



PJSC LUKOIL

**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

for the three-month period ended 31 March 2020

**prepared in accordance with IFRS
(unaudited)**

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



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Independent Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

To the Shareholders and Board of Directors

PJSC LUKOIL

Introduction

We have reviewed the accompanying consolidated statement of financial position of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group") as at 31 March 2020, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three - month period then ended, and notes to the condensed interim consolidated financial statements (the "condensed interim consolidated financial statements"). Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

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

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

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

Moscow, Russia.

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

Registration No. in the Unified State Register of Legal Entities
1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.



PJSC LUKOIL

Independent Auditors' Report on Review of Condensed Interim Consolidated Financial Statements

Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements as at 31 March 2020 and for the three-month period then ended are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Oussov A.I.

JSC "KPMG"


Moscow, Russia

2 June 2020

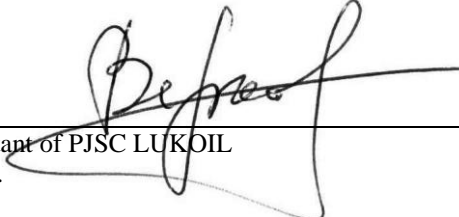


PJSC LUKOIL
Consolidated Statement of Financial Position
(Millions of Russian rubles)

| | Note | 31 March 2020 (unaudited) | 31 December 2019 |
|--|------|------------------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 500,653 | 516,032 |
| Accounts receivable, net | 7 | 445,703 | 437,052 |
| Other current financial assets | 8 | 50,898 | 49,706 |
| Inventories | 9 | 306,110 | 413,910 |
| Prepaid taxes | 10 | 92,612 | 95,075 |
| Other current assets | 11 | 56,188 | 42,412 |
| Total current assets | | 1,452,164 | 1,554,187 |
| Property, plant and equipment | 13 | 4,258,283 | 4,026,007 |
| Investments in associates and joint ventures | 12 | 274,908 | 220,004 |
| Other non-current financial assets | 14 | 41,885 | 38,231 |
| Deferred income tax assets | | 21,272 | 28,673 |
| Goodwill and other intangible assets | | 46,550 | 43,108 |
| Other non-current assets | | 32,734 | 36,840 |
| Total non-current assets | | 4,675,632 | 4,392,863 |
| Total assets | | 6,127,796 | 5,947,050 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Accounts payable | 16 | 517,335 | 607,734 |
| Short-term borrowings and current portion of long-term debt | 17 | 172,469 | 130,300 |
| Taxes payable | 19 | 120,201 | 142,471 |
| Provisions | 21 | 45,271 | 37,232 |
| Other current liabilities | 20 | 27,894 | 168,952 |
| Obligation to repurchase common shares | 22 | - | 120,988 |
| Total current liabilities | | 883,170 | 1,207,677 |
| Long-term debt | 18 | 516,816 | 422,932 |
| Deferred income tax liabilities | | 262,647 | 264,159 |
| Provisions | 21 | 95,551 | 77,045 |
| Other non-current liabilities | | 2,015 | 1,788 |
| Total non-current liabilities | | 877,029 | 765,924 |
| Total liabilities | | 1,760,199 | 1,973,601 |
| Equity | | | |
| Share capital | 22 | 938 | 968 |
| Treasury shares (including obligation to repurchase common shares) | | (71,920) | (308,160) |
| Additional paid-in capital | | 39,275 | 39,277 |
| Other reserves | | 343,276 | 30,141 |
| Retained earnings | | 4,047,772 | 4,203,138 |
| Total equity attributable to PJSC LUKOIL shareholders | | 4,359,341 | 3,965,364 |
| Non-controlling interests | | 8,256 | 8,085 |
| Total equity | | 4,367,597 | 3,973,449 |
| Total liabilities and equity | | 6,127,796 | 5,947,050 |



 President of PJSC LUKOIL
 Alekperov V.Y.



 Chief accountant of PJSC LUKOIL
 Verkhov V.A.

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

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

| | Note | For the three months ended 31 March 2020 (unaudited) | For the three months ended 31 March 2019 (unaudited) |
|--|------|---|---|
| Revenues | | | |
| Sales (including excise and export tariffs) | 29 | 1,665,985 | 1,850,933 |
| Costs and other deductions | | | |
| Operating expenses | | (111,518) | (109,169) |
| Cost of purchased crude oil, gas and products | | (971,675) | (987,525) |
| Transportation expenses | | (80,059) | (73,222) |
| Selling, general and administrative expenses | | (45,109) | (49,573) |
| Depreciation, depletion and amortisation | | (110,718) | (103,830) |
| Taxes other than income taxes | | (193,708) | (221,019) |
| Excise and export tariffs | | (112,679) | (111,456) |
| Exploration expenses | | (394) | (912) |
| Profit from operating activities | | 40,125 | 194,227 |
| Finance income | 24 | 4,811 | 5,984 |
| Finance costs | 24 | (10,249) | (11,734) |
| Equity share in income of affiliates | 12 | 4,431 | 6,180 |
| Foreign exchange (loss) gain | | (14,910) | 1,901 |
| Other expenses | 25 | (46,614) | (3,972) |
| (Loss) profit before income taxes | | (22,406) | 192,586 |
| Current income taxes | | (17,038) | (41,381) |
| Deferred income taxes | | (6,340) | (1,415) |
| Total income tax expense | | (23,378) | (42,796) |
| (Loss) profit for the period | | (45,784) | 149,790 |
| Profit for the period attributable to non-controlling interests | | (176) | (554) |
| (Loss) profit for the period attributable to PJSC LUKOIL shareholders | | (45,960) | 149,236 |
| Other comprehensive income (loss), net of income taxes | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Foreign currency translation differences for foreign operations | | 315,622 | (101,721) |
| <i>Items that will never be reclassified to profit or loss:</i> | | | |
| Change in fair value of equity investments at fair value through other comprehensive income | | (2,162) | 1,178 |
| Remeasurements of defined benefit liability / asset of pension plan | | (332) | 97 |
| Other comprehensive income (loss) | | 313,128 | (100,446) |
| Total comprehensive income for the period | | 267,344 | 49,344 |
| Total comprehensive income for the period attributable to non-controlling interests | | (169) | (545) |
| Total comprehensive income for the period attributable to PJSC LUKOIL shareholders | | 267,175 | 48,799 |
| Earnings per share | | | |
| (Loss) profit for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles): | 22 | | |
| Basic | | (71.11) | 215.71 |
| Diluted | | (68.50) | 210.35 |

