest paid	-	-	(9,892)	(20,931)	(30,823)
Dividends paid on Company common stock	-	-	-	(357,672)	(357,672)
Total changes from financing cash flows	(63,932)	161,042	(55,116)	(378,603)	(336,609)
Other changes:					
Interest accrued	741	102	9,893	22,361	33,097
Dividends declared on Company common stock	-	-	-	360,316	360,316
Changes arising from obtaining or losing control over subsidiaries	(1,449)	-	-	(5)	(1,454)
The effect of changes in foreign exchange rates	(1,659)	11,422	(3,245)	(16)	6,502
Non-cash additions to lease obligations	-	-	36,739	-	36,739
Other changes	1	-	3,700	21,965	25,666
Total other changes	(2,366)	11,524	47,087	404,621	460,866
31 December 2021	67,620	504,487	185,843	29,283	787,233
31 December 2019	134,026	247,326	171,880	135,920	689,152
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	1,971	-	-	-	1,971
Principal repayments of short-term borrowings	(815)	-	-	-	(815)
Proceeds from issuance of long-term debt	-	108,796	-	-	108,796
Principal repayments of long-term debt	(30,686)	(78,456)	(62,838)	-	(171,980)
Interest paid	-	-	(10,501)	(28,599)	(39,100)
Dividends paid on Company common stock	-	-	-	(407,309)	(407,309)
Total changes from financing cash flows	(29,530)	30,340	(73,339)	(435,908)	(508,437)
Other changes:					
Interest accrued	1,853	128	10,501	26,810	39,292
Dividends declared on Company common stock	-	-	-	258,389	258,389
The effect of changes in foreign exchange rates	27,010	54,125	29,688	1,082	111,905
Non-cash additions to lease obligations	-	-	50,009	-	50,009
Other changes	559	2	5,133	16,972	22,666
Total other changes	29,422	54,255	95,331	303,253	482,261
31 December 2020	133,918	331,921	193,872	3,265	662,976

Note 19. Taxes payable

	31 December 2021	31 December 2020
Income tax	16,920	16,614
Mineral extraction tax	101,767	49,332
Tax on additional income from hydrocarbon production	43,165	2,881
VAT	77,109	35,650
Excise tax	25,284	22,733
Property tax	5,409	5,675
Other taxes	12,537	9,573
Total taxes payable	282,191	142,458

Note 20. Other current liabilities

	31 December 2021	31 December 2020
Advances received	41,643	31,142
Dividends payable	25,701	1,610
Other	4,064	2,745
Total other current liabilities	71,408	35,497

Note 21. Provisions

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension liabilities	Provision for unused vacations	Other provisions	Total
31 December 2021	100,926	2,272	4,185	12,105	6,850	11,449	137,787
Incl.: Non-current	100,590	121	1,141	9,878	252	1,438	113,420
Current	336	2,151	3,044	2,227	6,598	10,011	24,367
31 December 2020	111,614	10,939	4,204	13,794	6,326	6,924	153,801
Incl.: Non-current	110,916	175	1,329	11,678	322	2,245	126,665
Current	698	10,764	2,875	2,116	6,004	4,679	27,136

Asset retirement obligations changed as follows:

	2021	2020
1 January	111,614	63,387
Provisions made during the period	3,600	39,826
Reversal of provisions	(812)	(154)
Provisions used during the period	(204)	(325)
Accretion expense	3,651	3,882
Change in discount rate	(19,188)	8,921
Changes in estimates	1,477	(9,395)
Foreign currency translation differences	94	5,450
Other	694	22
31 December	100,926	111,614

Note 22. Pension liabilities

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee).

Note 22. Pension liabilities (continued)

Plan assets and pensions payments are managed by a non-state pension fund, JSC “NPF Otkritie” (former “NPF LUKOIL-GARANT”). The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2021 and 2020.

The following table sets out movement in the pension liabilities before taxation during 2021 and 2020.

	2021	2020
1 January	13,794	12,544
Components of defined benefit costs recorded in profit or loss	2,312	1,771
Components of defined benefit costs recorded in other comprehensive (loss) income	(1,601)	1,680
Contributions from employer	(1,621)	(1,566)
Benefits paid	(700)	(693)
Opening balance adjustment	(80)	49
Liability assumed in business combination	1	9
31 December	12,105	13,794

Note 23. Equity

Common shares

	31 December 2021 (thousands of shares)	31 December 2020 (thousands of shares)
Issued common shares, par value of 0.025 RUB each	692,866	692,866
Treasury shares	(42,522)	(40,367)
Outstanding common shares	650,344	652,499

The Company has the right to issue additional 85 million common shares.

On 3 December 2019, at the extraordinary general shareholders’ meeting a decision was made to reduce the share capital of the Company by purchase of a portion of issued shares in order to reduce the total number thereof. Share capital reduction to 693 million common shares by purchase and cancellation of 22 million common shares was executed on 10 February 2020. Most of the common shares were purchased from a Group company.

Dividends

At the extraordinary general shareholders’ meeting on 2 December 2021, interim dividends for 2021 were approved in the amount of 340 RUB per common share.

