



PJSC LUKOIL

**CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

for the three and six-month periods ended 30 June 2021

**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 30 June 2021 and the related consolidated statements of profit or loss and other comprehensive income for the three- and six-month periods ended 30 June 2021 and the related consolidated statements of changes in equity and cash flows for the six - month period ended 30 June 2021, 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 number in the Unified State Register of Legal Entities:
No. 1027700035769.
Moscow, Russia.

Audit firm: JSC "KPMG", a company incorporated under the Laws of the Russian Federation.

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

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Principal registration number of the entry in the Register of Auditors and Audit Organizations: 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 30 June 2021, and for the three- and six-month periods ended 30 June 2021 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

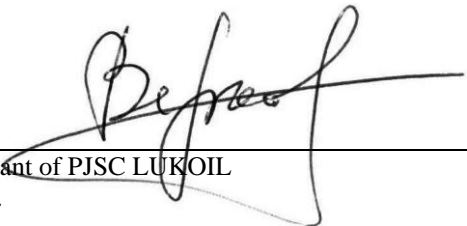

Klimanova L.V.
JSC "KPMG"
Moscow, Russia
27 August 2021



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

| | Note | 30 June 2021 (unaudited) | 31 December 2020 |
|--|------|-----------------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 555,269 | 343,832 |
| Accounts receivable, net | 7 | 587,067 | 370,271 |
| Other current financial assets | | 8,438 | 8,350 |
| Inventories | 8 | 490,730 | 426,536 |
| Prepaid taxes | 9 | 117,351 | 78,822 |
| Other current assets | 10 | 79,725 | 48,649 |
| Total current assets | | 1,838,580 | 1,276,460 |
| Property, plant and equipment | 12 | 4,217,399 | 4,264,474 |
| Investments in associates and joint ventures | 11 | 273,857 | 281,637 |
| Other non-current financial assets | 13 | 70,377 | 68,692 |
| Deferred income tax assets | | 22,294 | 16,298 |
| Goodwill and other intangible assets | | 50,050 | 50,159 |
| Other non-current assets | | 36,374 | 33,859 |
| Total non-current assets | | 4,670,351 | 4,715,119 |
| Total assets | | 6,508,931 | 5,991,579 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Accounts payable | 14 | 701,126 | 597,932 |
| Short-term borrowings and current portion of long-term debt | 15 | 112,868 | 82,636 |
| Taxes payable | 17 | 252,923 | 142,458 |
| Provisions | 19 | 26,088 | 27,136 |
| Other current liabilities | 18 | 185,279 | 35,497 |
| Total current liabilities | | 1,278,284 | 885,659 |
| Long-term debt | 16 | 517,910 | 577,075 |
| Deferred income tax liabilities | | 282,576 | 268,956 |
| Provisions | 19 | 121,759 | 126,665 |
| Other non-current liabilities | | 2,664 | 2,458 |
| Total non-current liabilities | | 924,909 | 975,154 |
| Total liabilities | | 2,203,193 | 1,860,813 |
| Equity | 20 | | |
| Share capital | | 938 | 938 |
| Treasury shares | | (71,920) | (71,920) |
| Additional paid-in capital | | 39,327 | 39,298 |
| Other reserves | | 255,972 | 296,641 |
| Retained earnings | | 4,073,338 | 3,858,057 |
| Total equity attributable to PJSC LUKOIL shareholders | | 4,297,655 | 4,123,014 |
| Non-controlling interests | | 8,083 | 7,752 |
| Total equity | | 4,305,738 | 4,130,766 |
| Total liabilities and equity | | 6,508,931 | 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 condensed interim consolidated financial statements.

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

| | | For the three months ended 30 June 2021 (unaudited) | For the three months ended 30 June 2020 (unaudited) | For the six months ended 30 June 2021 (unaudited) | For the six months ended 30 June 2020 (unaudited) |
|--|------|--|--|--|--|
| | Note | | | | |
| Revenues | | | | | |
| Sales (including excise and export tariffs) | 27 | 2,201,884 | 986,427 | 4,078,367 | 2,652,412 |
| Costs and other deductions | | | | | |
| Operating expenses | | (124,925) | (105,515) | (240,963) | (217,033) |
| Cost of purchased crude oil, gas and products | | (1,214,383) | (394,970) | (2,243,508) | (1,366,645) |
| Transportation expenses | | (75,112) | (79,559) | (143,130) | (159,618) |
| Selling, general and administrative expenses | | (54,369) | (52,412) | (100,401) | (97,521) |
| Depreciation, depletion and amortisation | | (106,514) | (100,725) | (220,228) | (211,443) |
| Taxes other than income taxes | | (328,549) | (93,341) | (565,161) | (287,049) |
| Excise and export tariffs | | (63,231) | (113,511) | (129,096) | (226,190) |
| Exploration expenses | | (1,473) | (2,703) | (1,886) | (3,097) |
| Profit from operating activities | | 233,328 | 43,691 | 433,994 | 83,816 |
| Finance income | 22 | 2,701 | 2,685 | 4,865 | 7,496 |
| Finance costs | 22 | (9,289) | (11,323) | (18,640) | (21,572) |
| Equity share in income (loss) of associates and joint ventures | 11 | 6,624 | (3) | 13,112 | 4,428 |
| Foreign exchange (loss) gain | | (1,275) | 3,620 | (2,420) | (11,290) |
| Other expenses | 23 | (2,099) | (44,463) | (1,942) | (91,077) |
| Profit (loss) before income taxes | | 229,990 | (5,793) | 428,969 | (28,199) |
| Current income taxes | | (36,530) | (7,678) | (72,899) | (24,716) |
| Deferred income taxes | | (3,064) | (4,986) | (7,707) | (11,326) |
| Total income tax expense | | (39,594) | (12,664) | (80,606) | (36,042) |
| Profit (loss) for the period | | 190,396 | (18,457) | 348,363 | (64,241) |
| Profit (loss) for the period attributable to: | | | | | |
| PJSC LUKOIL shareholders | | 189,750 | (18,720) | 347,177 | (64,680) |
| Non-controlling interests | | 646 | 263 | 1,186 | 439 |
| 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 | | (64,210) | (152,283) | (43,054) | 163,339 |
| <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 | | 633 | 735 | 2,316 | (1,427) |
| Remeasurements of defined benefit liability / asset of pension plan | | 52 | 160 | 64 | (172) |
| Other comprehensive (loss) income | | (63,525) | (151,388) | (40,674) | 161,740 |
| Total comprehensive income (loss) for the period | | 126,871 | (169,845) | 307,689 | 97,499 |
| Total comprehensive income (loss) for the period attributable to: | | | | | |
| PJSC LUKOIL shareholders | | 126,221 | (170,111) | 306,508 | 97,064 |
| Non-controlling interests | | 650 | 266 | 1,181 | 435 |
| Earnings per share | | | | | |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles): | | | | | |
| | 20 | | | | |
| Basic | | 290.81 | (28.69) | 532.07 | (99.60) |
| Diluted | | 277.31 | (28.69) | 508.04 | (99.60) |