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

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

| | Share capital | Treasury shares | Additional paid-in capital | Other reserves | Retained earnings | Total equity attributable to PJSC LUKOIL shareholders | Non-controlling interests | Total equity |
|--|---------------|------------------|----------------------------|------------------|-------------------|---|---------------------------|------------------|
| 31 December 2019 | 968 | (308,160) | 39,277 | 30,141 | 4,203,138 | 3,965,364 | 8,085 | 3,973,449 |
| (Loss) profit for the period | - | - | - | - | (45,960) | (45,960) | 176 | (45,784) |
| Other comprehensive income (loss) | - | - | - | 313,135 | - | 313,135 | (7) | 313,128 |
| Total comprehensive income (loss) | | | | 313,135 | (45,960) | 267,175 | 169 | 267,344 |
| Stock purchased | - | (2,026) | - | - | - | (2,026) | - | (2,026) |
| Equity-settled share-based compensation plan | - | - | - | - | 7,842 | 7,842 | - | 7,842 |
| Obligation to repurchase common shares | - | 120,988 | - | - | - | 120,988 | - | 120,988 |
| Share capital reduction | (30) | 117,278 | - | - | (117,248) | - | - | - |
| Changes in non-controlling interests | - | - | (2) | - | - | (2) | 2 | - |
| 31 March 2020 | 938 | (71,920) | 39,275 | 343,276 | 4,047,772 | 4,359,341 | 8,256 | 4,367,597 |
| 31 December 2018 | 1,015 | (134,810) | 39,173 | 196,554 | 3,963,628 | 4,065,560 | 7,966 | 4,073,526 |
| Profit for the period | - | - | - | - | 149,236 | 149,236 | 554 | 149,790 |
| Other comprehensive loss | - | - | - | (100,437) | - | (100,437) | (9) | (100,446) |
| Total comprehensive (loss) income | | | | (100,437) | 149,236 | 48,799 | 545 | 49,344 |
| Stock purchased | - | (73,953) | - | - | - | (73,953) | - | (73,953) |
| Equity-settled share-based compensation plan | - | - | - | - | 7,842 | 7,842 | - | 7,842 |
| Changes in non-controlling interests | - | - | (41) | - | - | (41) | 66 | 25 |
| 31 March 2019 | 1,015 | (208,763) | 39,132 | 96,117 | 4,120,706 | 4,048,207 | 8,577 | 4,056,784 |

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

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

| | Note | For the three months ended 31 March 2020 (unaudited) | For the three months ended 31 March 2019 (unaudited) |
|--|------|---|---|
| Cash flows from operating activities | | | |
| (Loss) profit for the period attributable to PJSC LUKOIL shareholders | | (45,960) | 149,236 |
| Adjustments for non-cash items: | | | |
| Depreciation, depletion and amortisation | | 110,718 | 103,830 |
| Equity share in income of affiliates, net of dividend income | | (3,663) | (5,801) |
| Dry hole write-offs | | 14 | 512 |
| Loss on disposals and impairments of assets | | 45,861 | 1,560 |
| Income tax expense | | 23,378 | 42,796 |
| Non-cash foreign exchange loss (gain) | | 14,114 | (1,667) |
| Finance income | | (4,811) | (5,984) |
| Finance costs | | 10,249 | 11,734 |
| Allowance for expected credit losses | | 1,005 | 4,795 |
| Equity-settled share-based compensation plan | | 7,842 | 7,842 |
| All other items – net | | 2,527 | 2,441 |
| Changes in operating assets and liabilities: | | | |
| Trade accounts receivable | | 71,465 | (17,767) |
| Inventories | | 164,663 | (101,788) |
| Accounts payable | | (164,651) | 56,889 |
| Other taxes | | (13,347) | 35,794 |
| Other current assets and liabilities | | (12,599) | (10,562) |
| Income tax paid | | (26,306) | (35,429) |
| Dividends received | | 943 | 632 |
| Interests received | | 4,288 | 4,261 |
| Net cash provided by operating activities | | 185,730 | 243,324 |
| Cash flows from investing activities | | | |
| Acquisition of licenses | | (129) | (1,524) |
| Capital expenditures | | (130,211) | (97,421) |
| Proceeds from sale of property, plant and equipment | | 85 | 324 |
| Purchases of financial assets | | (1,861) | (3,108) |
| Proceeds from sale of financial assets | | 4,233 | 6,161 |
| Acquisitions of interests in the projects and subsidiaries, net of cash acquired | | (1,040) | (3,666) |
| Acquisitions of equity method affiliates | | (795) | (317) |
| Net cash used in investing activities | | (129,718) | (99,551) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of short-term borrowings | | 4,599 | 142 |
| Principal repayments of short-term borrowings | | (102) | (7,564) |
| Principal repayments of long-term debt | | (15,141) | (13,486) |
| Interest paid | | (4,715) | (5,748) |
| Dividends paid on Company common shares | | (133,060) | (70,199) |
| Dividends paid to non-controlling interest shareholders | | (1,187) | (1,494) |
| Financing received from non-controlling interest shareholders | | 2 | 44 |
| Purchase of Company's stock | | (2,026) | (71,488) |
| Purchases of non-controlling interest | | - | (14) |
| Net cash used in financing activities | | (151,630) | (169,807) |
| Effect of exchange rate changes on cash and cash equivalents | | 80,239 | (22,122) |
| Net decrease in cash and cash equivalents | | (15,379) | (48,156) |
| Cash and cash equivalents at beginning of period | | 516,032 | 492,650 |
| Cash and cash equivalents at end of period | 6 | 500,653 | 444,494 |