At the annual general shareholders’ meeting on 24 June 2021, dividends for 2020 were approved in the amount of 213 RUB per common share. At the extraordinary shareholders’ meeting on 3 December 2020, interim dividends for 2020 were approved in the amount of 46 RUB per common share. Total dividends for 2020 were approved in the amount of 259 RUB per common share.

Dividends on the Company’s shares payable of 25,644 million RUB and 699 million RUB are included in “Other current liabilities” in the consolidated statement of financial position at 31 December 2021 and 2020, respectively.

Note 23. Equity (continued)

Earnings per share

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

	2021	2020
Profit for the year attributable to PJSC LUKOIL shareholders	773,442	15,175
Weighted average number of common shares (thousands of shares)	652,365	650,965
Dilutive effect of equity-settled share-based compensation plan (thousands of shares)	32,603	24,827
Weighted average number of common shares, assuming dilution (thousands of shares)	684,968	675,792
Profit per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):		
Basic	1,185.60	23.31
Diluted	1,129.17	22.46

Note 24. Personnel expenses

Personnel expenses were as follows:

	2021	2020
Payroll costs	166,844	156,597
Statutory insurance contributions and social taxes	37,309	35,063
Share-based compensation	31,366	31,366
Total personnel expenses	235,519	223,026

Note 25. Finance income and costs

Finance income was as follows:

	2021	2020
Interest income from deposits	9,874	6,244
Interest income from loans	4,383	4,245
Other finance income	2,262	2,562
Total finance income	16,519	13,051

Finance costs were as follows:

	2021	2020
Interest expenses	31,609	37,333
Accretion expenses	4,197	4,505
Other finance costs	1,762	2,284
Total finance costs	37,568	44,122

Note 26. Other income and expenses

Other income was as follows:

	2021	2020
Gain on disposal of assets	5,260	2,618
Reversal of impairment of assets	26,687	7,267
Other income	12,219	8,085
Total other income	44,166	17,970

Note 26. Other income and expenses (continued)

Other expenses were as follows:

	2021	2020
Loss on disposal of assets	14,355	20,755
Impairment loss	36,647	114,665
Charity expenses	6,651	8,423
Other expenses	10,156	11,287
Total other expenses	67,809	155,130

Note 27. Lease

Primarily the Group leases such assets as transport (vessels, tank cars), land, storage facilities, drilling rigs and other equipment. The lease typically runs for a period of 3–5 years. Some leases include an option to renew the lease for additional period after the end of the non-cancellable period. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal option. Moreover, in determining the lease term the Group also took into account economic factors, which influence asset usage duration in its activity.

	Exploration and production assets	Refining, marketing and distribution assets	Other assets	Total
Carrying amounts				
Property, plant and equipment owned	3,233,821	812,161	45,976	4,091,958
Right-of-use assets	34,101	132,142	4,929	171,172
31 December 2021	3,267,922	944,303	50,905	4,263,130
Property, plant and equipment owned	3,214,181	820,657	49,574	4,084,412
Right-of-use assets	35,567	138,873	5,622	180,062
31 December 2020	3,249,748	959,530	55,196	4,264,474

Right-of-use assets:

	Exploration and production assets	Refining, marketing and distribution assets	Other assets	Total
1 January 2021	35,567	138,873	5,622	180,062
Additions	5,449	31,275	14	36,738
Depreciation for the period	(9,245)	(37,587)	(853)	(47,685)
Other movements	2,330	(419)	146	2,057
31 December 2021	34,101	132,142	4,929	171,172
1 January 2020	39,946	131,829	4,406	176,181
Additions	2,589	45,573	1,868	50,030
Depreciation for the period	(10,322)	(54,497)	(754)	(65,573)
Other movements	3,354	15,968	102	19,424
31 December 2020	35,567	138,873	5,622	180,062

Lease liabilities:

31 December 2021	185,843
Incl.: Non-current	156,502
Current	29,341
31 December 2020	193,872
Incl.: Non-current	159,340
Current	34,532

Note 27. Lease (continued)

Within the consolidated statement of profit or loss and other comprehensive income the following expenses were recognised: interest on lease liabilities in the amount of 9,140 million RUB and 9,435 million RUB and variable lease payments not included in the measurement of lease liabilities in the amount of 9,336 million RUB and 10,853 million RUB during 2021 and 2020, respectively. Income from sub-leasing right-of-use assets was not material.

Within the consolidated statement of cash flows the total cash outflow under leases, including variable lease payments attributable to capital expenditure, amounted to 123,355 million RUB and 170,990 million RUB during 2021 and 2020, respectively.

