



PJSC LUKOIL

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine-month periods ended 30 September 2018

**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.



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

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 September 2018, and the related consolidated statements of profit or loss and other comprehensive income for the three- and nine-month periods ended 30 September 2018 and the related consolidated statements of changes in equity and cash flows for the nine - month period ended 30 September 2018, 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.

Audited entity: Public Joint Stock Company "Oil company "LUKOIL"
Registration No. in the Unified State Register of Legal Entities
1027700035769.
Moscow, Russia.

Independent auditor: 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-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

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 September 2018 and for the three- and nine-month periods ended 30 September 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Oussov A.I.

Director


JSC "KPMG"

Moscow, Russia

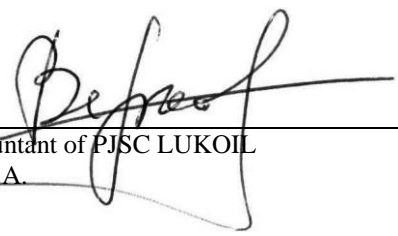
27 November 2018

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

| | Note | 30 September 2018 (unaudited) | 31 December 2017 |
|--|------|-------------------------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 371,791 | 330,390 |
| Accounts receivable, net | 7 | 606,302 | 418,272 |
| Other current financial assets | | 40,745 | 19,561 |
| Inventories | 8 | 448,286 | 398,186 |
| Prepaid taxes | 9 | 96,546 | 87,338 |
| Other current assets | 10 | 54,930 | 54,367 |
| Total current assets | | 1,618,600 | 1,308,114 |
| Property, plant and equipment | 12 | 3,722,586 | 3,575,165 |
| Investments in associates and joint ventures | 11 | 199,980 | 164,286 |
| Other non-current financial assets | 13 | 64,565 | 79,717 |
| Deferred income tax assets | | 29,562 | 25,128 |
| Goodwill and other intangible assets | | 39,956 | 41,304 |
| Other non-current assets | | 38,301 | 32,501 |
| Total non-current assets | | 4,094,950 | 3,918,101 |
| Total assets | | 5,713,550 | 5,226,215 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Accounts payable | 14 | 645,279 | 559,977 |
| Short-term borrowings and current portion of long-term debt | 15 | 51,892 | 128,713 |
| Taxes payable | 17 | 169,253 | 118,484 |
| Provisions | 19 | 32,179 | 58,253 |
| Other current liabilities | 18 | 33,462 | 93,420 |
| Total current liabilities | | 932,065 | 958,847 |
| Long-term debt | 16 | 513,469 | 487,647 |
| Deferred income tax liabilities | | 248,952 | 237,980 |
| Provisions | 19 | 55,634 | 47,962 |
| Other non-current liabilities | | 1,355 | 3,380 |
| Total non-current liabilities | | 819,410 | 776,969 |
| Total liabilities | | 1,751,475 | 1,735,816 |
| Equity | 20 | | |
| Share capital | | 1,151 | 1,151 |
| Treasury shares | | (258,113) | (251,089) |
| Additional paid-in capital | | 129,732 | 129,641 |
| Other reserves | | 125,439 | 27,090 |
| Retained earnings | | 3,955,499 | 3,576,158 |
| Total equity attributable to PJSC LUKOIL shareholders | | 3,953,708 | 3,482,951 |
| Non-controlling interests | | 8,367 | 7,448 |
| Total equity | | 3,962,075 | 3,490,399 |
| Total liabilities and equity | | 5,713,550 | 5,226,215 |



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 30 September 2018 (unaudited) | For the three months ended 30 September 2017 (unaudited) | For the nine months ended 30 September 2018 (unaudited) | For the nine months ended 30 September 2017 (unaudited) |
|---|------|---|---|--|--|
| Revenues | | | | | |
| Sales (including excise and export tariffs) | 28 | 2,305,886 | 1,483,484 | 5,992,672 | 4,274,253 |
| Costs and other deductions | | | | | |
| Operating expenses | | (123,837) | (120,608) | (344,698) | (338,674) |
| Cost of purchased crude oil, gas and products | | (1,323,504) | (782,950) | (3,402,816) | (2,226,683) |
| Transportation expenses | | (70,624) | (62,980) | (204,886) | (204,210) |
| Selling, general and administrative expenses | | (64,766) | (42,872) | (141,929) | (118,403) |
| Depreciation, depletion and amortisation | | (105,900) | (83,920) | (291,183) | (248,856) |
| Taxes other than income taxes | | (248,539) | (135,266) | (649,176) | (434,588) |
| Excise and export tariffs | | (151,765) | (116,820) | (410,358) | (341,595) |
| Exploration expenses | | (1,041) | (842) | (2,324) | (2,265) |
| Profit from operating activities | | 215,910 | 137,226 | 545,302 | 358,979 |
| Finance income | 22 | 5,132 | 3,261 | 13,294 | 9,662 |
| Finance costs | 22 | (9,955) | (5,925) | (25,556) | (22,162) |
| Equity share in income of affiliates | 11 | 6,828 | 3,985 | 18,181 | 11,670 |
| Foreign exchange gain (loss) | | 11,215 | (9,441) | 32,177 | (25,149) |
| Other (expenses) income | 23 | (780) | (737) | (10,643) | 44,604 |
| Profit before income taxes | | 228,350 | 128,369 | 572,755 | 377,604 |
| Current income taxes | | (46,064) | (30,157) | (104,253) | (75,096) |
| Deferred income taxes | | 2,176 | (427) | (6,620) | (3,245) |
| Total income tax expense | | (43,888) | (30,584) | (110,873) | (78,341) |
| Profit for the period | | 184,462 | 97,785 | 461,882 | 299,263 |
| Profit for the period attributable to non-controlling interests | | (695) | (444) | (1,735) | (968) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | 183,767 | 97,341 | 460,147 | 298,295 |
| 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 | | 37,161 | 3,103 | 98,827 | 17,446 |
| <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 | | (1,229) | 613 | (310) | (2,377) |
| Remeasurement of defined benefit liability / asset of pension plan | | (60) | 5 | (174) | 18 |
| Other comprehensive income | | 35,872 | 3,721 | 98,343 | 15,087 |
| Total comprehensive income for the period | | 220,334 | 101,506 | 560,225 | 314,350 |
| Total comprehensive income for the period attributable to non-controlling interests | | (691) | (451) | (1,729) | (997) |
| Total comprehensive income for the period attributable to PJSC LUKOIL shareholders | | 219,643 | 101,055 | 558,496 | 313,353 |
| Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles): | | | | | |
| Basic | 20 | 259.02 | 137.17 | 648.48 | 419.37 |
| Diluted | 20 | 255.54 | 137.17 | 643.85 | 419.37 |