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 2020 | 938 | (71,920) | 39,298 | 296,641 | 3,858,057 | 4,123,014 | 7,752 | 4,130,766 |
| Profit for the period | - | - | - | - | 347,177 | 347,177 | 1,186 | 348,363 |
| Other comprehensive loss | - | - | - | (40,669) | - | (40,669) | (5) | (40,674) |
| Total comprehensive (loss) income | | | | (40,669) | 347,177 | 306,508 | 1,181 | 307,689 |
| Dividends on common stock | - | - | - | - | (138,982) | (138,982) | - | (138,982) |
| Equity-settled share-based compensation plan | - | - | - | - | 7,086 | 7,086 | - | 7,086 |
| Changes in non-controlling interests | - | - | 29 | - | - | 29 | (850) | (821) |
| 30 June 2021 | 938 | (71,920) | 39,327 | 255,972 | 4,073,338 | 4,297,655 | 8,083 | 4,305,738 |
| 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 | - | - | - | - | (64,680) | (64,680) | 439 | (64,241) |
| Other comprehensive income (loss) | - | - | - | 161,744 | - | 161,744 | (4) | 161,740 |
| Total comprehensive income (loss) | | | | 161,744 | (64,680) | 97,064 | 435 | 97,499 |
| Dividends on common stock | - | - | - | - | (228,374) | (228,374) | - | (228,374) |
| Stock purchased | - | (2,026) | - | - | - | (2,026) | - | (2,026) |
| Equity-settled share-based compensation plan | - | - | - | - | 1,555 | 1,555 | - | 1,555 |
| Obligation to repurchase common shares | - | 120,988 | - | - | - | 120,988 | - | 120,988 |
| Share capital reduction | (30) | 117,278 | - | - | (117,248) | - | - | - |
| Changes in non-controlling interests | - | - | 5 | - | - | 5 | (648) | (643) |
| 30 June 2020 | 938 | (71,920) | 39,282 | 191,885 | 3,794,391 | 3,954,576 | 7,872 | 3,962,448 |

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 six months ended 30 June 2021 (unaudited) | For the six months ended 30 June 2020 (unaudited) |
|--|--|--|
| Cash flows from operating activities | | |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 347,177 | (64,680) |
| Adjustments for non-cash items: | | |
| Depreciation, depletion and amortisation | 220,228 | 211,443 |
| Equity share in income of associates and joint ventures | (13,112) | (4,428) |
| Dry hole write-offs | 1,059 | 2,276 |
| Loss on disposals and impairments of assets | 2,703 | 87,763 |
| Income tax expense | 80,606 | 36,042 |
| Non-cash foreign exchange loss | 2,167 | 9,458 |
| Finance income | (4,865) | (7,496) |
| Finance costs | 18,640 | 21,572 |
| Allowance for expected credit losses | 1,399 | 1,306 |
| Equity-settled share-based compensation plan | 15,684 | 15,684 |
| All other items, net | (4,196) | 8,525 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (228,194) | 151,611 |
| Inventories | (74,180) | 81,757 |
| Accounts payable | 138,625 | (191,868) |
| Other taxes | 64,921 | (6,950) |
| Other current assets and liabilities | (25,054) | 1,035 |
| Income tax paid | (66,411) | (33,184) |
| Dividends received | 7,388 | 3,517 |
| Interests received | 2,676 | 5,099 |
| Net cash provided by operating activities | 487,261 | 328,482 |
| Cash flows from investing activities | | |
| Acquisition of licenses | (33) | (129) |
| Capital expenditures | (211,433) | (247,456) |
| Proceeds from sale of property, plant and equipment | 3,836 | 212 |
| Purchases of financial assets | (858) | (2,785) |
| Proceeds from sale of financial assets | 1,917 | 8,258 |
| Sale of subsidiaries, net of cash disposed | 193 | - |
| Sale of associates | 83 | - |
| Acquisitions of interests in the projects and subsidiaries, net of cash acquired | (990) | (1,040) |
| Acquisitions of associates | (289) | (1,102) |
| Net cash used in investing activities | (207,574) | (244,042) |
| Cash flows from financing activities | | |
| Proceeds from issuance of short-term borrowings | 8,882 | 80,193 |
| Principal repayments of short-term borrowings | (225) | (834) |
| Proceeds from issuance of long-term debt | 1,106 | 108,250 |
| Principal repayments of long-term debt | (48,216) | (45,346) |
| Interest paid | (16,042) | (18,810) |
| Dividends paid on Company common shares | (100) | (133,072) |
| Dividends paid to non-controlling interest shareholders | (2,460) | (2,368) |
| Financing received from non-controlling interest shareholders | 36 | 4 |
| Purchase of Company's stock | - | (2,026) |
| Net cash used in financing activities | (57,019) | (14,009) |
| Effect of exchange rate changes on cash and cash equivalents | (11,231) | 29,744 |
| Net increase in cash and cash equivalents | 211,437 | 100,175 |
| Cash and cash equivalents at beginning of period | 343,832 | 516,032 |
| Cash and cash equivalents at end of period | 6 | 616,207 |