Note 28. Income tax

Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) the Federal income tax rate is set as 3.0% and the regional income tax rate is set as 17.0%. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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

Income tax was as follows:

	2021	2020
Current income tax expense for the year	162,872	63,458
Adjustment for prior periods	935	(2,096)
Current income taxes	163,807	61,362
Deferred income tax	27,644	20,792
Total income tax expense	191,451	82,154

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

	2021	2020
Profit before income taxes	966,964	98,787
Notional income tax at the Russian statutory rate	193,393	19,757
Increase (reduction) in income tax due to:		
Non-deductible items, net	17,438	9,483
Domestic and foreign rate differences	(12,315)	7,907
Adjustment for prior periods	935	(2,096)
Change in recognised deductible temporary differences	(8,000)	47,103
Total income tax expense	191,451	82,154

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

Note 28. Income tax (continued)

	31 December 2021	31 December 2020
Property, plant and equipment	11,154	9,221
Investments	13	53
Inventories	10,948	6,658
Accounts receivable	2,497	1,586
Accounts payable and provisions	9,089	9,691
Tax loss carry forward	24,948	22,614
Other	639	522
Total deferred income tax assets	59,288	50,345
Set off of tax	(36,446)	(34,047)
Deferred income tax assets	22,842	16,298
Property, plant and equipment	(320,308)	(290,641)
Investments	(1,316)	(1,863)
Inventories	(5,902)	(3,149)
Accounts receivable	(10,166)	(4,662)
Accounts payable and provisions	(1,078)	(652)
Other	(1,111)	(2,036)
Total deferred income tax liabilities	(339,881)	(303,003)
Set off of tax	36,446	34,047
Deferred income tax liabilities	(303,435)	(268,956)
Net deferred income tax liabilities	(280,593)	(252,658)

	31 December 2020	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2021
Property, plant and equipment	(281,420)	(27,800)	(14)	80	(309,154)
Investments	(1,810)	498	-	9	(1,303)
Inventories	3,509	1,581	(18)	(26)	5,046
Accounts and notes receivable	(3,076)	(4,587)	-	(6)	(7,669)
Accounts payable and provisions	9,039	(722)	-	(306)	8,011
Tax loss carry forward	22,614	2,357	-	(23)	24,948
Other	(1,514)	1,029	-	13	(472)
Net deferred income tax liabilities	(252,658)	(27,644)	(32)	(259)	(280,593)

	31 December 2019	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2020
Property, plant and equipment	(270,843)	(9,859)	244	(962)	(281,420)
Investments	(1,457)	(306)	-	(47)	(1,810)
Inventories	211	3,110	(9)	197	3,509
Accounts and notes receivable	(6,968)	4,385	(13)	(480)	(3,076)
Accounts payable and provisions	9,534	(1,406)	(17)	928	9,039
Tax loss carry forward	35,344	(16,687)	(75)	4,032	22,614
Other	(1,307)	(29)	-	(178)	(1,514)
Net deferred income tax liabilities	(235,486)	(20,792)	130	3,490	(252,658)

Note 28. Income tax (continued)

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

	31 December 2021	31 December 2020
Property, plant and equipment	15,980	15,136
Tax loss carry forward	35,297	39,126
Other	655	5,670
Total unrecognised deferred tax assets	51,932	59,932

Management believes that it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

Amounts recognised in other comprehensive income during 2021:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(20,263)	-	(20,263)
Change in fair value of financial assets at fair value through other comprehensive income	2,572	-	2,572
Remeasurements of defined benefit liability / asset of pension plan	1,601	(198)	1,403
Total	(16,090)	(198)	(16,288)

Amounts recognised in other comprehensive income during 2020:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	268,707	-	268,707
Change in fair value of financial assets at fair value through other comprehensive income	(767)	-	(767)
Remeasurements of defined benefit liability / asset of pension plan	(1,680)	257	(1,423)
Total	266,260	257	266,517

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 1,013,402 million RUB and 1,361,368 million RUB at 31 December 2021 and 2020, respectively. This liability was not recognised because the Group considers such amounts to be indefinitely invested, i.e. management believes that they will not be returned in the foreseeable future. Moreover the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends.

The consequences of taxation in Russia of certain profits of controlled foreign corporations in accordance with applicable tax legislation are accounted for within current and deferred tax liabilities.

Note 29. Commitments and contingencies

Capital commitments

Capital commitments of the Group relating to construction and acquisition of property, plant and equipment amount to 552,506 million RUB and 501,550 million RUB at 31 December 2021 and 2020, respectively.

Insurance

To provide insurance protection, the Group uses the services of Russian and international insurance companies with high ratings. The Group's most significant risks are reinsured at the first-class foreign markets. In respect of liability to third parties for damages to property and the environment resulting from accidents related to the Group's property or activities, the Group has insurance coverage that is generally higher than the limits set by law. Management believes that the Group has sufficient insurance coverage of its core operating assets, as well as risks, which could have a material effect on the Group's operations and financial position.

Note 29. Commitments and contingencies (continued)

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years, which resulted in certain environmental consequences. Environmental regulations are currently in development stage in the Russian Federation and other countries where the Group has operations. Group companies routinely assess and evaluate their environmental obligations in response to new and changing legislation.

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

Social assets

Certain Group companies contribute to Government sponsored programmes, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose substantial fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during 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 significantly increase taxation risks in the Russian Federation and other emerging markets where Group companies operate, comparing to other countries where taxation regimes have been subject to development and clarification over longer periods.