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 2017 | 1,151 | (251,089) | 129,641 | 27,090 | 3,576,158 | 3,482,951 | 7,448 | 3,490,399 |
| Adjustment on adoption of IFRS 9, net of tax | - | - | - | - | (6,831) | (6,831) | - | (6,831) |
| 1 January 2018 | 1,151 | (251,089) | 129,641 | 27,090 | 3,569,327 | 3,476,120 | 7,448 | 3,483,568 |
| Profit for the period | - | - | - | - | 460,147 | 460,147 | 1,735 | 461,882 |
| Other comprehensive income (loss) | - | - | - | 98,349 | - | 98,349 | (6) | 98,343 |
| Total comprehensive income | | | | 98,349 | 460,147 | 558,496 | 1,729 | 560,225 |
| Dividends on common stock | - | - | - | - | (92,252) | (92,252) | - | (92,252) |
| Stock purchased | - | (7,024) | - | - | - | (7,024) | - | (7,024) |
| Equity-settled share-based compensation plan | - | - | - | - | 18,277 | 18,277 | - | 18,277 |
| Changes in non-controlling interests | - | - | 91 | - | - | 91 | (810) | (719) |
| 30 September 2018 | 1,151 | (258,113) | 129,732 | 125,439 | 3,955,499 | 3,953,708 | 8,367 | 3,962,075 |
| 31 December 2016 | 1,151 | (241,615) | 129,514 | 28,975 | 3,302,855 | 3,220,880 | 6,784 | 3,227,664 |
| Profit for the period | - | - | - | - | 298,295 | 298,295 | 968 | 299,263 |
| Other comprehensive income (loss) | - | - | - | 15,087 | (29) | 15,058 | 29 | 15,087 |
| Total comprehensive income | | | | 15,087 | 298,266 | 313,353 | 997 | 314,350 |
| Dividends on common stock | - | - | - | - | (85,156) | (85,156) | - | (85,156) |
| Stock purchased | - | (9,474) | - | - | - | (9,474) | - | (9,474) |
| Changes in non-controlling interests | - | - | 127 | - | - | 127 | (915) | (788) |
| 30 September 2017 | 1,151 | (251,089) | 129,641 | 44,062 | 3,515,965 | 3,439,730 | 6,866 | 3,446,596 |

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 nine months ended 30 September 2018 (unaudited) | For the nine months ended 30 September 2017 (unaudited) |
|---|--|--|
| Cash flows from operating activities | | |
| Profit for the period attributable to PJSC LUKOIL shareholders | 460,147 | 298,295 |
| Adjustments for non-cash items: | | |
| Depreciation, depletion and amortisation | 291,183 | 248,856 |
| Equity share in income of affiliates, net of dividends received | (12,060) | (7,780) |
| Dry hole write-offs | 860 | 7 |
| Loss (gain) on disposals and impairments of assets | 14,167 | (41,487) |
| Income tax expense | 110,873 | 78,341 |
| Non-cash foreign exchange (gain) loss | (32,398) | 25,948 |
| Finance income | (13,294) | (9,662) |
| Finance costs | 25,556 | 22,162 |
| Bad debt provision | 1,180 | 2,624 |
| Equity-settled share-based compensation plan | 23,525 | - |
| All other items – net | (778) | (992) |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (140,397) | (19,157) |
| Inventories | (12,037) | 35,910 |
| Accounts payable | 39,464 | (54,354) |
| Other taxes | 31,563 | 30,726 |
| Other current assets and liabilities | (26,378) | (13,523) |
| Income tax paid | (96,007) | (58,435) |
| Dividends received | 6,401 | 3,754 |
| Interests received | 9,570 | 6,233 |
| Net cash provided by operating activities | 681,140 | 547,466 |
| Cash flows from investing activities | | |
| Acquisition of licenses | (298) | (123) |
| Capital expenditures | (338,260) | (373,770) |
| Proceeds from sale of property, plant and equipment | 1,371 | 1,076 |
| Purchases of financial assets | (2,175) | (2,654) |
| Proceeds from sale of financial assets | 11,871 | 8,943 |
| Sale of subsidiaries, net of cash disposed | - | 81,038 |
| Sale of equity method affiliates | - | 475 |
| Acquisitions of subsidiaries, net of cash acquired | - | (3,369) |
| Acquisitions of equity method affiliates | (1,968) | (2,932) |
| Net cash used in investing activities | (329,459) | (291,316) |
| Cash flows from financing activities | | |
| Proceeds from issuance of short-term borrowings | 21,050 | 3,910 |
| Principal repayments of short-term borrowings | (12,142) | (7,214) |
| Proceeds from issuance of long-term debt | 39,840 | 68,049 |
| Principal repayments of long-term debt | (196,714) | (105,728) |
| Interest paid | (23,080) | (24,264) |
| Dividends paid on Company common shares | (158,346) | (139,391) |
| Dividends paid to non-controlling interest shareholders | (1,515) | (2,125) |
| Financing received from non-controlling interest shareholders | 111 | 27 |
| Purchase of Company's stock | (7,024) | (9,474) |
| Sale of non-controlling interests | 4 | 30 |
| Purchases of non-controlling interests | - | (5) |
| Net cash used in financing activities | (337,816) | (216,185) |
| Effect of exchange rate changes on cash and cash equivalents | 27,536 | (7,844) |
| Change in cash related to assets held for sale | - | 3 |
| Net increase in cash and cash equivalents | 41,401 | 32,124 |
| Cash and cash equivalents at beginning of period | 330,390 | 261,367 |
| Cash and cash equivalents at end of period | 371,791 | 293,491 |