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 2021, the negative impact of COVID-19 on the global economy and energy demand continued. Management has considered the impact of COVID-19 pandemic, oil price volatility and related risks and uncertainties on these condensed interim consolidated financial statements. Management believes that the Group is in a solid financial condition as of the end of the second quarter of 2021. 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 2020 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 2020.

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 2020.

The condensed interim consolidated financial statements were authorised by the President of the Company on 27 August 2021.

Note 2. Basis of preparation (continued)

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 2020.

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. 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.

PJSC LUKOIL**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**
(Millions of Russian rubles, unless otherwise noted)**Note 5. Income taxes (continued)**

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

| | 30 June 2021 | 31 December 2020 |
|--|---------------------|-------------------------|
| Cash held in RUB | 188,679 | 16,537 |
| Cash held in US dollars | 312,904 | 256,841 |
| Cash held in EUR | 39,630 | 59,009 |
| Cash held in other currencies | 14,056 | 11,445 |
| Total cash and cash equivalents | 555,269 | 343,832 |

Note 7. Accounts receivable, net

| | 30 June 2021 | 31 December 2020 |
|---|---------------------|-------------------------|
| Trade accounts receivable (net of allowances of 28,272 million RUB and 32,762 million RUB at 30 June 2021 and 31 December 2020, respectively) | 574,481 | 357,159 |
| Other current accounts receivable (net of allowances of 4,568 million RUB and 4,930 million RUB at 30 June 2021 and 31 December 2020, respectively) | 12,586 | 13,112 |
| Total accounts receivable, net | 587,067 | 370,271 |

Note 8. Inventories

| | 30 June 2021 | 31 December 2020 |
|---------------------------------------|---------------------|-------------------------|
| Crude oil and petroleum products | 436,611 | 373,290 |
| Materials for extraction and drilling | 26,151 | 25,582 |
| Materials and supplies for refining | 4,141 | 4,681 |
| Other goods, materials and supplies | 23,827 | 22,983 |
| Total inventories | 490,730 | 426,536 |

Note 9. Prepaid taxes

| | 30 June 2021 | 31 December 2020 |
|----------------------------|---------------------|-------------------------|
| Income tax | 14,362 | 17,983 |
| VAT recoverable | 11,011 | 12,940 |
| Excise tax recoverable | 34,174 | 8,350 |
| Export duties | 7,101 | 8,009 |
| VAT | 43,008 | 26,407 |
| Other taxes | 7,695 | 5,133 |
| Total prepaid taxes | 117,351 | 78,822 |

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

Note 10. Other current assets

| | 30 June 2021 | 31 December 2020 |
|-----------------------------------|---------------------|-------------------------|
| Advance payments | 35,580 | 15,904 |
| Prepaid expenses | 19,699 | 21,622 |
| Other assets | 24,446 | 11,123 |
| Total other current assets | 79,725 | 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 | | 30 June 2021 | 31 December 2020 |
|---------------------------------|----------------|---------------------|-------------------------|---------------------|-------------------------|
| | | 30 June 2021 | 31 December 2020 | | |
| <i>Joint ventures:</i> | | | | | |
| Tengizchevroil | Kazakhstan | 5.0% | 5.0% | 149,346 | 146,611 |
| Caspian Pipeline Consortium | Kazakhstan | 12.5% | 12.5% | 51,498 | 56,027 |
| South Caucasus Pipeline Company | Azerbaijan | 10.0% | 10.0% | 34,529 | 34,663 |
| <i>Associates:</i> | | | | | |
| Associates | | | | 38,484 | 44,336 |
| Total | | | | 273,857 | 281,637 |