The tax authorities in each region of the Russian Federation may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessfully defended by the Group 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. The Group is subject to tax authority audits on an ongoing basis, which is a normal practice in the Russian Federation 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 the requirements and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 29. Commitments and contingencies (continued)

Litigation and claims

In July 2015, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company’s credit and money laundering. Similar charges were brought against LUKOIL Europe Holdings B.V., a former Group company, for 2010–2014. On 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. Upon preliminary hearings the Prosecutor’s Office revised the amount of damage claimed from \$2.2 billion (163.4 billion RUB) to \$1.5 billion (111.4 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018. At the final hearing on the case which was held on 23 October 2018 the court issued a not guilty decision to all the accused, including general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. themselves. As a result freezing injunction in the amount of approximately \$1.5 billion (111.4 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor’s Office to the Ploesti Court of Appeals. On 27 November 2019, the Ploesti Court of Appeals issued a decision to return the case for a new examination in the court of the first instance. On 24 December 2019, the defendants appealed the decision in an order of extraordinary appeal to the Ploesti Court of Appeals. On 17 June 2020, the Ploesti Court of Appeals rejected the appeal of PETROTEL-LUKOIL S.A. and transferred the case to the Prahova Tribunal. On 9 December 2020, the Prahova Tribunal issued a repeated acquittal due to the absence of an event of a crime. On 16 December 2020, the Prosecutor’s Office filed a protest against the court’s verdict. The hearings took place on 23 September and 21 October 2021. On 25 November 2021 the Ploesti Court of Appeals issued a decision to return the case for a new examination in the court of the first instance. The hearing on the main court case was originally scheduled to 23 February 2022 but was postponed to 12 April 2022. Management does not believe that the outcome of this matter will have a material adverse effect on the Group’s financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the dispute with the Republic of Kazakhstan arising from the Final Production Sharing Agreement relating to the Contract area of the Karachaganak Oil and Gas Condensate Field with respect to cost recovery in 2010-2017. Currently, within the framework of the dispute the parties are making efforts to resolve the existing controversies by way of negotiations and management believes that the amounts of claim, as well as calculations of potential losses arising from the dispute to be preliminary and should not be disclosed in order to avoid any adverse impact on the process. Management also believes that the ultimate outcome of this dispute will not have a material adverse effect on the financial position of the Group.

On 21 May 2020, the Federal Antimonopoly Service of Russia (hereinafter – FAS of Russia) filed a claim to the Arbitration court of the Arkhangelsk region for invalidating the transaction of PJSC LUKOIL for the sale of 100% of shares of JSC Arkhangelskgeoldobycha to LLC Otkritie Promyshlennyye Investitsii in May 2017 and applying the consequences of its invalidity. On 31 July 2020, the Arbitration court of Arkhangelsk region passed the case to Arbitration court of Moscow. The hearing date was postponed to 15 April 2022. The transaction to sell shares of JSC Arkhangelskgeoldobycha was concluded after a five-month due diligence and verification of information provided by the seller and the buyer, without any objections from regulatory authorities, in strict compliance with the Russian legislation, after an approval was obtained from the Governmental Commission for Control over Foreign Investments in the Russian Federation. In addition, a written approval was obtained from FAS of Russia to conduct this transaction. The price of the asset was agreed by the parties of the transaction as a result of the lengthy negotiations where largest investment banks were involved as advisers, which confirms the market nature of the deal. In this regard, the Company does not agree with the arguments set out in the claim of FAS of Russia and regards itself as a bona fide seller in this transaction, and will take all necessary measures to protect its rights and legitimate interests. Management does not believe that the outcome of this matter will have a material adverse effect on the Group’s financial position.

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

Note 30. Related party 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 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 associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures. Loans and borrowings mostly represent lease obligations.

Outstanding balances with related parties were as follows:

	31 December 2021	31 December 2020
Accounts receivable and other current assets	5,295	2,474
Other financial assets	32,903	32,403
Total assets	38,198	34,877
Accounts payable	9,364	6,902
Short term borrowings and long-term debt	17,623	17,649
Total liabilities	26,987	24,551

Related party transactions were as follows:

	2021	2020
Sales of oil and oil products	33,191	15,351
Other sales	3,303	2,707
Purchases of oil and oil products	75,342	57,915
Other purchases	21,374	18,342
Proceeds from sale of other financial assets, net	2,321	5,075
(Principal repayments) proceeds from issuance of short term borrowings and long-term debt, net	(1,490)	2,080

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,768 million RUB and 1,728 million RUB during 2021 and 2020, respectively.

Also, a provision under the compensation plan (disclosed in Note 31 “Compensation plan”) was accrued in relation to the Company’s key management personnel in the amount of 3,137 million RUB during 2021 and 2020.

Note 31. Compensation plan

In late December 2017, the Company announced a compensation plan based on approximately 40 million shares available to certain members of management and key employees for the period from 2018 to 2022, which was implemented in July 2018 and recognised as equity-settled share-based compensation plan.

The fair value of the plan was estimated at the grant date at 156.8 billion RUB based on forecasting principles of Monte-Carlo model and is not going to be recalculated in the future. The fair value was estimated assuming a spot-price of the Company’s share in the amount of 4,355 RUB at the grant date, discount for illiquidity in the amount of 9.95% per annum, a risk-free interest rate of 7.50% per annum, an expected dividend yield of 4.99% per annum, an expected time to maturity of five years and a volatility factor of 25.68%. The expected volatility factor was estimated based on the historical volatility of the Company’s shares for the previous five years. The vesting of shares is contingent on meeting the requisite service period, certain KPIs and share price appreciation. The Group is planning to recognise expenses related to the plan evenly during the vesting period.