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

Note 1. Organization 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 condensed interim 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.

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 2017 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 2017.

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 2017.

The condensed interim consolidated financial statements were authorised by the President of the Company on 27 November 2018.

Functional and presentation currency

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

The presentation currency of the 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.

Note 2. Basis of preparation (continued)

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 2017 except for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from Contracts with Customers* that the Group has adopted with effect from 1 January 2018.

IFRS 9, issued in July 2014, replaced the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaced the current 'incurred loss' model with a forward-looking 'expected credit loss' model. The adoption of IFRS 9 resulted in recognition of additional provisions for impairment of receivables under the expected credit loss model. The overall impact of applying the standard resulted in recognition of additional allowance on accounts receivables recognised directly in equity in the amount of 6,831 million RUB net of deferred income tax at 1 January 2018. As permitted by IFRS 9 comparatives have not been restated.

IFRS 15, issued in May 2014, established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue when a customer obtains control of the goods. Based on management's analysis performed the standard does not have a material effect on the Group's consolidated financial statements, no transition adjustment has been made and comparative information has not been restated.

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 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.

Note 5. Income taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 3.0% and a regional income tax rate that varies from 12.5% to 17.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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 September 2018 | 31 December 2017 |
|--|------------------------------|-----------------------------|
| Cash held in RUB | 82,839 | 70,611 |
| Cash held in US dollars | 263,177 | 239,405 |
| Cash held in EUR | 18,929 | 13,490 |
| Cash held in other currencies | 6,846 | 6,884 |
| Total cash and cash equivalents | 371,791 | 330,390 |

Note 7. Accounts receivable, net

| | 30 September 2018 | 31 December 2017 |
|--|------------------------------|-----------------------------|
| Trade accounts receivable (net of allowances of 24,660 million RUB and 18,777 million RUB at 30 September 2018 and 31 December 2017, respectively) | 586,898 | 393,073 |
| Other current accounts receivable (net of allowances of 5,270 million RUB and 3,182 million RUB at 30 September 2018 and 31 December 2017, respectively) | 19,404 | 25,199 |
| Total accounts receivable, net | 606,302 | 418,272 |

Note 8. Inventories

| | 30 September 2018 | 31 December 2017 |
|---------------------------------------|------------------------------|-----------------------------|
| Crude oil and petroleum products | 389,474 | 345,216 |
| Materials for extraction and drilling | 22,499 | 19,925 |
| Materials and supplies for refining | 4,130 | 2,999 |
| Other goods, materials and supplies | 32,183 | 30,046 |
| Total inventories | 448,286 | 398,186 |

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

Note 9. Prepaid taxes

| | 30 September 2018 | 31 December 2017 |
|--------------------------------|------------------------------|-----------------------------|
| Income tax prepaid | 11,096 | 13,543 |
| VAT and excise tax recoverable | 40,553 | 38,930 |
| Export duties prepaid | 15,451 | 15,418 |
| VAT prepaid | 25,282 | 15,655 |
| Other taxes prepaid | 4,164 | 3,792 |
| Total prepaid taxes | 96,546 | 87,338 |

Note 10. Other current assets

| | 30 September 2018 | 31 December 2017 |
|-----------------------------------|------------------------------|-----------------------------|
| Advance payments | 18,435 | 17,487 |
| Prepaid expenses | 19,645 | 23,072 |
| Other assets | 16,850 | 13,808 |
| Total other current assets | 54,930 | 54,367 |

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

| Name of the company | Country | Ownership, % | | 30 September 2018 | 31 December 2017 |
|---------------------------------|----------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | | 30 September 2018 | 31 December 2017 | | |
| <i>Joint Ventures:</i> | | | | | |
| Tengizchevroil | Kazakhstan | 5.0% | 5.0% | 110,516 | 88,390 |
| Caspian Pipeline Consortium | Kazakhstan | 12.5% | 12.5% | 34,569 | 27,282 |
| South Caucasus Pipeline Company | Azerbaijan | 10.0% | 10.0% | 32,630 | 26,965 |
| Others | | | | 702 | 474 |
| <i>Associates:</i> | | | | | |
| Associates | | | | 21,563 | 21,175 |
| Total | | | | 199,980 | 164,286 |