Note 12. Property, plant and equipment

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|---------------------------------------|---|-----------------|--------------------|
| Cost | | | | |
| 31 December 2020 | 5,433,264 | 1,756,650 | 77,006 | 7,266,920 |
| Additions | 149,388 | 60,870 | 583 | 210,841 |
| Acquisitions | 1,909 | - | - | 1,909 |
| Disposals | (16,605) | (22,969) | (570) | (40,144) |
| Foreign currency translation differences | (36,044) | (32,975) | (286) | (69,305) |
| Other | (3,993) | 1,251 | (1,828) | (4,570) |
| 30 June 2021 | 5,527,919 | 1,762,827 | 74,905 | 7,365,651 |
| Depreciation and impairment | | | | |
| 31 December 2020 | (2,193,734) | (802,877) | (22,368) | (3,018,979) |
| Depreciation for the period | (157,746) | (59,636) | (1,769) | (219,151) |
| Disposals | 8,578 | 22,145 | 225 | 30,948 |
| Foreign currency translation differences | 21,122 | 17,120 | 130 | 38,372 |
| Other | 269 | 42 | 506 | 817 |
| 30 June 2021 | (2,321,511) | (823,206) | (23,276) | (3,167,993) |
| Advance payments for property, plant and equipment | | | | |
| 31 December 2020 | 10,218 | 5,757 | 558 | 16,533 |
| 30 June 2021 | 15,128 | 3,914 | 699 | 19,741 |
| Carrying amounts | | | | |
| 31 December 2020 | 3,249,748 | 959,530 | 55,196 | 4,264,474 |
| 30 June 2021 | 3,221,536 | 943,535 | 52,328 | 4,217,399 |

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

Note 12. Property, plant and equipment (continued)

| | 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 | 228,620 | 68,665 | 662 | 297,947 |
| Acquisition of the interest in the project | 1,209 | - | - | 1,209 |
| Disposals | (15,663) | (16,747) | (274) | (32,684) |
| Foreign currency translation differences | 181,449 | 65,408 | 1,612 | 248,469 |
| Other | (3,576) | 445 | 152 | (2,979) |
| 30 June 2020 | 5,187,713 | 1,628,286 | 78,398 | 6,894,397 |
| Depreciation and impairment | | | | |
| 31 December 2019 | (1,766,575) | (589,636) | (21,153) | (2,377,364) |
| Depreciation for the period | (151,771) | (66,650) | (1,864) | (220,285) |
| Impairment loss | (46,197) | (28,859) | - | (75,056) |
| Disposals | 7,778 | 15,649 | 122 | 23,549 |
| Foreign currency translation differences | (94,193) | (24,158) | (523) | (118,874) |
| Other | (732) | 2,129 | 8 | 1,405 |
| 30 June 2020 | (2,051,690) | (691,525) | (23,410) | (2,766,625) |
| Advance payments for property, plant and equipment | | | | |
| 31 December 2019 | 6,791 | 13,314 | 831 | 20,936 |
| 30 June 2020 | 9,228 | 7,470 | 784 | 17,482 |
| Carrying amounts | | | | |
| 31 December 2019 | 3,035,890 | 934,193 | 55,924 | 4,026,007 |
| 30 June 2020 | 3,145,251 | 944,231 | 55,772 | 4,145,254 |

The cost of assets under construction included in property, plant and equipment was 497,290 million RUB and 458,265 million RUB at 30 June 2021 and 31 December 2020, respectively.

Exploration and evaluation assets

| | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|--|--|--|
| 1 January | 163,252 | 129,951 |
| Capitalised expenditures | 13,326 | 21,891 |
| Acquisitions through business combinations | 1,176 | 362 |
| Reclassified to development assets | (4,273) | (8,278) |
| Charged to expenses | (1,047) | (2,339) |
| Foreign currency translation differences | (1,143) | 4,302 |
| Other movements | 60 | (1,460) |
| 30 June | 171,351 | 144,429 |

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 5,219 million RUB, for its international exploration and production assets in the amount of 2,209 million RUB and for its international refining, marketing and distribution assets in the amount of 28,859 million RUB.

Note 12. Property, plant and equipment (continued)

The recoverable amounts of CGUs subject to impairment in the first quarter of 2020 in the amount of 139,180 million 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.

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.

Also, in the second quarter of 2020, the Group recognised an impairment loss for its international exploration and production assets in the amount of 38,769 million RUB. Of this amount, 35,986 million 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 106,003 million RUB which relate to impaired assets 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.

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

Note 13. Other non-current financial assets

| | 30 June 2021 | 31 December 2020 |
|---|---------------|------------------|
| Financial assets measured at fair value through other comprehensive income | | |
| Equity instruments | 5,423 | 2,491 |
| Financial assets measured at amortised cost | | |
| Long-term loans | 26,441 | 31,075 |
| Non-current accounts and notes receivable | 1,689 | 1,916 |
| Other financial assets | 14 | 15 |
| Financial assets measured at fair value through profit or loss | | |
| Long-term loans | 36,810 | 33,195 |
| Total other non-current financial assets | 70,377 | 68,692 |

Note 14. Accounts payable

| | 30 June 2021 | 31 December 2020 |
|-------------------------------|----------------|------------------|
| Trade accounts payable | 633,322 | 533,598 |
| Other accounts payable | 67,804 | 64,334 |
| Total accounts payable | 701,126 | 597,932 |

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

| | 30 June 2021 | 31 December 2020 |
|--|----------------|------------------|
| Short-term borrowings from third parties | 26,544 | 18,736 |
| Short-term borrowings from related parties | 1,161 | 2,522 |
| Current portion of long-term debt | 85,163 | 61,378 |
| Total short-term borrowings and current portion of long-term debt | 112,868 | 82,636 |

PJSC LUKOIL**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**
(Millions of Russian rubles, unless otherwise noted)**Note 15. Short-term borrowings and current portion of long-term debt (continued)**

Short-term borrowings from third parties include amounts repayable in US dollars of 25,113 million RUB and 17,510 million RUB and amounts repayable in other currencies of 1,431 million RUB and 1,226 million RUB at 30 June 2021 and 31 December 2020, respectively. The weighted-average interest rate on short-term borrowings from third parties was 2.51% and 2.63% per annum at 30 June 2021 and 31 December 2020, respectively. Short-term borrowings from third parties are unsecured at 30 June 2021 and 31 December 2020.

