# PJSC LUKOIL

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## for the three-month period ended 31 March 2017

## 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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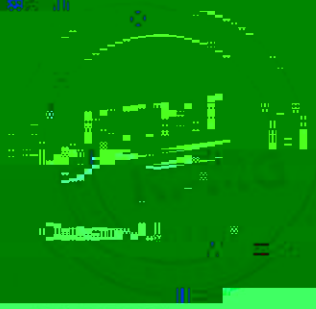

JSC "KPMG"

Moscow, Russia

**PJSC LUKOIL**
**Consolidated Statement of Financial Position**

**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 2017 (unaudited) | For the three months ended 31 March 2016 (unaudited) |
|---|---|---|---|
| **Revenues** | | | |
| Sales (including excise and export tariffs) | 29 | 1,431,599 | 1,177,674 |
| **Costs and other deductions** | | | |
| Operating expenses | | (107,492) | (113,244) |
| Cost of purchased crude oil, gas and products | | (742,569) | (537,733) |
| Transportation expenses | | (73,714) | (86,699) |
| Selling, general and administrative expenses | | (36,286) | (47,823) |
| Depreciation, depletion and amortisation | | (80,774) | (84,348) |
| Taxes other than income taxes | | (153,682) | (83,553) |
| Excise and export tariffs | | (109,447) | (114,949) |
| Exploration expenses | | (764) | (1,681) |
| **Profit from operating activities** | | **126,871** | **107,644** |
| Finance income | 23 | 3,299 | 3,831 |
| Finance costs | 23 | (9,470) | (10,371) |
| Equity share in income of affiliates | 11 | 3,730 | 2,353 |
| Foreign exchange loss | | (43,494) | (45,378) |
| Other expenses | 24 | (2,487) | |

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

## Note 2. Basis of preparation (continued)

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

The results and financial position of Group companies whose functional currenc(i)6by11( )-216(c)6(se)-216(dit)(f



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## Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

| | | Ownership, % | | | |
|---|---|---|---|---|---|
| **Name of the company** | **Country** | **31 March 2017** | **31 December 2016** | **31 March 2017** | **31 December 2016** |
| *Joint Ventures*: | | | | | |
| Tengizchevroil | Kazakhstan | 5.0% | 5.0% | 82,691 | 86,851 |
| Caspian Pipeline Consortium | Kazakhstan | 12.5% | 12.5% | 24,134 | 25,032 |
| Turgai Petroleum | Kazakhstan | 50.0% | 50.0% | 1,823 | 1,650 |
| South Caucasus Pipeline Company | Azerbaijan | 10.0% | 10.0% | 23,440 | 23,738 |
| *Associates*: | | | | | |
| Associates | | | | 23,826 | 25,134 |
| **Total** | | | | **155,914** | **162,405** |

## Note 12. Property, plant and equipment

| | **Exploration and prod** |
|---|---|

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

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 31 December 2015 | 3,232,673 | 1,206,252 | 103,587 | **4,542,512** |
| Additions | 110,517 | 15,623 | 346 | **126,486** |
| Capitalised borrowing costs | 2,325 | 93 | - | **2,418** |
| Disposals | (2,848) | (16,544) | (62) | **(19,454)** |
| Changes in estimates of asset retirement obligation | (4) | - | - | **(4)** |
| Foreign currency translation differences | (84,343) | (17,999) | (1,054) | **(103,396)** |
| Other | (4,442) | 5,496 | 269 | **1,323** |
| **31 March 2016** | **3,253,878** | **1,192,921** | **103,086** | **4,549,885** |
| **Depreciation and impairment** | | | | |

## Note 17. Long-term debt (continued)

Long-term loans and borrowings

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## Note 20. Provisions



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## Note 23. Finance income and costs

Finance income was as follows.

| | For the three months ended 31 March 2017 | For the three months ended 31 March 2016 |
|---|---|---|