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

Note 12. Property, plant and equipment

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|-------------------------------|---|-----------------|--------------------|
| Cost | | | | |
| 31 December 2017 | 3,902,267 | 1,236,552 | 72,543 | 5,211,362 |
| Additions | 268,811 | 66,538 | 1,065 | 336,414 |
| Capitalised borrowing costs | 6,884 | - | - | 6,884 |
| Disposals | (29,019) | (7,514) | (476) | (37,009) |
| Foreign currency translation differences | 164,397 | 38,123 | 1,651 | 204,171 |
| Other | 275 | (731) | 89 | (367) |
| 30 September 2018 | 4,313,615 | 1,332,968 | 74,872 | 5,721,455 |
| Depreciation and impairment | | | | |
| 31 December 2017 | (1,230,717) | (403,445) | (15,617) | (1,649,779) |
| Depreciation for the period | (220,070) | (70,759) | (2,725) | (293,554) |
| Impairment loss | (5,033) | - | - | (5,033) |
| Disposals | 21,883 | 4,075 | 164 | 26,122 |
| Foreign currency translation differences | (81,074) | (14,200) | (501) | (95,775) |
| Other | 2 | 803 | 30 | 835 |
| 30 September 2018 | (1,515,009) | (483,526) | (18,649) | (2,017,184) |
| Advance payments for property, plant and equipment | | | | |
| 31 December 2017 | 10,732 | 2,717 | 133 | 13,582 |
| 30 September 2018 | 6,926 | 10,777 | 612 | 18,315 |
| Carrying amounts | | | | |
| 31 December 2017 | 2,682,282 | 835,824 | 57,059 | 3,575,165 |
| 30 September 2018 | 2,805,532 | 860,219 | 56,835 | 3,722,586 |
| Cost | | | | |
| 31 December 2016 | 3,478,050 | 1,155,388 | 70,186 | 4,703,624 |
| Additions | 340,709 | 36,154 | 1,178 | 378,041 |
| Acquisitions through business combinations | - | 5,180 | - | 5,180 |
| Capitalised borrowing costs | 10,806 | 73 | - | 10,879 |
| Disposals | (21,660) | (8,262) | (300) | (30,222) |
| Foreign currency translation differences | (47,217) | 22,183 | (523) | (25,557) |
| Other | (1,104) | (988) | 68 | (2,024) |
| 30 September 2017 | 3,759,584 | 1,209,728 | 70,609 | 5,039,921 |
| Depreciation and impairment | | | | |
| 31 December 2016 | (1,058,116) | (307,641) | (11,794) | (1,377,551) |
| Depreciation for the period | (171,866) | (70,251) | (2,547) | (244,664) |
| Impairment loss | (1,496) | (1,032) | - | (2,528) |
| Impairment reversal | 1,205 | - | - | 1,205 |
| Disposals | 14,121 | 5,153 | 173 | 19,447 |
| Foreign currency translation differences | 24,737 | (7,977) | 111 | 16,871 |
| Other | 105 | 732 | (169) | 668 |
| 30 September 2017 | (1,191,310) | (381,016) | (14,226) | (1,586,552) |
| Advance payments for property, plant and equipment | | | | |
| 31 December 2016 | 64,764 | 486 | 43 | 65,293 |
| 30 September 2017 | 50,716 | 208 | 146 | 51,070 |
| Carrying amounts | | | | |
| 31 December 2016 | 2,484,698 | 848,233 | 58,435 | 3,391,366 |
| 30 September 2017 | 2,618,990 | 828,920 | 56,529 | 3,504,439 |

Note 12. Property, plant and equipment (continued)

The cost of assets under construction included in Property, plant and equipment was 392,306 million RUB and 514,886 million RUB at 30 September 2018 and 31 December 2017, respectively.

In the second quarter of 2018, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5 billion RUB.

Exploration and evaluation assets:

| | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|--|--|--|
| 1 January | 86,134 | 69,829 |
| Capitalised expenditures | 21,109 | 23,948 |
| Reclassified to development assets | (4,963) | (2,187) |
| Charged to expenses | (5,829) | (1,231) |
| Foreign currency translation differences | 2,159 | (416) |
| Other movements | (14) | 1,189 |
| 30 September | 98,596 | 91,132 |

Note 13. Other non-current financial assets

| | 30 September 2018 | 31 December 2017 |
|---|------------------------------|-----------------------------|
| Long-term loans | 54,100 | 69,840 |
| including loans to associates | 54,094 | 69,668 |
| Non-current accounts and notes receivable | 4,900 | 4,680 |
| Other non-current financial assets | 5,565 | 5,197 |
| Total other non-current financial assets | 64,565 | 79,717 |

All other non-current financial assets are measured at amortised cost.

Note 14. Accounts payable

| | 30 September 2018 | 31 December 2017 |
|-------------------------------|------------------------------|-----------------------------|
| Trade accounts payable | 575,311 | 508,078 |
| Other accounts payable | 69,968 | 51,899 |
| Total accounts payable | 645,279 | 559,977 |

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

| | 30 September 2018 | 31 December 2017 |
|--|------------------------------|-----------------------------|
| Short-term borrowings from third parties | 24,336 | 15,499 |
| Short-term borrowings from related parties | 2,736 | 3,170 |
| Current portion of long-term debt | 24,820 | 110,044 |
| Total short-term borrowings and current portion of long-term debt | 51,892 | 128,713 |

Short-term borrowings from third parties include amounts repayable in US dollars of 20,747 million RUB and 5,235 million RUB and amounts repayable in other currencies of 3,589 million RUB and 10,264 million RUB at 30 September 2018 and 31 December 2017, respectively. The weighted-average interest rate on short-term borrowings from third parties was 7.96% and 11.30% per annum at 30 September 2018 and 31 December 2017, respectively. At 30 September 2018, short-term borrowings from third parties are unsecured.