Note 16. Long-term debt

| | 30 June 2021 | 31 December 2020 |
|---|---------------------|-------------------------|
| Long-term loans and borrowings from third parties | 88,611 | 112,660 |
| 6.656% non-convertible US dollar bonds, maturing 2022 | 36,160 | 36,901 |
| 4.563% non-convertible US dollar bonds, maturing 2023 | 108,498 | 110,737 |
| 4.750% non-convertible US dollar bonds, maturing 2026 | 72,259 | 73,751 |
| 3.875% non-convertible US dollar bonds, maturing 2030 | 108,295 | 110,532 |
| Lease obligations | 189,250 | 193,872 |
| Total long-term debt | 603,073 | 638,453 |
| Current portion of long-term debt | (85,163) | (61,378) |
| Total non-current portion of long-term debt | 517,910 | 577,075 |

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 87,224 million RUB and 101,376 million RUB and amounts repayable in euros of 248 million RUB and 11,284 million RUB at 30 June 2021 and 31 December 2020, respectively. This debt has maturity dates from 2021 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 2.55% and 2.54% per annum at 30 June 2021 and 31 December 2020, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 58% and 51% of total long-term loans and borrowings from third parties are secured by shares in a PSA project, export sales and property, plant and equipment at 30 June 2021 and 31 December 2020, respectively.

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 | 8,882 | - | - | - | 8,882 |
| Principal repayments of short-term borrowings | (225) | - | - | - | (225) |
| Proceeds from issuance of long-term debt | 1,106 | - | - | - | 1,106 |
| Principal repayments of long-term debt | (23,631) | - | (24,585) | - | (48,216) |
| Interest paid | - | - | (5,110) | (10,932) | (16,042) |
| Dividends paid on Company common stock | - | - | - | (100) | (100) |
| Total changes from financing cash flows | (13,868) | - | (29,695) | (11,032) | (54,595) |
| Other changes: | | | | | |
| Interest accrued | 329 | 48 | 5,107 | 11,105 | 16,589 |
| Dividends declared on Company common stock | - | - | - | 138,982 | 138,982 |
| Changes arising from obtaining or losing control over subsidiaries | (1,449) | - | - | - | (1,449) |
| The effect of changes in foreign exchange rates | (2,617) | (6,756) | (4,691) | (60) | (14,124) |
| Non-cash additions to lease obligations | - | - | 25,626 | - | 25,626 |
| Other changes | 3 | (1) | (969) | 8,416 | 7,449 |
| Total other changes | (3,734) | (6,709) | 25,073 | 158,443 | 173,073 |
| 30 June 2021 | 116,316 | 325,212 | 189,250 | 150,676 | 781,454 |

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

Note 16. Long-term debt (continued)

| | 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 | 80,193 | - | - | - | 80,193 |
| Principal repayments of short-term borrowings | (834) | - | - | - | (834) |
| Proceeds from issuance of long-term debt | - | 108,250 | - | - | 108,250 |
| Principal repayments of long-term debt | (14,917) | - | (30,429) | - | (45,346) |
| Interest paid | - | - | (5,291) | (13,519) | (18,810) |
| Dividends paid on Company common stock | - | - | - | (133,072) | (133,072) |
| Total changes from financing cash flows | 64,442 | 108,250 | (35,720) | (146,591) | (9,619) |
| Other changes: | | | | | |
| Interest accrued | 1,071 | 61 | 5,291 | 12,057 | 18,480 |
| Dividends declared on Company common stock | - | - | - | 228,374 | 228,374 |
| The effect of changes in foreign exchange rates | 16,898 | 28,539 | 16,420 | 687 | 62,544 |
| Non-cash additions to lease obligations | - | - | 36,142 | - | 36,142 |
| Other changes | - | - | 2,973 | 15,557 | 18,530 |
| Total other changes | 17,969 | 28,600 | 60,826 | 256,675 | 364,070 |
| 30 June 2020 | 216,437 | 384,176 | 196,986 | 246,004 | 1,043,603 |

Note 17. Taxes payable

| | 30 June 2021 | 31 December 2020 |
|--|---------------------|-------------------------|
| Income tax | 19,492 | 16,614 |
| Mineral extraction tax | 89,769 | 49,332 |
| Tax on additional income from hydrocarbon production | 35,488 | 2,881 |
| VAT | 65,709 | 35,650 |
| Excise tax | 27,328 | 22,733 |
| Property tax | 5,806 | 5,675 |
| Other taxes | 9,331 | 9,573 |
| Total taxes payable | 252,923 | 142,458 |

Note 18. Other current liabilities

| | 30 June 2021 | 31 December 2020 |
|--|---------------------|-------------------------|
| Advances received | 28,170 | 31,142 |
| Dividends payable | 148,124 | 1,610 |
| Other | 8,985 | 2,745 |
| Total other current liabilities | 185,279 | 35,497 |

Note 19. Provisions

| | Asset retirement obligations | Provision for employee compensations | Provision for environmental liabilities | Pension liabilities | Provision for unused vacations | Other provisions | Total |
|-------------------------|-------------------------------------|---|--|----------------------------|---------------------------------------|-------------------------|----------------|
| 30 June 2021 | 107,945 | 9,455 | 4,136 | 13,331 | 7,304 | 5,676 | 147,847 |
| Incl.: Non-current | 107,337 | 97 | 1,157 | 11,312 | 350 | 1,506 | 121,759 |
| Current | 608 | 9,358 | 2,979 | 2,019 | 6,954 | 4,170 | 26,088 |
| 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 |