The accompanying notes are an integral part of these condensed interim 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 program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

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

Business and economic environment

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

COVID-19

In December 2019, the emergence of a new strain of coronavirus (COVID-19) was reported in China and has subsequently spread globally. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Mobility restrictions, quarantines and similar lockdown measures implemented in different countries to cope with the pandemic had a significant negative impact on the global economy. Deceleration of economic activity resulted in a substantial decrease in demand for hydrocarbons leading to oversupply on the international oil market and a sharp decline in oil prices. Failure of OPEC+ countries to reach a new agreement on crude oil production quotas in the beginning of March put an incremental pressure on oil prices. On 12 April 2020, OPEC+ countries entered into a new agreement to reduce their collective output starting from 1 May 2020. Under this agreement the Group cut its crude oil production in Russia and at some international projects. This coordinated production cut together with the negative impact of low oil prices on crude oil production in different countries resulted in lower supply of crude oil, reduction of surplus on the crude oil market and led to a gradual recovery of oil prices. This upward oil price trend was further supported by the start of gradual lifting of lockdowns in different countries, recovery in economic activity and respective growth in demand for hydrocarbons.

From the beginning of COVID-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees and clients and uninterrupted production processes.

The major impact of COVID-19 on the macroeconomic environment in the oil and gas industry resulted in a number of consequences on operational and financial performance of the Group.

Management has considered the impact of COVID-19 and oil price decline on these condensed interim consolidated financial statements. Current market conditions create additional estimation uncertainties and impact certain key assumptions in the valuation of assets used for preparation of these condensed interim consolidated financial statements. Management has reviewed the price assumptions used in value-in-use impairment testing of property, plant and equipment and lowered them to revised best estimates. For the results of impairment test performed using these revised assumptions and other factors see note 13 “Property, plant and equipment”.

The oil price decline also impacted carrying value of inventory at 31 March 2020, measured at the lower of cost or net realizable value. For more information see note 9 “Inventories”.

Note 1. Organisation and environment (continued)

All other significant accounting judgements and estimates disclosed in 2019 consolidated financial statements remain applicable and no new significant accounting judgements or estimates have been identified.

Management believes that the Group is in a solid financial condition as of the end of the first quarter of 2020. This represents an incremental support for continuous operations and meeting all of the Group's obligations, as well as adequate financing of the investment program in any macroeconomic situation. 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 condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for 2019 prepared in accordance with International Financial Reporting Standards ("IFRS").

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last consolidated financial statements for 2019.

The accompanying condensed interim consolidated financial statements and notes thereto have not been audited by independent auditors, except for the consolidated statement of financial position at 31 December 2019.

The condensed interim consolidated financial statements were authorised by the President of the Company on 2 June 2020.

Functional and presentation currency

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

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. Changes in accounting policies

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the consolidated financial statements for 2019.

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.

Note 4. Use of estimates and judgments (continued)

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

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

- estimation of oil and gas reserves;
- estimation of useful lives of property, plant and equipment;
- impairment of non-current assets;
- assessment 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. Income taxes

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.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to domestic and foreign tax rate differences and the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

Tax expense is recognised based on the management's best estimate of the weighted-average annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period.

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

Note 6. Cash and cash equivalents

| | 31 March 2020 | 31 December 2019 |
|--|----------------------|-------------------------|
| Cash held in RUB | 38,539 | 189,055 |
| Cash held in US dollars | 434,038 | 303,046 |
| Cash held in EUR | 21,146 | 14,909 |
| Cash held in other currencies | 6,930 | 9,022 |
| Total cash and cash equivalents | 500,653 | 516,032 |

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

Note 7. Accounts receivables, net

| | 31 March 2020 | 31 December 2019 |
|--|----------------------|-------------------------|
| Trade accounts receivable (net of allowances of 32,056 million RUB and 26,593 million RUB at 31 March 2020 and 31 December 2019, respectively) | 434,791 | 428,415 |
| Other current accounts receivable (net of allowances of 5,198 million RUB and 4,694 million RUB at 31 March 2020 and 31 December 2019, respectively) | 10,912 | 8,637 |
| Total accounts receivable, net | 445,703 | 437,052 |

Note 8. Other current financial assets

| | 31 March 2020 | 31 December 2019 |
|---|----------------------|-------------------------|
| Financial assets measured at amortised cost | | |
| Short-term loans | 8,613 | 6,814 |
| Financial assets measured at fair value through profit or loss | | |
| Short-term loans | 42,285 | 42,892 |
| Total other current financial assets | 50,898 | 49,706 |

Note 9. Inventories

| | 31 March 2020 | 31 December 2019 |
|---------------------------------------|----------------------|-------------------------|
| Crude oil and petroleum products | 249,813 | 366,795 |
| Materials for extraction and drilling | 27,629 | 22,811 |
| Materials and supplies for refining | 4,144 | 4,449 |
| Other goods, materials and supplies | 24,524 | 19,855 |
| Total inventories | 306,110 | 413,910 |

The cost of crude oil and petroleum products inventories was reduced to net realizable value at 31 March 2020 as a result of significant decrease in international hydrocarbon prices during March 2020. The write-down in the amount of 92 billion RUB is included in “Cost of purchased crude oil, gas and products” in the consolidated statement of profit or loss and other comprehensive income.