Note 16. Long-term debt

| | 30 September 2018 | 31 December 2017 |
|---|------------------------------|-----------------------------|
| Long-term loans and borrowings from third parties | 210,234 | 244,000 |
| 3.416% non-convertible US dollar bonds, maturing 2018 | - | 86,384 |
| 7.250% non-convertible US dollar bonds, maturing 2019 | 39,241 | 34,466 |
| 6.125% non-convertible US dollar bonds, maturing 2020 | 65,500 | 57,506 |
| 6.656% non-convertible US dollar bonds, maturing 2022 | 32,723 | 28,748 |
| 4.563% non-convertible US dollar bonds, maturing 2023 | 98,261 | 86,274 |
| 4.750% non-convertible US dollar bonds, maturing 2026 | 65,445 | 57,467 |
| Capital lease obligations | 26,885 | 2,846 |
| Total long-term debt | 538,289 | 597,691 |
| Current portion of long-term debt | (24,820) | (110,044) |
| Total non-current portion of long-term debt | 513,469 | 487,647 |

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 184,690 million RUB and 194,251 million RUB and amounts repayable in euros of 25,544 million RUB and 49,749 million RUB at 30 September 2018 and 31 December 2017, respectively. This debt has maturity dates from 2018 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.52% and 4.33% per annum at 30 September 2018 and 31 December 2017, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 35% of total long-term loans and borrowings from third parties at 30 September 2018 are secured by shares of an associated company, export sales and property, plant and equipment.

In April 2018, a Group company redeemed non-convertible bonds totaling \$1.5 billion (92.6 billion RUB) in accordance with the conditions of the bond issue. The bonds were issued in 2013 with a maturity of 5 years and a coupon yield of 3.416% per annum.

Reconciliation of liabilities arising from financing activities

| | Loans and borrowings | Bonds | Capital lease obligations | Other liabilities | Total |
|---|---------------------------------|----------------|--------------------------------------|------------------------------|------------------|
| 31 December 2017 | 262,669 | 350,845 | 2,846 | 64,566 | 680,926 |
| Changes from financing cash flows: | | | | | |
| Proceeds from issuance of short-term borrowings | 21,050 | - | - | - | 21,050 |
| Principal repayments of short-term borrowings | (12,142) | - | - | - | (12,142) |
| Proceeds from issuance of long-term debt | 39,840 | - | - | - | 39,840 |
| Principal repayments of long-term debt | (102,844) | (92,648) | (1,222) | - | (196,714) |
| Interest paid | - | - | - | (23,080) | (23,080) |
| Dividends paid on Company common stock | - | - | - | (158,346) | (158,346) |
| Total changes from financing cash flows | (54,096) | (92,648) | (1,222) | (181,426) | (329,392) |
| Other changes: | | | | | |
| Interest accrued | - | - | - | 27,920 | 27,920 |
| Dividends declared on Company common stock | - | - | - | 92,252 | 92,252 |
| The effect of changes in foreign exchange rates | 28,199 | 42,932 | (32) | 882 | 71,981 |
| Other changes | 534 | 41 | 25,293 | 5,108 | 30,976 |
| Total other changes | 28,733 | 42,973 | 25,261 | 126,162 | 223,129 |
| 30 September 2018 | 237,306 | 301,170 | 26,885 | 9,302 | 574,663 |

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Note 17. Taxes payable

| | 30 September 2018 | 31 December 2017 |
|----------------------------|------------------------------|-----------------------------|
| Income tax | 14,951 | 8,963 |
| Mineral extraction tax | 73,355 | 47,175 |
| VAT | 48,172 | 34,147 |
| Excise tax | 22,066 | 17,750 |
| Property tax | 5,451 | 3,652 |
| Other taxes | 5,258 | 6,797 |
| Total taxes payable | 169,253 | 118,484 |

Note 18. Other current liabilities

| | 30 September 2018 | 31 December 2017 |
|--|------------------------------|-----------------------------|
| Advances received | 28,041 | 27,698 |
| Dividends payable | 1,333 | 62,254 |
| Other | 4,088 | 3,468 |
| Total other current liabilities | 33,462 | 93,420 |

Note 19. Provisions

| | Asset retirement obligation | Provision for employee compensations | Provision for environmental liabilities | Pension provisions | Provision for unused vacations | Other provisions | Total |
|--------------------------|--|---|--|-------------------------------|---|-----------------------------|----------------|
| 30 September 2018 | 43,043 | 11,367 | 3,994 | 10,687 | 4,888 | 13,834 | 87,813 |
| Incl.: Non-current | 42,786 | 7 | 1,683 | 8,952 | 345 | 1,861 | 55,634 |
| Current | 257 | 11,360 | 2,311 | 1,735 | 4,543 | 11,973 | 32,179 |
| 31 December 2017 | 36,668 | 36,172 | 4,176 | 10,367 | 5,472 | 13,360 | 106,215 |
| Incl.: Non-current | 36,478 | 14 | 1,683 | 8,292 | 54 | 1,441 | 47,962 |
| Current | 190 | 36,158 | 2,493 | 2,075 | 5,418 | 11,919 | 58,253 |

Assets retirement obligation:

| | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|--|--|--|
| 1 January | 36,668 | 37,460 |
| Provisions made during the period | 2,152 | 1,557 |
| Reversal of provisions | (92) | (74) |
| Provisions used during the period | (147) | (1,293) |
| Accretion expense | 2,243 | 2,012 |
| Change in discount rate | 1,808 | 90 |
| Changes in estimates | (1,610) | 63 |
| Foreign currency translation differences | 2,003 | (585) |
| Other | 18 | 198 |
| 30 September | 43,043 | 39,428 |

Note 20. Equity

Common shares

| | 30 September 2018 | 31 December 2017 |
|--|----------------------------------|----------------------------------|
| | (thousands of shares) | (thousands of shares) |
| Authorized and issued common shares, par value of 0.025 RUB each | 850,563 | 850,563 |
| Treasury shares | (142,411) | (140,930) |
| Outstanding common shares | 708,152 | 709,633 |

According to the resolution of the extraordinary general shareholders' meeting held on 24 August 2018, 100.6 million common shares of the Company were cancelled on 1 November 2018. As a result the number of authorized and issued common shares was reduced to 750 million.