Note 19. Provisions (continued)

Asset retirement obligations changed as follows:

| | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|--|--|--|
| 1 January | 111,614 | 63,387 |
| Provisions made during the period | 467 | 29,014 |
| Reversal of provisions | (20) | (50) |
| Provisions used during the period | (52) | (155) |
| Accretion expense | 1,882 | 1,863 |
| Change in discount rate | (5,514) | (1,044) |
| Changes in estimates | 590 | (3,105) |
| Foreign currency translation differences | (1,484) | 2,557 |
| Other | 462 | 5 |
| 30 June | 107,945 | 92,472 |

Note 20. Equity

Common shares

| | 30 June 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 | (40,367) | (40,367) |
| Outstanding common shares | 652,499 | 652,499 |

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

Dividends

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.

At the annual general shareholders' meeting on 23 June 2020, dividends for 2019 were approved in the amount of 350 RUB per common share. At the extraordinary shareholders' meeting on 3 December 2019, interim dividends for 2019 were approved in the amount of 192 RUB per common share. Total dividends for 2019 were approved in the amount of 542 RUB per common share.

Dividends on the Company's shares payable of 148,124 million RUB and 699 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 30 June 2021 and 31 December 2020, respectively.

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

Note 20. Equity (continued)

Earnings per share

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

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|---|---|---|---|---|
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 189,750 | (18,720) | 347,177 | (64,680) |
| Weighted average number of common shares (thousands of shares) | 652,499 | 652,499 | 652,499 | 649,415 |
| Dilutive effect of equity-settled share-based compensation plan (thousands of shares) | 31,762 | - | 30,870 | - |
| Weighted average number of common shares, assuming dilution (thousands of shares) | 684,261 | 652,499 | 683,369 | 649,415 |
| Profit (loss) per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles): | | | | |
| Basic | 290.81 | (28.69) | 532.07 | (99.60) |
| Diluted | 277.31 | (28.69) | 508.04 | (99.60) |

Note 21. Personnel expenses

Personnel expenses were as follows:

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|--|---|---|---|---|
| Payroll costs | 45,955 | 43,794 | 82,233 | 78,471 |
| Statutory insurance contributions and social taxes | 10,155 | 8,978 | 19,378 | 17,997 |
| Share-based compensation | 7,842 | 7,842 | 15,684 | 15,684 |
| Total personnel expenses | 63,952 | 60,614 | 117,295 | 112,152 |

Note 22. Finance income and costs

Finance income was as follows:

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|-------------------------------|---|---|---|---|
| Interest income from deposits | 1,470 | 1,306 | 2,135 | 4,304 |
| Interest income from loans | 996 | 1,053 | 1,974 | 2,429 |
| Other finance income | 235 | 326 | 756 | 763 |
| Total finance income | 2,701 | 2,685 | 4,865 | 7,496 |

Finance costs were as follows:

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|----------------------------|---|---|---|---|
| Interest expenses | 7,834 | 9,875 | 15,581 | 18,635 |
| Accretion expenses | 1,065 | 916 | 2,174 | 1,868 |
| Other finance costs | 390 | 532 | 885 | 1,069 |
| Total finance costs | 9,289 | 11,323 | 18,640 | 21,572 |

Note 23. Other income and expenses

Other income was as follows:

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|----------------------------------|--|--|--|--|
| Gain on disposal of assets | 1,463 | 347 | 2,123 | 685 |
| Reversal of impairment of assets | - | 1,787 | - | 1,909 |
| Other income | 3,213 | 1,513 | 6,713 | 4,594 |
| Total other income | 4,676 | 3,647 | 8,836 | 7,188 |

Other expenses were as follows:

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|-----------------------------|--|--|--|--|
| Loss on disposal of assets | 2,740 | 5,267 | 4,826 | 7,524 |
| Impairment loss | - | 38,769 | - | 82,833 |
| Charity expenses | 2,080 | 2,108 | 3,695 | 4,419 |
| Other expenses | 1,955 | 1,966 | 2,257 | 3,489 |
| Total other expenses | 6,775 | 48,110 | 10,778 | 98,265 |

Note 24. Commitments and contingencies

Capital commitments

Capital commitments of the Group relating to construction and acquisition of property, plant and equipment amount to 527,485 million RUB and 501,550 million RUB at 30 June 2021 and 31 December 2020, 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.

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 24. 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 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 (159.2 billion RUB) to \$1.5 billion (108.6 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 (108.6 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. 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 hearing date is scheduled for 23 September 2021. 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 Promyshlennye 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 8 October 2021. 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 24. 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.

Note 25. 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:

| | 30 June 2021 | 31 December 2020 |
|--|---------------|------------------|
| Accounts receivable and other current assets | 3,995 | 2,474 |
| Other financial assets | 35,422 | 32,403 |
| Total assets | 39,417 | 34,877 |
| Accounts payable | 7,880 | 6,902 |
| Short term borrowings and long-term debt | 18,680 | 17,649 |
| Total liabilities | 26,560 | 24,551 |

Related party transactions were as follows:

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|--|---|---|---|---|
| Sales of oil and oil products | 6,751 | 2,635 | 10,538 | 8,920 |
| Other sales | 788 | 517 | 1,622 | 1,195 |
| Purchases of oil and oil products | 16,148 | 12,325 | 37,049 | 27,304 |
| Other purchases | 5,421 | 4,463 | 9,212 | 8,559 |
| Proceeds from sale of other financial assets, net | 178 | 3,006 | 144 | 5,285 |
| Proceeds from issuance (principal repayments) of short term borrowings and long-term debt, net | 100 | (1,137) | 312 | (580) |

Note 26. 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 and 15,684 million RUB during the three and the six months ended 30 June 2021 and 2020, respectively.