## Note 26. Commitments and contingencies (continued)

The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, on 22 January 2016 the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. On 27 January 2017, a court hearing took place and the attorneys requested that an expert examination be performed. On 19 May 2017, the Prahova Tribunal issued a decision on appointment of experts. The next hearing is scheduled for 21 June 2017. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustivHVHWRIHYLGHQHWRIXOUHEXWWKHFKDUJHVEURJKWEWKH3URV Office. Management does not believe that the outcome of this matter will have a material adverse effect on WKH*URXSVILQDQLDOSRVLWLRQ

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the dispute related to cost recovery in 2010-2013 and calculation of the *REMHFWLYLWLQH[ in accordance with the Final Production Sharing Agreement in respect of the Karachaganak field in Kazakhstan. Currently, the parties are in the process of preparation for the arbitration with regard to the cost recovery issue and in the process of coordination of procedural issues of arbitration proceeding with regard to correctness of *REMHFWLYLWLQH[ calculation. The parties undertake effort in order to resolve the disagreements in both disputes during negotiation process therefore management believes that all the calculations of possible losses are preliminary and are not subject to disclosure in order to avoid an adverse impact on course of the negotiations and position of the parties in it. As at the date of the signing of these condensed interim consolidated financial statements, management can not make a sufficient judgement on the influence of *REMHFWLYLWLQH[ GWLQ

## Note 27. Related party transactions

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

Outstanding balances with related parties:

| | 31 March 2017 | 31 December 2016 |
|---|---|---|
| Accounts receivable | 9,924 | 8,209 |
| Other financial assets | 87,164 | 93,453 |
| **Total assets** | **97,088** | **101,662** |
| Accounts payable | 8,552 | 8,436 |
| Loans and borrowings | 3,550 | 3,743 |
| **Total liabilities** | **12,102** | **12,179** |

Related party transactions were as follows:

| | For the three months ended 31 March 2017 | For the three months ended 31 March 2016 |
|---|---|---|
| Sales of oil and oil products | 3,457 | 4,381 |
| Other sales | 1,078 | 394 |
| Purchases of oil and oil products | 24,638 | 13,145 |
| Other purchases | 1,223 | 2,224 |
| Loans given | 662 | 8,424 |
| Loans received | 1,233 | 690 |

## Note 28. Compensation plan

## Note 28. Compensation plan (continued)

Related to this share plan the Group recognised income of 3,172 million RUB and expense of 3,944 million RUB during the three months ended 31 March 2017 and 2016, respectively. At 31 March 2017 and 31 December 2016, amounts of 23,749 million RUB and 26,921 million RUB related to this plan are included LQ8URYLVLRQ7RIWKHFRQ7ROLGDWHGVWDWHPHQ7WRIILQ7DOSRVLWLRQ respectively.

At 31 March 2017, there was 3,374 million RUB of total unrecognised compensation cost related to unvested benefits. This cost is expected to be recognised periodically by the Group up to December 2017.

## Note 29. Segment information

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

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

Operating earnings are supplemental non-IFRS financial measure used by management to evaluate segments performance. Operating earnings are defined as profit before interest income and expense, income tax expense, depreciation, depletion and amortisation.

### Operating segments

**For the three months ended 31 March 2017**

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---|---|---|---|---|
| Sales and other operating revenues | | | | | |
| Third parties | 33,862 | 1,387,585 | 10,152 | - | 1,431,599 |
| Inter-segment | 380,264 | 18,220 | 11,583 | (410,067) | - |
| Total revenues | 414m0 g7 | | | | |
| | | | | | (80,774) |
| Profit for the period attributable to PJSCLUKOIL shareholders | | | | | 62,306 |

## Note 29. Segment information (continued)

**For the three months ended 31 March 2016**

| | Russia | International | Elimination | Consolited |
|---|---|---|---|---|

## Note 30. Fair value (continued)

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar periods, repayment schedules and similar other main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 March 2017 and 31 December 2016.