Dividends

At the annual general shareholders' meeting on 21 June 2018, dividends for 2017 were approved in the amount of 130.00 RUB per common share. At the extraordinary general shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share. Total dividends for 2017 were approved in the amount of 215.00 RUB per common share.

At the annual general shareholders' meeting on 21 June 2017, dividends for 2016 were approved in the amount of 120.00 RUB per common share. At the extraordinary general shareholders' meeting on 5 December 2016, interim dividends for 2016 were approved in the amount of 75.00 RUB per common share. Total dividends for 2016 were approved in the amount of 195.00 RUB per common share.

Dividends on the Company's shares payable of 455 million RUB and 61,283 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 30 September 2018 and 31 December 2017, respectively.

Earnings per share

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

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|--|---|---|--|--|
| Profit for the period attributable to PJSC LUKOIL shareholders | 183,767 | 97,341 | 460,147 | 298,295 |
| Weighted average number of common shares (thousands of shares) | 709,461 | 709,633 | 709,575 | 711,289 |
| Dilutive effect of equity-settled share-based compensation plan (thousands of shares) | 9,679 | - | 5,107 | - |
| Weighted average number of common shares, assuming dilution (thousands of shares) | 719,140 | 709,633 | 714,682 | 711,289 |
| Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles): | | | | |
| Basic | 259.02 | 137.17 | 648.48 | 419.37 |
| Diluted | 255.54 | 137.17 | 643.85 | 419.37 |

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Note 21. Personnel expenses

Personnel expenses were as follows:

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|-----------------------------------|--|--|---|---|
| Salary | 34,713 | 32,742 | 100,681 | 96,208 |
| Statutory insurance contributions | 8,179 | 7,836 | 24,988 | 23,673 |
| Share-based compensation | 23,269 | 3,043 | 23,459 | 325 |
| Total personnel expenses | 66,161 | 43,621 | 149,128 | 120,206 |

Note 22. Finance income and costs

Finance income was as follows:

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|-------------------------------|--|--|---|---|
| Interest income from deposits | 3,017 | 1,408 | 6,716 | 3,422 |
| Interest income from loans | 1,660 | 1,549 | 4,959 | 5,180 |
| Other finance income | 455 | 304 | 1,619 | 1,060 |
| Total finance income | 5,132 | 3,261 | 13,294 | 9,662 |

Finance costs were as follows:

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|----------------------------|--|--|---|---|
| Interest expenses | 7,548 | 5,082 | 20,971 | 18,847 |
| Accretion expenses | 842 | 678 | 2,249 | 2,019 |
| Other finance costs | 1,565 | 165 | 2,336 | 1,296 |
| Total finance costs | 9,955 | 5,925 | 25,556 | 22,162 |

Note 23. Other income and expenses

Other income was as follows:

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|----------------------------------|--|--|---|---|
| Gain on disposal of assets | 401 | 280 | 1,003 | 50,699 |
| Reversal of impairment of assets | - | 1,021 | - | 5,278 |
| Other income | 6,395 | 5,390 | 12,760 | 13,815 |
| Total other income | 6,796 | 6,691 | 13,763 | 69,792 |

Other expenses were as follows:

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|-----------------------------|--|--|---|---|
| Loss on disposal of assets | 3,645 | 3,239 | 10,137 | 11,962 |
| Impairment loss | 23 | 70 | 5,033 | 2,528 |
| Charity expenses | 2,001 | 2,220 | 6,172 | 6,715 |
| Other expenses | 1,907 | 1,899 | 3,064 | 3,983 |
| Total other expenses | 7,576 | 7,428 | 24,406 | 25,188 |

Note 24. Operating lease

At 30 September 2018 and 31 December 2017, Group companies had commitments primarily related to the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows:

| | 30 September 2018 | 31 December 2017 |
|-------------------|------------------------------|-----------------------------|
| Less than a year | 22,136 | 24,753 |
| 1-5 years | 48,633 | 54,917 |
| More than 5 years | 88,990 | 88,277 |
| Total | 159,759 | 167,947 |

Note 25. Commitments and contingencies

Capital commitments

At 30 September 2018, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 377,869 million RUB.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose 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.

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.

Note 25. Commitments and contingencies (continued)

Upon preliminary hearings the Prosecutor's Office revised the amount of damage claimed from \$2.2 billion (144.3 billion RUB) to \$1.5 billion (98.4 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018. At the final hearing on the case which was held 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. itself. As a result freezing injunction in the amount of approximately \$1.5 billion (98.4 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor's Office. It is expected that the hearing of the appeal will take place in May – June 2019. 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 2010–2014 (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 which is at its initial stage, 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 condition.

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 has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4. 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 claimed by the Russian Federation and extending from its territory.

In August – October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) 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 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 26. 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 associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures.

Outstanding balances with related parties were as follows:

| | 30 September 2018 | 31 December 2017 |
|--------------------------|------------------------------|-----------------------------|
| Accounts receivable | 13,323 | 10,567 |
| Other financial assets | 83,888 | 82,288 |
| Total assets | 97,211 | 92,855 |
| Accounts payable | 23,557 | 6,696 |
| Loans and borrowings | 2,736 | 3,170 |
| Total liabilities | 26,293 | 9,866 |

Related party transactions were as follows:

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|--|---|---|--|--|
| Sales of oil and oil products | 10,106 | 3,326 | 29,028 | 10,244 |
| Other sales | 950 | 868 | 3,635 | 3,024 |
| Purchases of oil and oil products | 59,448 | 18,272 | 163,265 | 65,452 |
| Other purchases | 3,115 | 1,988 | 8,229 | 4,784 |
| (Purchases) proceeds from sale of other financial assets, net | (3,203) | 2,484 | 9,889 | 6,322 |
| Principal repayments of loans, net | (443) | (388) | (551) | (404) |

During the second quarter of 2017, a Group company acquired from a related party 3,300,000 ordinary shares of the Company for 9,474 million RUB.