Note 27. 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 27. Segment information (continued)

Operating segments

For the three months ended 30 June 2021

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 49,686 | 2,148,285 | 3,913 | - | 2,201,884 |
| Inter-segment | 627,454 | 18,407 | 6,154 | (652,015) | - |
| Total revenues | 677,140 | 2,166,692 | 10,067 | (652,015) | 2,201,884 |
| Operating expenses | 69,510 | 67,126 | 1,195 | (12,906) | 124,925 |
| Selling, general and administrative expenses | 9,174 | 31,776 | 18,179 | (4,760) | 54,369 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 120,827 | 80,422 | (13,512) | 2,013 | 189,750 |
| EBITDA | 220,904 | 126,947 | (14,323) | 6,314 | 339,842 |
| Income tax expense | | | | | (39,594) |
| Finance income | | | | | 2,701 |
| Finance costs | | | | | (9,289) |
| Foreign exchange loss | | | | | (1,275) |
| Equity share in income of associates and joint ventures | | | | | 6,624 |
| Other expenses | | | | | (2,099) |
| Depreciation, depletion and amortisation | | | | | (106,514) |
| Profit for the period attributable to non-controlling interests | | | | | (646) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 189,750 |

For the three months ended 30 June 2020

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 26,564 | 955,015 | 4,848 | - | 986,427 |
| Inter-segment | 225,594 | 16,411 | 15,310 | (257,315) | - |
| Total revenues | 252,158 | 971,426 | 20,158 | (257,315) | 986,427 |
| Operating expenses | 64,174 | 40,505 | 3,466 | (2,630) | 105,515 |
| Selling, general and administrative expenses | 10,378 | 33,248 | 16,824 | (8,038) | 52,412 |
| (Loss) profit for the period attributable to PJSC LUKOIL shareholders | (46,468) | 37,004 | (12,199) | 2,943 | (18,720) |
| EBITDA | 72,346 | 78,744 | (5,441) | (1,233) | 144,416 |
| Income tax expense | | | | | (12,664) |
| Finance income | | | | | 2,685 |
| Finance costs | | | | | (11,323) |
| Foreign exchange gain | | | | | 3,620 |
| Equity share in loss of associates and joint ventures | | | | | (3) |
| Other expenses | | | | | (44,463) |
| Depreciation, depletion and amortisation | | | | | (100,725) |
| Profit for the period attributable to non-controlling interests | | | | | (263) |
| Loss for the period attributable to PJSC LUKOIL shareholders | | | | | (18,720) |

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

Note 27. Segment information (continued)

For the six months ended 30 June 2021

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 115,494 | 3,954,496 | 8,377 | - | 4,078,367 |
| Inter-segment | 1,160,595 | 36,415 | 18,434 | (1,215,444) | - |
| Total revenues | 1,276,089 | 3,990,911 | 26,811 | (1,215,444) | 4,078,367 |
| Operating expenses | 134,851 | 125,141 | 5,655 | (24,684) | 240,963 |
| Selling, general and administrative expenses | 20,693 | 61,618 | 33,291 | (15,201) | 100,401 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 233,421 | 158,665 | (31,996) | (12,913) | 347,177 |
| EBITDA | 444,697 | 247,157 | (25,332) | (12,300) | 654,222 |
| Income tax expense | | | | | (80,606) |
| Finance income | | | | | 4,865 |
| Finance costs | | | | | (18,640) |
| Foreign exchange loss | | | | | (2,420) |
| Equity share in income of associates and joint ventures | | | | | 13,112 |
| Other expenses | | | | | (1,942) |
| Depreciation, depletion and amortisation | | | | | (220,228) |
| Profit for the period attributable to non-controlling interests | | | | | (1,186) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 347,177 |

For the six months ended 30 June 2020

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 78,928 | 2,562,885 | 10,599 | - | 2,652,412 |
| Inter-segment | 611,081 | 36,915 | 24,240 | (672,236) | - |
| Total revenues | 690,009 | 2,599,800 | 34,839 | (672,236) | 2,652,412 |
| Operating expenses | 134,243 | 89,482 | 7,245 | (13,937) | 217,033 |
| Selling, general and administrative expenses | 23,364 | 60,424 | 31,753 | (18,020) | 97,521 |
| Loss for the period attributable to PJSC LUKOIL shareholders | (24,003) | (4,448) | (57,142) | 20,913 | (64,680) |
| EBITDA | 181,535 | 119,035 | (16,130) | 10,819 | 295,259 |
| Income tax expense | | | | | (36,042) |
| Finance income | | | | | 7,496 |
| Finance costs | | | | | (21,572) |
| Foreign exchange loss | | | | | (11,290) |
| Equity share in income of associates and joint ventures | | | | | 4,428 |
| Other expenses | | | | | (91,077) |
| Depreciation, depletion and amortisation | | | | | (211,443) |
| Profit for the period attributable to non-controlling interests | | | | | (439) |
| Loss for the period attributable to PJSC LUKOIL shareholders | | | | | (64,680) |

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

Note 27. Segment information (continued)