Note 10. Prepaid taxes

| | 31 March 2020 | 31 December 2019 |
|--------------------------------|----------------------|-------------------------|
| Income tax prepaid | 25,215 | 17,120 |
| VAT and excise tax recoverable | 25,214 | 30,660 |
| Export duties prepaid | 10,753 | 11,968 |
| VAT prepaid | 25,764 | 30,199 |
| Other taxes prepaid | 5,666 | 5,128 |
| Total prepaid taxes | 92,612 | 95,075 |

Note 11. Other current assets

| | 31 March 2020 | 31 December 2019 |
|-----------------------------------|----------------------|-------------------------|
| Advance payments | 11,462 | 10,246 |
| Prepaid expenses | 28,749 | 23,673 |
| Other assets | 15,977 | 8,493 |
| Total other current assets | 56,188 | 42,412 |

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

Note 12. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

| Name of the company | Country | Ownership | | 31 March 2020 | 31 December 2019 |
|---|------------|---------------|------------------|----------------|------------------|
| | | 31 March 2020 | 31 December 2019 | | |
| <i>Joint ventures:</i> | | | | | |
| Tengizchevroil | Kazakhstan | 5.0% | 5.0% | 152,196 | 119,924 |
| Caspian Pipeline Consortium | Kazakhstan | 12.5% | 12.5% | 53,927 | 40,670 |
| South Caucasus Pipeline Holding Company | Azerbaijan | 10.0% | 10.0% | 38,726 | 30,241 |
| Others | | | | 1,174 | 655 |
| <i>Associates:</i> | | | | | |
| Associates | | | | 28,885 | 28,514 |
| Total | | | | 274,908 | 220,004 |

Note 13. Property, plant and equipment

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|----------------------------|--------------------------------------|-----------------|--------------------|
| Cost | | | | |
| 31 December 2019 | 4,795,674 | 1,510,515 | 76,246 | 6,382,435 |
| Additions | 115,841 | 28,748 | 294 | 144,883 |
| Acquisitions | 1,209 | - | - | 1,209 |
| Disposals | (6,393) | (5,828) | (191) | (12,412) |
| Foreign currency translation differences | 360,560 | 119,075 | 3,269 | 482,904 |
| Other | (4,277) | (755) | (82) | (5,114) |
| 31 March 2020 | 5,262,614 | 1,651,755 | 79,536 | 6,993,905 |
| Depreciation and impairment | | | | |
| 31 December 2019 | (1,766,575) | (589,636) | (21,153) | (2,377,364) |
| Depreciation for the period | (82,415) | (30,223) | (960) | (113,598) |
| Impairment loss | (7,428) | (28,859) | - | (36,287) |
| Disposals | 4,855 | 5,247 | 98 | 10,200 |
| Foreign currency translation differences | (188,542) | (48,139) | (1,139) | (237,820) |
| Other | (732) | 2,123 | (1) | 1,390 |
| 31 March 2020 | (2,040,837) | (689,487) | (23,155) | (2,753,479) |
| Advance payments for property, plant and equipment | | | | |
| 31 December 2019 | 6,791 | 13,314 | 831 | 20,936 |
| 31 March 2020 | 8,077 | 8,938 | 842 | 17,857 |
| Carrying amounts | | | | |
| 31 December 2019 | 3,035,890 | 934,193 | 55,924 | 4,026,007 |
| 31 March 2020 | 3,229,854 | 971,206 | 57,223 | 4,258,283 |

Note 13. Property, plant and equipment (continued)

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|-------------------------------|---|-----------------|--------------------|
| Cost | | | | |
| 31 December 2018 | 4,476,824 | 1,373,743 | 75,882 | 5,926,449 |
| Adjustment on adoption of IFRS 16 | 54,335 | 102,147 | 5,569 | 162,051 |
| 1 January 2019 | 4,531,159 | 1,475,890 | 81,451 | 6,088,500 |
| Additions | 95,101 | 13,059 | 237 | 108,397 |
| Disposals | (3,894) | (1,599) | (72) | (5,565) |
| Foreign currency translation differences | (99,876) | (46,533) | (1,165) | (147,574) |
| Other | 590 | 3,878 | (58) | 4,410 |
| 31 March 2019 | 4,523,080 | 1,444,695 | 80,393 | 6,048,168 |
| Depreciation and impairment | | | | |
| 31 December 2018 | (1,586,508) | (513,668) | (19,380) | (2,119,556) |
| Depreciation for the period | (72,817) | (30,340) | (1,111) | (104,268) |
| Disposals | 1,617 | 988 | 21 | 2,626 |
| Foreign currency translation differences | 51,063 | 17,423 | 475 | 68,961 |
| Other | (3) | 3,972 | 20 | 3,989 |
| 31 March 2019 | (1,606,648) | (521,625) | (19,975) | (2,148,248) |
| Advance payments for property, plant and equipment | | | | |
| 31 December 2018 | 5,916 | 15,669 | 686 | 22,271 |
| 31 March 2019 | 4,905 | 15,861 | 676 | 21,442 |
| Carrying amounts | | | | |
| 31 December 2018 | 2,896,232 | 875,744 | 57,188 | 3,829,164 |
| 31 March 2019 | 2,921,337 | 938,931 | 61,094 | 3,921,362 |

The cost of assets under construction included in property, plant and equipment was 433,953 million RUB and 369,926 million RUB at 31 March 2020 and 31 December 2019, respectively.