Related to this share plan the Group recognised compensation expenses of 31,366 million RUB during 2021 and 2020.

Note 32. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other. 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 crude oil and gas. The refining, marketing and distribution segment includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

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

Operating segments

2021	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	261,725	9,158,150	15,268	-	9,435,143
Inter-segment	2,594,151	77,382	36,387	(2,707,920)	-
Total revenues	2,855,876	9,235,532	51,655	(2,707,920)	9,435,143
Operating expenses	279,074	276,170	11,879	(57,931)	509,192
Selling, general and administrative expenses	41,611	135,140	67,841	(29,402)	215,190
Profit (loss) for the year attributable to PJSC LUKOIL shareholders	572,284	284,333	(61,037)	(22,138)	773,442
EBITDA	986,255	487,294	(50,208)	(18,930)	1,404,411
Income tax expense					(191,451)
Finance income					16,519
Finance costs					(37,568)
Foreign exchange gain					2,731
Equity share in income of associates and joint ventures					29,980
Other expenses					(23,643)
Depreciation, depletion and amortisation					(425,466)
Profit for the year attributable to non-controlling interests					(2,071)
Profit for the year attributable to PJSC LUKOIL shareholders					773,442

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Note 32. Segment information (continued)

2020	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	164,993	5,455,680	18,728	-	5,639,401
Inter-segment	1,377,246	70,300	40,892	(1,488,438)	-
Total revenues	1,542,239	5,525,980	59,620	(1,488,438)	5,639,401
Operating expenses	262,343	195,558	14,875	(32,803)	439,973
Selling, general and administrative expenses	48,670	120,607	62,838	(33,088)	199,027
Profit (loss) for the year attributable to PJSC LUKOIL shareholders	125,192	(4,882)	(102,523)	(2,612)	15,175
EBITDA	500,081	243,322	(39,378)	(16,931)	687,094
Income tax expense					(82,154)
Finance income					13,051
Finance costs					(44,122)
Foreign exchange loss					(26,110)
Equity share in income of associates and joint ventures					11,474
Other expenses					(137,160)
Depreciation, depletion and amortisation					(405,440)
Profit for the year attributable to non-controlling interests					(1,458)
Profit for the year attributable to PJSC LUKOIL shareholders					15,175

Geographical segments

	2021	2020
Sales of crude oil within Russia	86,338	23,522
Export of crude oil and sales of crude oil by foreign subsidiaries	3,529,957	1,918,944
Sales of petroleum products within Russia	1,043,067	785,663
Export of petroleum products and sales of petroleum products by foreign subsidiaries	4,261,684	2,548,961
Sales of chemicals within Russia	58,685	36,386
Export of chemicals and sales of chemicals by foreign subsidiaries	101,491	57,036
Sales of gas within Russia	29,714	32,649
Sales of gas by foreign subsidiaries	142,692	68,200
Sales of energy and related services within Russia	57,227	53,607
Sales of energy and related services by foreign subsidiaries	14,316	10,451
Other sales within Russia	48,597	40,169
Other export sales and other sales of foreign subsidiaries	61,375	63,813
Total sales	9,435,143	5,639,401

2021	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,429,116	8,006,027	-	9,435,143
Inter-segment	1,779,341	4,288	(1,783,629)	-
Total revenues	3,208,457	8,010,315	(1,783,629)	9,435,143
Operating expenses	352,409	144,499	12,284	509,192
Selling, general and administrative expenses	99,605	119,625	(4,040)	215,190
Profit for the year attributable to PJSC LUKOIL shareholders	738,170	57,366	(22,094)	773,442
EBITDA	1,180,553	247,044	(23,186)	1,404,411

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Note 32. Segment information (continued)

2020	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,041,967	4,597,434	-	5,639,401
Inter-segment	994,845	1,670	(996,515)	-
Total revenues	2,036,812	4,599,104	(996,515)	5,639,401
Operating expenses	314,341	91,499	34,133	439,973
Selling, general and administrative expenses	91,727	110,938	(3,638)	199,027
Profit (loss) for the year attributable to PJSC LUKOIL shareholders	202,309	(184,450)	(2,684)	15,175
EBITDA	590,553	105,065	(8,524)	687,094

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

	2021	2020
Sales revenues		
in Switzerland	4,606,978	2,449,415
in the USA	1,197,085	680,033
in Singapore	621,637	357,647

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

Note 33. Subsidiaries

The most significant subsidiaries of the Group are presented below:

Subsidiary	Country of incorporation	31 December 2021		31 December 2020	
		Total shares	Voting shares	Total shares	Voting shares
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-PERM LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
SOYUZNEFTEGAZ VOSTOK LIMITED	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftohim Burgas AD	Bulgaria	99.85%	99.85%	99.85%	99.85%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Securities B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Pan Americas LLC	USA	100.00%	100.00%	100.00%	100.00%

Note 34. Fair value

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

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

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

Level 3 – unobservable inputs.

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2021 and 2020.