Note 27. Compensation plan

During the period from 2013 to 2017, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts. The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses was contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company's common shares appreciation from 2013 to 2017, with rights vested in December 2017. The number of assigned shares for this compensation plan was approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.10%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous seven year period up to January 2013. All the liabilities related to this plan were settled.

In late December 2017, the Company announced a new 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.

Note 27. Compensation plan (continued)

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 these share plans the Group recognised expenses of 23,269 million RUB, 23,459 million RUB, 3,043 million RUB and 325 million RUB during the three and nine months ended 30 September 2018 and 2017, respectively.

Note 28. 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 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 activities of the Company and businesses beyond the Group's traditional operations.

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

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

Operating segments**For the three months ended 30 September 2018**

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|-------------------------------|--|------------------------|------------------|------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 76,579 | 2,223,357 | 5,950 | - | 2,305,886 |
| Inter-segment | 615,991 | 16,844 | 11,621 | (644,456) | - |
| Total revenues | 692,570 | 2,240,201 | 17,571 | (644,456) | 2,305,886 |
| Operating expenses | 68,139 | 67,148 | 5,587 | (17,037) | 123,837 |
| Selling, general and administrative expenses | 10,308 | 33,258 | 29,159 | (7,959) | 64,766 |
| Profit (loss) for the period | 157,231 | 50,664 | (18,442) | (5,686) | 183,767 |
| Operating earnings | 276,487 | 87,590 | (18,376) | (7,323) | 338,378 |
| Income tax expense | | | | | (43,888) |
| Finance income | | | | | 5,132 |
| Finance costs | | | | | (9,955) |
| Depreciation, depletion and amortisation | | | | | (105,900) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 183,767 |

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Note 28. Segment information (continued)

For the three months ended 30 September 2017

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|--|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 38,672 | 1,438,468 | 6,344 | - | 1,483,484 |
| Inter-segment | 388,112 | 17,347 | 10,408 | (415,867) | - |
| Total revenues | 426,784 | 1,455,815 | 16,752 | (415,867) | 1,483,484 |
| Operating expenses | 66,575 | 64,434 | 5,089 | (15,490) | 120,608 |
| Selling, general and administrative expenses | 8,306 | 33,083 | 11,025 | (9,542) | 42,872 |
| Profit (loss) for the period | 70,437 | 48,210 | (13,692) | (7,614) | 97,341 |
| Operating earnings | 154,951 | 84,736 | (14,783) | (10,395) | 214,509 |
| Income tax expense | | | | | (30,584) |
| Finance income | | | | | 3,261 |
| Finance costs | | | | | (5,925) |
| Depreciation, depletion and amortisation | | | | | (83,920) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 97,341 |

For the nine months ended 30 September 2018

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|--|---------------------------------------|---|--------------------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 185,715 | 5,788,570 | 18,387 | - | 5,992,672 |
| Inter-segment | 1,622,793 | 51,819 | 35,762 | (1,710,374) | - |
| Total revenues | 1,808,508 | 5,840,389 | 54,149 | (1,710,374) | 5,992,672 |
| Operating expenses | 201,149 | 180,203 | 16,081 | (52,735) | 344,698 |
| Selling, general and administrative expenses | 29,062 | 93,657 | 45,267 | (26,057) | 141,929 |
| Profit (loss) for the period | 377,805 | 107,915 | (12,116) | (13,457) | 460,147 |
| Operating earnings | 695,495 | 211,517 | (11,570) | (20,977) | 874,465 |
| Income tax expense | | | | | (110,873) |
| Finance income | | | | | 13,294 |
| Finance costs | | | | | (25,556) |
| Depreciation, depletion and amortisation | | | | | (291,183) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 460,147 |

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Note 28. Segment information (continued)

For the nine months ended 30 September 2017

| | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|--|-------------------------------|--|------------------------|--------------------|------------------|
| Sales and other operating revenues | | | | | |
| Third parties | 110,785 | 4,139,778 | 23,690 | - | 4,274,253 |
| Inter-segment | 1,106,024 | 53,180 | 32,861 | (1,192,065) | - |
| Total revenues | 1,216,809 | 4,192,958 | 56,551 | (1,192,065) | 4,274,253 |
| Operating expenses | 197,558 | 172,711 | 15,410 | (47,005) | 338,674 |
| Selling, general and administrative expenses | 30,594 | 91,333 | 26,641 | (30,165) | 118,403 |
| Profit for the period | 174,429 | 118,633 | 7,623 | (2,390) | 298,295 |
| Operating earnings | 399,187 | 220,898 | 19,640 | (1,733) | 637,992 |
| Income tax expense | | | | | (78,341) |
| Finance income | | | | | 9,662 |
| Finance costs | | | | | (22,162) |
| Depreciation, depletion and amortisation | | | | | (248,856) |
| Profit for the period attributable to PJSC LUKOIL shareholders | | | | | 298,295 |