Exploration and evaluation assets

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|--|--|--|
| 1 January | 129,951 | 107,105 |
| Capitalised expenditures | 12,008 | 8,116 |
| Acquisitions through business combinations | 362 | - |
| Reclassified to development assets | (5,712) | (2,392) |
| Charged to expenses | (116) | (404) |
| Foreign currency translation differences | 8,592 | (1,954) |
| Other movements | 26 | 89 |
| 31 March | 145,111 | 110,560 |

Due to a significant deterioration in the macroeconomic situation 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 billion RUB, for its international exploration and production assets in the amount of 2 billion RUB and for its international refining, marketing and distribution assets in the amount of 29 billion RUB.

Note 13. Property, plant and equipment (continued)

The recoverable amounts of CGUs subject to impairment in the first quarter of 2020 in the amount of 139 billion RUB were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using 9% 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.

Impairment loss is included in “Other expenses” in the consolidated statement of profit or loss and other comprehensive income.

For impairment test purposes at 31 March 2020 the following Brent Blend price assumptions have been used: \$40.0 per barrel in 2020–2021, \$45.0 per barrel in 2022, \$50.0 per barrel in 2023, \$55.0 per barrel in 2024 and \$60.0 per barrel from 2025.

Note 14. Other non-current financial assets

| | 31 March 2020 | 31 December 2019 |
|---|----------------------|-------------------------|
| Financial assets measured at fair value through other comprehensive income | | |
| Equity instruments | 803 | 2,656 |
| Financial assets measured at amortised cost | | |
| Long-term loans | 30,728 | 26,008 |
| Non-current accounts and notes receivable | 1,841 | 1,371 |
| Other financial assets | 32 | 34 |
| Financial assets measured at fair value through profit or loss | | |
| Long-term loans | 8,481 | 8,162 |
| Total other non-current financial assets | 41,885 | 38,231 |

Note 15. Acquisition of interests in the projects

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo-Brazzaville) developed under the production sharing agreement. In September 2019, the transaction in the amount of 51.4 billion RUB (\$768 million) was closed after all the customary conditions, including approval by the Government of the Republic of Congo, were fulfilled. At 31 March 2020, preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed includes property plant and equipment and assets under construction in the amount of 50.0 billion RUB (\$748 million), inventories in the amount of 0.9 billion RUB (\$13 million) and accounts receivable in the amount of 0.5 billion RUB (\$7 million). Final allocation of the purchase price to the fair value of assets acquired and liabilities assumed is going to be finalised within 12 months from the acquisition date.

After acquisition the Group accounts for this project similar to accounting for jointly controlled operations.

Note 16. Accounts payable

| | 31 March 2020 | 31 December 2019 |
|-------------------------------|----------------------|-------------------------|
| Trade accounts payable | 451,611 | 555,823 |
| Other accounts payable | 65,724 | 51,911 |
| Total accounts payable | 517,335 | 607,734 |

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

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

| | 31 March 2020 | 31 December 2019 |
|--|----------------------|-------------------------|
| Short-term borrowings from third parties | 22,608 | 13,940 |
| Short-term borrowings from related parties | 2,283 | 2,222 |
| Current portion of long-term debt | 147,578 | 114,138 |
| Total short-term borrowings and current portion of long-term debt | 172,469 | 130,300 |

Short-term borrowings from third parties include amounts repayable in US dollars of 20,678 million RUB and 12,694 million RUB and amounts repayable in other currencies of 1,930 million RUB and 1,246 million RUB at 31 March 2020 and 31 December 2019, respectively. The weighted-average interest rate on short-term borrowings from third parties was 2.69% and 4.00% per annum at 31 March 2020 and 31 December 2019, respectively. At 31 March 2020, short-term borrowings from third parties are unsecured.

Note 18. Long-term debt

| | 31 March 2020 | 31 December 2019 |
|---|----------------------|-------------------------|
| Long-term loans and borrowings from third parties | 144,329 | 117,864 |
| 6.125% non-convertible US dollar bonds, maturing 2020 | 77,697 | 61,866 |
| 6.656% non-convertible US dollar bonds, maturing 2022 | 38,811 | 30,905 |
| 4.563% non-convertible US dollar bonds, maturing 2023 | 116,495 | 92,769 |
| 4.750% non-convertible US dollar bonds, maturing 2026 | 77,587 | 61,786 |
| Lease obligations | 209,475 | 171,880 |
| Total long-term debt | 664,394 | 537,070 |
| Current portion of long-term debt | (147,578) | (114,138) |
| Total non-current portion of long-term debt | 516,816 | 422,932 |

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 128,218 million RUB and 104,819 million RUB and amounts repayable in euros of 16,111 million RUB and 13,045 million RUB at 31 March 2020 and 31 December 2019, respectively. This debt has maturity dates from 2020 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 3.89% and 4.08% per annum at 31 March 2020 and 31 December 2019, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 50% of total long-term loans and borrowings from third parties at 31 March 2020 are secured by shares of an associated company, export sales and property, plant and equipment.