31 December 2021	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	1,553	-	1,553	-	1,553
Financial assets at fair value through profit or loss	33,732	-	-	33,732	33,732
Financial assets at fair value through other comprehensive income	5,929	5,929	-	-	5,929
Financial liabilities:					
Commodity derivative contracts	1,377	-	1,377	-	1,377
Loans and borrowings	749,058	514,279	-	243,070	757,349

31 December 2020	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Commodity derivative contracts	316	-	316	-	316
Financial assets at fair value through profit or loss	33,195	-	-	33,195	33,195
Financial assets at fair value through other comprehensive income	2,491	2,491	-	-	2,491
Financial liabilities:					
Commodity derivative contracts	418	-	418	-	418
Loans and borrowings	638,453	362,818	-	307,832	670,650

The fair values of cash and cash equivalents (Level 1), accounts receivable and long-term accounts receivable (Level 3), short-term borrowings (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing instruments. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2021 and 2020.

Note 35. Capital and risk management

The Group's governing bodies pay great attention to risk management issues to provide a reasonable guarantee for the achievement of the set objectives under the conditions characterised by uncertainties and negative impact factors. The Group is constantly identifying, describing, estimating and monitoring the possible events that may affect its activities, and is elaborating measures to prevent them or mitigate their negative impact to the greatest extent possible if such events do take place.

Note 35. Capital and risk management (continued)

The Group seeks to actively promote risk management and is presently focusing its efforts on the improvement of a general enterprise risk management system (ERM) based on the best international practices. The Group is constantly improving the applicable regulatory methodological risk management base that establishes requirements aimed at organizing the risk management process at all stages, and defines management standards for certain risk types of utmost importance, which are uniform for all of Group organisations. The Risk Committee, a dedicated body under the President of the Company, was set up and began its work in 2011.

The information with regard to key financial risks of the Group is presented below.

Credit risk

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

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

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

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2021	31 December 2020
Not past due	679,265	342,930
Past due less than 45 days	24,879	10,895
Past due from 46 to 180 days	7,204	4,315
Past due from 181 to 270 days	5,463	635
Past due from 271 to 365 days	8,790	11,053
Past due more than 365 days	16,271	443
Total trade and other receivables	741,872	370,271

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

Allowance for expected credit losses changed as follows during 2021:

31 December 2020	37,692
Increase in allowance charged to profit or loss	9,085
Write-off	(5,172)
Foreign currency translation differences	(600)
Other	(492)
31 December 2021	40,513

Note 35. Capital and risk management (continued)

Allowance for expected credit losses changed as follows during 2020:

31 December 2019	31,287
Increase in allowance charged to profit or loss	5,771
Write-off	(2,379)
Foreign currency translation differences	3,679
Other	(666)
31 December 2020	37,692

Financial instruments used by the Group and potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter production contracts and trade receivables. The cash and cash equivalents are held with banks, which are generally highly rated.

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

Liquidity risk

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

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

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings, including interest expense	67,925	98,303	14,972	5,897	41,626	35,808
Bonds, including interest expense	507,821	609,355	56,535	126,378	113,472	312,970
Lease obligations	185,843	239,418	38,635	30,103	71,025	99,655
Trade and other payables	783,778	783,778	781,949	710	800	319
Derivative financial liabilities	1,377	1,377	1,377	-	-	-
31 December 2021	1,546,744	1,732,231	893,468	163,088	226,923	448,752

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings, including interest expense	134,092	173,227	50,966	23,218	47,289	51,754
Bonds, including interest expense	334,313	407,958	15,295	50,764	135,780	206,119
Lease obligations	193,872	257,533	44,232	27,429	67,514	118,358
Trade and other payables	597,406	597,406	595,465	1,437	141	363
Derivative financial liabilities	418	418	418	-	-	-
31 December 2020	1,260,101	1,436,542	706,376	102,848	250,724	376,594

Note 35. Capital and risk management (continued)

Currency risk

The Group is subject to foreign exchange risks since it operates in a number of countries. The exchange rate of the Russian ruble to the US dollar produces the greatest impact on transaction results, since the Group's export proceeds are denominated in dollars, while the major costs are incurred in Russia and are denominated in Russian rubles.

As part of the centralised approach to management of the treasury operations and liquidity of the Group, the risks associated with unfavorable changes in the exchange rates are generally consolidated at the corporate level. The Company uses an integrated approach to manage its currency risks, including the application of natural hedging mechanisms, which encompass management of the currency structure of its monetary assets and liabilities.

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2021 and 2020 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

31 December 2021	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	16,921	63,201	3,185
Trade and other receivables	179,599	17,061	27,161
Loans	326,739	3,135	-
Other financial assets	2,574	4	88
Financial liabilities:			
Loans and borrowings	(350,565)	(53,893)	(12,229)
Trade and other payables	(6,782)	(28,667)	(41,124)
Net exposure	168,486	841	(22,919)

31 December 2020	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	2,014	56,041	778
Trade and other receivables	79,401	181	4,516
Loans	260,894	3,452	-
Other financial assets	1,698	2	90
Financial liabilities:			
Loans and borrowings	(354,100)	(41,051)	(8,470)
Trade and other payables	(29,350)	(8,622)	(19,875)
Net exposure	(39,443)	10,003	(22,961)

The following exchange rates applied:

	31 December 2021	31 December 2020
USD	74.29	73.88
EUR	84.07	90.68

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2021 and 2020 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

Note 35. Capital and risk management (continued)

	Profit (loss)	
	2021	2020
US Dollar (increase by 10%)	16,473	(5,262)
Euro (increase by 10%)	(60)	1,121
Russian ruble (increase by 10%)	(14,873)	3,873

The weakening of these currencies by 10% will have equal effect on profit (loss) but with opposite sign.