Geographical segments

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|--|--|--|---|---|
| Sales of crude oil within Russia | 14,423 | 9,930 | 38,667 | 27,942 |
| Export of crude oil and sales of crude oil by foreign subsidiaries | 800,306 | 369,201 | 2,008,076 | 1,130,736 |
| Sales of petroleum products within Russia | 264,549 | 218,908 | 685,567 | 566,613 |
| Export of petroleum products and sales of petroleum products by foreign subsidiaries | 1,112,717 | 802,184 | 2,952,696 | 2,298,846 |
| Sales of chemicals within Russia | 12,224 | 9,445 | 33,993 | 28,552 |
| Export of chemicals and sales of chemicals by foreign subsidiaries | 15,731 | 10,345 | 46,353 | 35,807 |
| Sales of gas within Russia | 8,122 | 7,788 | 24,872 | 22,719 |
| Sales of gas by foreign subsidiaries | 36,267 | 14,468 | 82,513 | 36,649 |
| Sales of energy and related services within Russia | 10,432 | 12,725 | 38,735 | 44,913 |
| Sales of energy and related services by foreign subsidiaries | 5,743 | 3,558 | 11,778 | 9,149 |
| Other sales within Russia | 12,247 | 12,551 | 34,510 | 34,231 |
| Other export sales and other sales of foreign subsidiaries | 13,125 | 12,381 | 34,912 | 38,096 |
| Total sales | 2,305,886 | 1,483,484 | 5,992,672 | 4,274,253 |

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(Millions of Russian rubles, unless otherwise noted)

Note 28. Segment information (continued)

For the three months ended 30 September 2018

| | Russia | International | Elimination | Consolidated |
|--|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 344,971 | 1,960,915 | - | 2,305,886 |
| Inter-segment | 462,704 | 864 | (463,568) | - |
| Total revenues | 807,675 | 1,961,779 | (463,568) | 2,305,886 |
| Operating expenses | 86,743 | 36,895 | 199 | 123,837 |
| Selling, general and administrative expenses | 24,614 | 41,080 | (928) | 64,766 |
| Profit for the period | 177,203 | 11,461 | (4,897) | 183,767 |
| Operating earnings | 289,045 | 55,926 | (6,593) | 338,378 |

For the three months ended 30 September 2017

| | Russia | International | Elimination | Consolidated |
|--|----------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 290,020 | 1,193,464 | - | 1,483,484 |
| Inter-segment | 278,325 | 1,038 | (279,363) | - |
| Total revenues | 568,345 | 1,194,502 | (279,363) | 1,483,484 |
| Operating expenses | 84,228 | 34,691 | 1,689 | 120,608 |
| Selling, general and administrative expenses | 28,340 | 15,822 | (1,290) | 42,872 |
| Profit for the period | 90,529 | 14,304 | (7,492) | 97,341 |
| Operating earnings | 178,183 | 45,474 | (9,148) | 214,509 |

For the nine months ended 30 September 2018

| | Russia | International | Elimination | Consolidated |
|--|------------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 929,359 | 5,063,313 | - | 5,992,672 |
| Inter-segment | 1,214,930 | 2,419 | (1,217,349) | - |
| Total revenues | 2,144,289 | 5,065,732 | (1,217,349) | 5,992,672 |
| Operating expenses | 247,445 | 96,836 | 417 | 344,698 |
| Selling, general and administrative expenses | 71,414 | 73,165 | (2,650) | 141,929 |
| Profit for the period | 432,380 | 42,914 | (15,147) | 460,147 |
| Operating earnings | 738,550 | 151,926 | (16,011) | 874,465 |

For the nine months ended 30 September 2017

| | Russia | International | Elimination | Consolidated |
|--|------------------|----------------------|--------------------|---------------------|
| Sales and other operating revenues | | | | |
| Third parties | 780,195 | 3,494,058 | - | 4,274,253 |
| Inter-segment | 860,099 | 2,635 | (862,734) | - |
| Total revenues | 1,640,294 | 3,496,693 | (862,734) | 4,274,253 |
| Operating expenses | 247,955 | 85,408 | 5,311 | 338,674 |
| Selling, general and administrative expenses | 71,913 | 50,297 | (3,807) | 118,403 |
| Profit for the period | 258,533 | 42,842 | (3,080) | 298,295 |
| Operating earnings | 512,516 | 127,979 | (2,503) | 637,992 |

Note 28. Segment information (continued)

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

| | For the three months ended 30 September 2018 | For the three months ended 30 September 2017 | For the nine months ended 30 September 2018 | For the nine months ended 30 September 2017 |
|----------------|--|--|---|---|
| Sales revenues | | | | |
| in Switzerland | 1,033,814 | 647,716 | 2,830,582 | 1,928,446 |
| in the USA | 299,778 | 128,937 | 661,304 | 429,388 |
| in Singapore | 205,850 | 120,069 | 508,215 | 352,138 |

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

Note 29. 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 30 September 2018 and 31 December 2017.

| 30 September 2018 | Carrying amount | Fair value | | | Total |
|---|-----------------|------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Commodity derivative contracts | 8,834 | - | 8,834 | - | 8,834 |
| Financial assets at fair value through other comprehensive income | 5,464 | 5,464 | - | - | 5,464 |
| Financial liabilities: | | | | | |
| Commodity derivative contracts | 9,633 | - | 9,633 | - | 9,633 |
| Loans and borrowings | 538,289 | 306,622 | - | 240,124 | 546,746 |

| 31 December 2017 | Carrying amount | Fair value | | | Total |
|--------------------------------|-----------------|------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Commodity derivative contracts | 11,634 | - | 11,634 | - | 11,634 |
| Available for sale securities | 5,106 | 5,106 | - | - | 5,106 |
| Financial liabilities: | | | | | |
| Commodity derivative contracts | 11,978 | - | 11,978 | - | 11,978 |
| Loans and borrowings | 597,691 | 368,811 | - | 260,214 | 629,025 |

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 tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 30 September 2018 and 31 December 2017.