Reconciliation of liabilities arising from financing activities

| | Loans and borrowings | Bonds | Lease obligations | Other liabilities | Total |
|---|-----------------------------|----------------|--------------------------|--------------------------|------------------|
| 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 | 4,599 | - | - | - | 4,599 |
| Principal repayments of short-term borrowings | (102) | - | - | - | (102) |
| Principal repayments of long-term debt | (3,311) | - | (11,830) | - | (15,141) |
| Interest paid | - | - | (2,578) | (2,137) | (4,715) |
| Dividends paid on Company common stock | - | - | - | (133,060) | (133,060) |
| Total changes from financing cash flows | 1,186 | - | (14,408) | (135,197) | (148,419) |
| Other changes: | | | | | |
| Interest accrued | - | - | 2,578 | 7,204 | 9,782 |
| The effect of changes in foreign exchange rates | 33,561 | 63,236 | 31,668 | 1,348 | 129,813 |
| Non-cash additions to lease obligations | - | - | 15,376 | - | 15,376 |
| Other changes | 447 | 28 | 2,381 | (681) | 2,175 |
| Total other changes | 34,008 | 63,264 | 52,003 | 7,871 | 157,146 |
| 31 March 2020 | 169,220 | 310,590 | 209,475 | 8,594 | 697,879 |

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

Note 19. Taxes payable

| | 31 March 2020 | 31 December 2019 |
|--|----------------------|-------------------------|
| Income tax | 12,174 | 12,031 |
| Mineral extraction tax | 33,835 | 61,464 |
| Tax on additional income from hydrocarbon production | 2,055 | 3,380 |
| VAT | 26,748 | 38,566 |
| Excise tax | 30,568 | 14,359 |
| Property tax | 7,086 | 5,120 |
| Other taxes | 7,735 | 7,551 |
| Total taxes payable | 120,201 | 142,471 |

Note 20. Other current liabilities

| | 31 March 2020 | 31 December 2019 |
|--|----------------------|-------------------------|
| Advances received | 24,653 | 30,868 |
| Dividends payable | 535 | 135,034 |
| Other | 2,706 | 3,050 |
| Total other current liabilities | 27,894 | 168,952 |

Note 21. Provisions

| | Asset retirement obligations | Provision for employee compensations | Provision for environmental liabilities | Pension liabilities | Provision for unused vacations | Other provisions | Total |
|-------------------------|-------------------------------------|---|--|----------------------------|---------------------------------------|-------------------------|----------------|
| 31 March 2020 | 80,712 | 14,231 | 3,970 | 13,583 | 6,800 | 21,526 | 140,822 |
| Incl.: Non-current | 79,995 | 77 | 1,410 | 11,053 | 192 | 2,824 | 95,551 |
| Current | 717 | 14,154 | 2,560 | 2,530 | 6,608 | 18,702 | 45,271 |
| 31 December 2019 | 63,387 | 9,762 | 3,783 | 12,544 | 5,861 | 18,940 | 114,277 |
| Incl.: Non-current | 62,667 | 263 | 1,175 | 10,310 | 153 | 2,477 | 77,045 |
| Current | 720 | 9,499 | 2,608 | 2,234 | 5,708 | 16,463 | 37,232 |

Asset retirement obligations changed as follows:

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|--|---|---|
| 1 January | 63,387 | 36,424 |
| Provisions made during the period | 15,901 | 167 |
| Reversal of provisions | (45) | (72) |
| Provisions used during the period | (56) | (58) |
| Accretion expense | 949 | 662 |
| Change in discount rate | (6,556) | 446 |
| Changes in estimates | 120 | (747) |
| Foreign currency translation differences | 7,008 | (1,126) |
| Other | 4 | - |
| 31 March | 80,712 | 35,696 |

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

Note 22. Equity

Common shares

| | 31 March 2020 | 31 December 2019 |
|---|------------------------------|------------------------------|
| | (thousands of shares) | (thousands of shares) |
| Issued common shares, par value of 0.025 RUB each | 692,866 | 715,000 |
| Treasury shares | (40,367) | (62,119) |
| Outstanding common shares | 652,499 | 652,881 |

Number of authorised common shares at 31 March 2020 was 777,866 thousands of 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. At 31 December 2019, the Group recognised an obligation to repurchase common shares in the amount of 120,988 million RUB. 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.

Earnings per share

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

| | For the three months ended | For the three months ended |
|---|-----------------------------------|-----------------------------------|
| | 31 March 2020 | 31 March 2019 |
| (Loss) profit for the period attributable to PJSC LUKOIL shareholders | (45,960) | 149,236 |
| Weighted average number of common shares (thousands of shares) | 646,332 | 691,841 |
| Dilutive effect of equity-settled share-based compensation plan (thousands of shares) | 24,624 | 17,625 |
| Weighted average number of common shares, assuming dilution (thousands of shares) | 670,956 | 709,466 |
| (Loss) profit per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles): | | |
| Basic | (71.11) | 215.71 |
| Diluted | (68.50) | 210.35 |

Note 23. Personnel expenses

Personnel expenses were as follows:

| | For the three months ended | For the three months ended |
|-----------------------------------|-----------------------------------|-----------------------------------|
| | 31 March 2020 | 31 March 2019 |
| Salary | 34,042 | 34,214 |
| Statutory insurance contributions | 9,019 | 8,666 |
| Share-based compensation | 7,842 | 7,842 |
| Total personnel expenses | 50,903 | 50,722 |