Geographical segments

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|--|--|--|--|--|
| Sales of crude oil within Russia | 21,620 | 3,540 | 35,514 | 11,034 |
| Export of crude oil and sales of crude oil by foreign subsidiaries | 811,503 | 306,857 | 1,477,298 | 939,791 |
| Sales of petroleum products within Russia | 245,156 | 161,878 | 438,815 | 365,382 |
| Export of petroleum products and sales of petroleum products by foreign subsidiaries | 1,002,319 | 444,346 | 1,884,800 | 1,164,633 |
| Sales of chemicals within Russia | 16,303 | 8,128 | 28,992 | 18,556 |
| Export of chemicals and sales of chemicals by foreign subsidiaries | 29,938 | 13,080 | 54,367 | 28,871 |
| Sales of gas within Russia | 7,096 | 7,752 | 14,722 | 16,340 |
| Sales of gas by foreign subsidiaries | 27,738 | 4,910 | 55,896 | 29,947 |
| Sales of energy and related services within Russia | 10,440 | 10,114 | 30,280 | 27,694 |
| Sales of energy and related services by foreign subsidiaries | 1,702 | 1,984 | 3,763 | 4,732 |
| Other sales within Russia | 11,843 | 8,964 | 22,153 | 18,283 |
| Other export sales and other sales of foreign subsidiaries | 16,226 | 14,874 | 31,767 | 27,149 |
| Total sales | 2,201,884 | 986,427 | 4,078,367 | 2,652,412 |

For the three months ended 30 June 2021

| | Russia | International | Elimination | Consolidated |
|--|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 333,933 | 1,867,951 | - | 2,201,884 |
| Inter-segment | 444,248 | 1,209 | (445,457) | - |
| Total revenues | 778,181 | 1,869,160 | (445,457) | 2,201,884 |
| Operating expenses | 85,817 | 35,506 | 3,602 | 124,925 |
| Selling, general and administrative expenses | 24,475 | 30,753 | (859) | 54,369 |
| Profit for the period attributable to PJSC LUKOIL shareholders | 163,384 | 24,330 | 2,036 | 189,750 |
| EBITDA | 276,925 | 60,407 | 2,510 | 339,842 |

For the three months ended 30 June 2020

| | Russia | International | Elimination | Consolidated |
|---|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 216,153 | 770,274 | - | 986,427 |
| Inter-segment | 167,484 | 591 | (168,075) | - |
| Total revenues | 383,637 | 770,865 | (168,075) | 986,427 |
| Operating expenses | 75,648 | 17,064 | 12,803 | 105,515 |
| Selling, general and administrative expenses | 22,361 | 30,932 | (881) | 52,412 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 16,966 | (38,626) | 2,940 | (18,720) |
| EBITDA | 95,743 | 44,688 | 3,985 | 144,416 |

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

Note 27. Segment information (continued)

For the six months ended 30 June 2021

| | Russia | International | Elimination | Consolidated |
|--|------------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 622,323 | 3,456,044 | - | 4,078,367 |
| Inter-segment | 822,606 | 2,132 | (824,738) | - |
| Total revenues | 1,444,929 | 3,458,176 | (824,738) | 4,078,367 |
| Operating expenses | 166,979 | 65,716 | 8,268 | 240,963 |
| Selling, general and administrative expenses | 45,070 | 57,142 | (1,811) | 100,401 |
| Profit for the period attributable to PJSC LUKOIL shareholders | 301,912 | 58,140 | (12,875) | 347,177 |
| EBITDA | 526,396 | 142,683 | (14,857) | 654,222 |

For the six months ended 30 June 2020

| | Russia | International | Elimination | Consolidated |
|---|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 487,432 | 2,164,980 | - | 2,652,412 |
| Inter-segment | 481,385 | 848 | (482,233) | - |
| Total revenues | 968,817 | 2,165,828 | (482,233) | 2,652,412 |
| Operating expenses | 157,520 | 38,878 | 20,635 | 217,033 |
| Selling, general and administrative expenses | 44,518 | 54,670 | (1,667) | 97,521 |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders | 41,458 | (127,095) | 20,957 | (64,680) |
| EBITDA | 227,520 | 49,931 | 17,808 | 295,259 |

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

| | For the three months ended 30 June 2021 | For the three months ended 30 June 2020 | For the six months ended 30 June 2021 | For the six months ended 30 June 2020 |
|----------------|--|--|--|--|
| Sales revenues | | | | |
| in Switzerland | 989,648 | 400,073 | 1,847,905 | 1,188,085 |
| in the USA | 317,150 | 87,205 | 552,971 | 330,684 |
| in Singapore | 165,057 | 70,768 | 319,371 | 135,427 |

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

Note 28. 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.

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

Note 28. Fair value (continued)

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 30 June 2021 and 31 December 2020.

| 30 June 2021 | Carrying amount | Fair value | | | Total |
|---|------------------------|-------------------|----------------|----------------|----------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Commodity derivative contracts | 1,484 | - | 1,484 | - | 1,484 |
| Financial assets at fair value through profit or loss | 36,810 | - | - | 36,810 | 36,810 |
| Financial assets at fair value through other comprehensive income | 5,423 | 5,423 | - | - | 5,423 |
| Financial liabilities: | | | | | |
| Commodity derivative contracts | 1,472 | - | 1,472 | - | 1,472 |
| Loans and borrowings | 603,073 | 349,838 | - | 278,517 | 628,355 |

| 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 30 June 2021 and 31 December 2020.

Note 29. Subsequent events

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 as of the transaction completion date. The transaction will be closed after all the customary conditions, including approval by the Mexican authorities, are fulfilled.