Interest rate risk

The Group is exposed to a significant interest rate risk both in the short- and long-term. A change in interest rates may affect the cost of funds borrowed by the Group as well as the size of cash flows.

To mitigate this risk, the Group is constantly monitoring market conditions, taking measures to improve the debt structure by reaching an optimum balance between fixed and variable interest rates, controlling the need for additional financing and outstanding debt refinancing, extending the term of debt obligations.

The interest rate profiles of the Group are presented below:

	31 December 2021	31 December 2020
<i>Fixed rate instruments:</i>		
Financial assets	36,099	35,603
Financial liabilities	(691,309)	(527,063)
Net exposure	(655,210)	(491,460)
<i>Variable rate instruments:</i>		
Financial assets	36,304	39,523
Financial liabilities	(66,641)	(132,648)
Net exposure	(30,337)	(93,125)

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2021 and 2020 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
2021		
Net financial liabilities	(303)	303
2020		
Net financial liabilities	(931)	931

Capital management

The Group's capital management objectives are to secure the ability to continue as a going concern and to optimise the cost of capital in order to enhance value to shareholders. The Company's management performs regular assessment of the net debt to equity ratio to ensure it meets the Company's current rating requirements. Equity includes share capital, reserves and retained earnings, as well as non-controlling interests. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings, as presented in the consolidated statement of financial position, less cash and cash equivalents. Net debt to equity ratio enables the users to see how significant net debt is.

Note 35. Capital and risk management (continued)

The Group's net debt to equity ratio was as follows:

	31 December 2021	31 December 2020
Total debt	757,950	659,711
Less cash and cash equivalents	(677,482)	(343,832)
Net debt	80,468	315,879
Equity	4,523,184	4,130,766
Net debt to equity ratio	1.78%	7.65%

Supplementary Information on Oil and Gas Exploration and Production Activities

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

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

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

I. Capitalised costs relating to oil and gas producing activities

31 December 2021	International	Russia	Total consolidated companies	Group's share in equity method companies
Unproved oil and gas properties	123,833	128,120	251,953	35,405
Proved oil and gas properties	1,689,995	3,760,810	5,450,805	389,168
Accumulated DD&A	(1,085,251)	(1,367,397)	(2,452,648)	(130,590)
Net capitalised costs	728,577	2,521,533	3,250,110	293,983

31 December 2020	International	Russia	Total consolidated companies	Group's share in equity method companies
Unproved oil and gas properties	105,907	123,493	229,400	37,901
Proved oil and gas properties	1,645,275	3,558,589	5,203,864	370,006
Accumulated DD&A	(980,878)	(1,212,856)	(2,193,734)	(120,843)
Net capitalised costs	770,304	2,469,226	3,239,530	287,064

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

2021	International	Russia	Total consolidated companies	Group's share in equity method companies
Acquisition of properties - Proved	-	1,097	1,097	-
Acquisition of properties - Unproved	-	1,333	1,333	629
Exploration costs	12,899	18,100	30,999	1,926
Development costs	51,634	253,987	305,621	17,266
Total costs incurred	64,533	274,517	339,050	19,821

2020	International	Russia	Total consolidated companies	Group's share in equity method companies
Acquisition of properties - Unproved	-	1,443	1,443	-
Exploration costs	8,151	30,862	39,013	237
Development costs	43,959	311,355	355,314	10,824
Total costs incurred	52,110	343,660	395,770	11,061

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. Sales and transfers to Group companies are based on market prices, income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

2021	International	Russia	Total consolidated companies	Group's share in equity method companies
Revenue				
Sales	211,112	1,128,834	1,339,946	62,488
Transfers	-	1,290,175	1,290,175	2,051
Total revenues	211,112	2,419,009	2,630,121	64,539
Production costs (excluding production taxes)	(42,104)	(162,453)	(204,557)	(5,910)
Exploration expenses	(4,093)	(2,983)	(7,076)	(28)
Depreciation, depletion and amortisation	(104,077)	(193,111)	(297,188)	(8,241)
Taxes other than income taxes	(1,069)	(1,352,412)	(1,353,481)	(20,159)
Related income taxes	(12,822)	(134,102)	(146,924)	(10,794)
Total results of operations for producing activities	46,947	573,948	620,895	19,407

2020	International	Russia	Total consolidated companies	Group's share in equity method companies
Revenue				
Sales	123,966	645,991	769,957	33,879
Transfers	-	572,660	572,660	1,039
Total revenues	123,966	1,218,651	1,342,617	34,918
Production costs (excluding production taxes)	(40,583)	(158,328)	(198,911)	(7,395)
Exploration expenses	(3,163)	(2,951)	(6,114)	-
Depreciation, depletion and amortisation	(77,736)	(191,707)	(269,443)	(8,632)
Taxes other than income taxes	(755)	(611,640)	(612,395)	(8,864)
Related income taxes	(1,163)	(56,455)	(57,618)	(4,161)
Total results of operations for producing activities	566	197,570	198,136	5,866