Note 24. Finance income and costs

Finance income was as follows:

| | For the three months ended | For the three months ended |
|-------------------------------|-----------------------------------|-----------------------------------|
| | 31 March 2020 | 31 March 2019 |
| Interest income from deposits | 2,998 | 3,291 |
| Interest income from loans | 1,376 | 1,241 |
| Other finance income | 437 | 1,452 |
| Total finance income | 4,811 | 5,984 |

Note 24. Finance income and costs (continued)

Finance costs were as follows:

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|----------------------------|---|---|
| Interest expenses | 8,760 | 10,466 |
| Accretion expenses | 952 | 665 |
| Other finance costs | 537 | 603 |
| Total finance costs | 10,249 | 11,734 |

Note 25. Other income and expenses

Other income was as follows:

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|----------------------------------|---|---|
| Gain on disposal of assets | 338 | 500 |
| Reversal of impairment of assets | 122 | - |
| Other income | 3,081 | 2,310 |
| Total other income | 3,541 | 2,810 |

Other expenses were as follows:

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|-----------------------------|---|---|
| Loss on disposal of assets | 2,257 | 2,060 |
| Impairment loss | 44,064 | - |
| Charity expenses | 2,311 | 2,037 |
| Other expenses | 1,523 | 2,685 |
| Total other expenses | 50,155 | 6,782 |

Note 26. Commitments and contingencies

Capital commitments

Capital commitments of the Group relating to construction and acquisition of property, plant and equipment amount to 573,483 million RUB and 517,977 million RUB at 31 March 2020 and 31 December 2019, respectively.

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.

Note 26. Commitments and contingencies (continued)

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.

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 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 (171.0 billion RUB) to \$1.5 billion (116.6 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 (116.6 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 first instance. On 24 December 2019, the defendants appealed the decision in an order of extraordinary appeal to the Ploesti Court of Appeals. Consideration of the complaint was scheduled for 16 March 2020; however, due to the coronavirus (COVID-19) outbreak, the court hearings have been postponed for an indefinite period. 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 disputes with the Republic of Kazakhstan with respect to cost recovery in 2010–2015 (the “CR”) and the calculation of the “Fairness index” (the “FI”) in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not 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 26. Commitments and contingencies (continued)

Political situation

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 that current sanctions do not have a material adverse effect on the current or planned Group’s oil projects. At the same time the Company continues to monitor and evaluate potential risks for its operations in connection with sanctions.

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

Other matters

The Company and other Group companies have been notified by various counterparties of claims in respect of allegedly off-specification quantities of crude oil volumes delivered through the Druzhba pipeline (owned and operated by the state-owned company, PJSC Transneft) in the second quarter of 2019. The claims assert that the oil had an average organic chlorine content in excess of the contractual specification, which may allegedly cause the purchasers to suffer certain financial losses. According to publicly available information, this situation was caused by unlawful actions of certain third parties that were aimed at concealing thefts of oil from the pipeline. The losses have not been fully defined or evidenced. Currently the consequences of the incident in terms of crude oil delivered by the Group to Hungary and Slovakia have been settled between the Company, PJSC Transneft and Hungarian oil and gas company MOL; remaining claims are in the process of settlement. Management does not believe that the ultimate resolution of these matters will have a material adverse impact on the Group’s operating results or financial position.

Note 27. 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.

Note 27. Related party transactions (continued)

Outstanding balances with related parties were as follows:

| | 31 March 2020 | 31 December 2019 |
|--------------------------|---------------|------------------|
| Accounts receivable | 1,649 | 1,079 |
| Other financial assets | 51,328 | 51,053 |
| Total assets | 52,977 | 52,132 |
| Accounts payable | 5,440 | 5,002 |
| Loans and borrowings | 2,283 | 2,222 |
| Total liabilities | 7,723 | 7,224 |

Related party transactions were as follows:

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|---|--|--|
| Sales of oil and oil products | 6,285 | 5,324 |
| Other sales | 678 | 716 |
| Purchases of oil and oil products | 14,979 | 24,458 |
| Other purchases | 2,832 | 2,197 |
| Proceeds from sale of other financial assets, net | 2,279 | 3,090 |
| Proceeds from issuance (principal repayments) of loans, net | 36 | (526) |

Note 28. 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 7,842 million RUB during the three months ended 31 March 2020 and 2019.

Note 29. 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.

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

Note 29. Segment information (continued)

Operating segments

For the three months ended 31 March 2020

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 52,364 | 1,607,870 | 5,751 | - | 1,665,985 |
| Inter-segment | 385,487 | 20,504 | 8,930 | (414,921) | - |
| Total revenues | 437,851 | 1,628,374 | 14,681 | (414,921) | 1,665,985 |
| Operating expenses | 70,069 | 48,977 | 3,779 | (11,307) | 111,518 |
| Selling, general and administrative expenses | 12,986 | 27,176 | 14,929 | (9,982) | 45,109 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 22,465 | (41,452) | (44,943) | 17,970 | (45,960) |
| EBITDA | 109,189 | 40,291 | (10,689) | 12,052 | 150,843 |
| Income tax expense | | | | | (23,378) |
| Finance income | | | | | 4,811 |
| Finance costs | | | | | (10,249) |
| Foreign exchange loss | | | | | (14,910) |
| Equity share in income of affiliates | | | | | 4,431 |
| Other expenses | | | | | (46,614) |
| Depreciation, depletion and amortisation | | | | | (110,718) |
| Profit for the period attributable to non-controlling interests | | | | | (176) |
| Loss for the period attributable to PJSC LUKOIL shareholders | | | | | (45,960) |

For the three months ended 31 March 2019

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 72,238 | 1,773,390 | 5,305 | - | 1,850,933 |
| Inter-segment | 521,067 | 19,772 | 12,255 | (553,094) | - |
| Total revenues | 593,305 | 1,793,162 | 17,560 | (553,094) | 1,850,933 |
| Operating expenses | 65,286 | 55,897 | 3,983 | (15,997) | 109,169 |
| Selling, general and administrative expenses | 15,068 | 30,145 | 14,508 | (10,148) | 49,573 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 128,459 | 31,548 | (963) | (9,808) | 149,236 |
| EBITDA | 235,132 | 79,938 | (7,068) | (9,945) | 298,057 |
| Income tax expense | | | | | (42,796) |
| Finance income | | | | | 5,984 |
| Finance costs | | | | | (11,734) |
| Foreign exchange gain | | | | | 1,901 |
| Equity share in income of affiliates | | | | | 6,180 |
| Other expenses | | | | | (3,972) |
| Depreciation, depletion and amortisation | | | | | (103,830) |
| Profit for the period attributable to non-controlling interests | | | | | (554) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 149,236 |

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

Note 29. Segment information (continued)

Geographical segments

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|--|---|---|
| Sales of crude oil within Russia | 7,494 | 9,505 |
| Export of crude oil and sales of crude oil by foreign subsidiaries | 632,934 | 608,080 |
| Sales of petroleum products within Russia | 203,504 | 207,170 |
| Export of petroleum products and sales of petroleum products by foreign subsidiaries | 720,287 | 895,595 |
| Sales of chemicals within Russia | 10,428 | 10,944 |
| Export of chemicals and sales of chemicals by foreign subsidiaries | 15,791 | 31,379 |
| Sales of gas within Russia | 8,588 | 7,965 |
| Sales of gas by foreign subsidiaries | 25,037 | 38,229 |
| Sales of energy and related services within Russia | 17,580 | 17,888 |
| Sales of energy and related services by foreign subsidiaries | 2,748 | 4,076 |
| Other sales within Russia | 9,319 | 9,917 |
| Other export sales and other sales of foreign subsidiaries | 12,275 | 10,185 |
| Total sales | 1,665,985 | 1,850,933 |

For the three months ended 31 March 2020

| | Russia | International | Elimination | Consolidated |
|---|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 271,279 | 1,394,706 | - | 1,665,985 |
| Inter-segment | 313,901 | 257 | (314,158) | - |
| Total revenues | 585,180 | 1,394,963 | (314,158) | 1,665,985 |
| Operating expenses | 81,872 | 21,814 | 7,832 | 111,518 |
| Selling, general and administrative expenses | 22,157 | 23,738 | (786) | 45,109 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 24,492 | (88,469) | 18,017 | (45,960) |
| EBITDA | 131,777 | 5,243 | 13,823 | 150,843 |

For the three months ended 31 March 2019

| | Russia | International | Elimination | Consolidated |
|--|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 290,089 | 1,560,844 | - | 1,850,933 |
| Inter-segment | 417,558 | 999 | (418,557) | - |
| Total revenues | 707,647 | 1,561,843 | (418,557) | 1,850,933 |
| Operating expenses | 77,385 | 29,911 | 1,873 | 109,169 |
| Selling, general and administrative expenses | 21,641 | 28,672 | (740) | 49,573 |
| Profit for the period attributable to PJSC LUKOIL shareholders | 155,585 | 3,421 | (9,770) | 149,236 |
| EBITDA | 269,555 | 40,096 | (11,594) | 298,057 |

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

| | For the three months ended 31 March 2020 | For the three months ended 31 March 2019 |
|----------------|---|---|
| Sales revenues | | |
| in Switzerland | 788,012 | 832,652 |
| in the USA | 243,479 | 246,717 |
| in Singapore | 64,659 | 121,685 |

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

Note 30. 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 March 2020 and 31 December 2019.

| 31 March 2020 | Carrying amount | Fair value | | | Total |
|---|------------------------|-------------------|----------------|----------------|----------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Commodity derivative contracts | 1,679 | - | 1,679 | - | 1,679 |
| Financial assets at fair value through profit or loss | 50,766 | - | - | 50,766 | 50,766 |
| Financial assets at fair value through other comprehensive income | 803 | 803 | - | - | 803 |
| Financial liabilities: | | | | | |
| Commodity derivative contracts | 2,282 | - | 2,282 | - | 2,282 |
| Loans and borrowings | 664,394 | 322,091 | - | 355,424 | 677,515 |

| 31 December 2019 | Carrying amount | Fair value | | | Total |
|---|------------------------|-------------------|----------------|----------------|----------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Commodity derivative contracts | 180 | - | 180 | - | 180 |
| Financial assets at fair value through profit or loss | 51,054 | - | - | 51,054 | 51,054 |
| Financial assets at fair value through other comprehensive income | 2,656 | 2,656 | - | - | 2,656 |
| Financial liabilities: | | | | | |
| Commodity derivative contracts | 550 | - | 550 | - | 550 |
| Loans and borrowings | 537,070 | 265,109 | - | 295,726 | 560,835 |

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 March 2020 and 31 December 2019.

Note 31. Subsequent events

Non-convertible bonds

On 6 May 2020, a Group company issued non-convertible bonds totaling \$1.5 billion (109.09 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.

Note 31. Subsequent events (continued)

Litigation and claims

On 21 May 2020, the Federal Antimonopoly Service (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 Promyshlennye Investitsii in May 2017 and applying the consequences of its invalidity. The court accepted the application and scheduled a hearing for 2 July 2020.

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.