IV. Reserve quantity information

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

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

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

PJSC LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)****(Millions of Russian rubles, unless otherwise noted)**

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licences in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a licence is subject to renewal at the initiative of the licence holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the licence holder has not violated the terms of the licence. Since the law applies to both newly issued and old licences and the Group has currently renewed 66% of its licences, management believes that licences will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto for 2021 and 2020 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity method companies
Crude oil	International	Russia	Total	
31 December 2019	384	11,358	11,742	273
Revisions of previous estimates	140	(268)	(128)	6
Extensions and discoveries	28	373	401	2
Production	(39)	(549)	(588)	(16)
31 December 2020	513	10,914	11,427	265
Revisions of previous estimates	(139)	175	36	(5)
Purchase/sale of hydrocarbons in place*	-	16	16	(4)
Extensions and discoveries	11	433	444	5
Production	(30)	(568)	(598)	(14)
31 December 2021	355	10,970	11,325	247
Proved developed reserves				
31 December 2020	283	7,210	7,493	104
31 December 2021	229	7,429	7,658	120

*Sale 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 60 million barrels and 61 million barrels at 31 December 2021 and 2020, respectively. The non-controlling interest share included in the above proved developed reserves was 37 million barrels and 38 million barrels at 31 December 2021 and 2020, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity method companies
Natural gas	International	Russia	Total	
31 December 2019	5,868	16,426	22,294	233
Revisions of previous estimates	204	73	277	11
Extensions and discoveries	15	350	365	-
Production	(381)	(617)	(998)	(26)
31 December 2020	5,706	16,232	21,938	218
Revisions of previous estimates	521	305	826	10
Purchase/sale of hydrocarbons in place*	2	13	15	(5)
Extensions and discoveries	10	297	307	4
Production	(546)	(565)	(1,111)	(25)
31 December 2021	5,693	16,282	21,975	202
Proved developed reserves				
31 December 2020	4,118	5,746	9,864	113
31 December 2021	3,847	5,603	9,450	120

*Sale 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 23 billion cubic feet at 31 December 2021 and 2020. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet and 15 billion cubic feet at 31 December 2021 and 2020, respectively. All non-controlling interests relate to reserves in the Russian Federation.

V. Standardised measure of discounted future net cash flows

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

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

			Total consolidated companies	Group's share in equity method companies
31 December 2021	International	Russia		
Future cash inflows	2,796,202	51,116,716	53,912,918	1,095,313
Future production and development costs	(1,468,599)	(40,375,139)	(41,843,738)	(584,612)
Future income tax expenses	(164,013)	(1,815,645)	(1,979,658)	(116,430)
Future net cash flows	1,163,590	8,925,932	10,089,522	394,271
Discount for estimated timing of cash flows (10% p.a.)	(499,839)	(4,590,317)	(5,090,156)	(149,683)
Discounted future net cash flows	663,751	4,335,615	4,999,366	244,588
Non-controlling share in discounted future net cash flows	-	27,545	27,545	-
31 December 2020	International	Russia	Total consolidated companies	Group's share in equity method companies
Future cash inflows	2,361,227	28,537,502	30,898,729	639,463
Future production and development costs	(1,462,485)	(23,445,365)	(24,907,850)	(392,022)
Future income tax expenses	(108,293)	(679,792)	(788,085)	(76,904)
Future net cash flows	790,449	4,412,345	5,202,794	170,537
Discount for estimated timing of cash flows (10% p.a.)	(306,616)	(2,345,485)	(2,652,101)	(84,307)
Discounted future net cash flows	483,833	2,066,860	2,550,693	86,230
Non-controlling share in discounted future net cash flows	-	12,861	12,861	-

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

Consolidated companies	2021	2020
Discounted present value at 1 January	2,550,693	4,227,145
Net changes due to purchases and sales of minerals in place	5,385	23
Sales and transfers of oil and gas produced, net of production costs	(1,065,007)	(525,197)
Net changes in prices and production costs estimates	10,666,754	(4,640,038)
Net changes in mineral extraction taxes	(7,609,605)	2,622,343
Extensions and discoveries, less related costs	198,810	86,574
Previously estimated development cost incurred during the year	291,048	360,474
Revisions of previous quantity estimates	105,832	20,422
Net change in income taxes	(583,505)	381,202
Accretion of discount	267,681	461,076
Other changes	171,280	(443,331)
Discounted present value at 31 December	4,999,366	2,550,693

Group's share in equity method companies	2021	2020
Discounted present value at 1 January	86,230	125,573
Net changes due to purchases and sales of minerals in place	-	(60)
Sales and transfers of oil and gas produced, net of production costs	(38,442)	(18,659)
Net changes in prices and production costs estimates	339,838	(116,411)
Net changes in mineral extraction taxes	(146,612)	74,626
Extensions and discoveries, less related costs	4,227	1,047
Previously estimated development cost incurred during the year	24,887	26,199
Revisions of previous quantity estimates	(10,861)	2,013
Net change in income taxes	(24,492)	14,268
Accretion of discount	13,491	17,621
Other changes	(3,678)	(39,987)
Discounted present value at 31 December	244,588	86,230