



RUSNEFTEGAZ

Q4 2020

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL
STATEMENTS**



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Corporate Information

Principal activities

The nature of the entities operations and its principal activities are set out in note 1.

Directors

J. King
M. Avdeyev
A. Filyurin
V. Kalzyuzhniy

Company Secretary

A. Uraev

Registered Office

Rusneftegaz, Building 1
ul. 3rd Tverskaya-Yamskaya 39
Moscow
Russian Federation
125047

Bankers

Gazprombank, ul. Krasnaya Presnya 21, Moscow, Russian Federation, 123242

Solicitors

Pepeliaev Group, ul. 3rd Tverskaya-Yamskaya 39, Moscow, Russian Federation, 125047

Auditors

ZAO Deloitte & Touche CIS, ul. Lesnaya 5, Moscow, Russian Federation, 125047



Statement of management's responsibilities

Management is responsible for the preparation of these interim condensed consolidated financial statements, that present the results of its operations, cash flows, changes in equity and the consolidated financial position of Rusneftegaz Ltd. ("the Company") and its subsidiaries ("the Group") fairly as of 31 December 2020 in accordance with IAS 34 "Interim Financial Reporting.

In the preparation of these interim condensed consolidated financial statements, management is responsible for:

- Properly applying and selecting accounting policies;
- Presenting information, including accounting policies, in a manner that conveys reliable, relevant, understandable, and comparable information;
- Providing any relevant, additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable third-parties to understand any transactions, other events and conditions in the Group's consolidated financial position;
- Making an adequate assessment of the Group's ability to continue as a going concern.
- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining sufficient accounting records that can demonstrate and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, thus enabling compliance with IAS 34;
- Maintaining all statutory accounting records in compliance with local legislation, local accounting standards and International Financial Reporting Standards in all the jurisdictions in which the Group operates;
- Taking such steps that are reasonably available to safeguard the assets of the Group;
- Both preventing and detecting fraud and any other financial irregularities.

The interim financial statements were approved and authorized for issue by the board and were signed on its behalf on 17 February 2021.

M. Avdeyev

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To Shareholders and Board of Directors of Rusneftegaz Ltd.:

Introduction

We have reviewed the accompanying interim condensed consolidated statements of Rusneftegaz Ltd. (the "Company") and its subsidiaries (the "Group") at 30 September 2020 and the related interim condensed consolidated statements of comprehensive income, cash flows and changes in equity for the three months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 interim financial information 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Shvetsov Andrey Viktorovich,
Engagement partner

9 November 2020



The Company: Rusneftegaz Ltd.

Address: 39 3rd Tverskaya-Yamskaya str., Moscow, Russia, 125047.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444.

Certificate of registration in the Unified State Register: № 77 004840299, issued on 13.11.2002 by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.



Interim condensed consolidated financial statements

For the quarter ended 31 December 2020

		Q4 2020	Q3 2020	Q4 2019
Income				
Revenue	(m)	99,246	123,519	139,704
Cost of sales	(m)	(74,474)	(78,021)	(71,568)
Gross profit	(m)	24,772	45,498	68,136
Other income	(m)	42	39	86
Other expenses	(m)	(24,676)	(9,107)	(12,154)
Operating profit	(m)	138	36,430	56,068
Net finance income	(m)	193	189	174
Net profit	(m)	331	36,619	56,242
Tax expense	(m)	(117)	(6,943)	(10,696)
Net profit for the period after tax	(m)	214	29,676	45,546
Financial position				
Retained earnings	(m)	1,886,532	1,773,773	1,806,627
Total liabilities	(m)	111,158	123,765	83,971
Cash flows				
Cash flow from operating activities	(m)	20,185	33,540	59,028
Cash flow from financing activities	(m)	25,000	—	—
Cash flow from investing activities	(m)	(6,700)	(15,326)	(36,206)
Change in cash and cash equivalents	(m)	38,485	18,214	59,028
Operations				
Average daily production	(bpd)	15,040	15,837	15,799
Peak daily production	(bpd)	15,798	16,421	16,642
Total production for period	(barrels)	1,383,680	1,457,004	1,453,508
Total electricity production for period	(TWh)	3.15	1.94	3.84
Total installed capacity	(MW)	1,860	1,860	1,860
Installed capacity utilisation	(%)	78.41%	48.29%	95.58%
Per share statistics				
Revenue per share	(\$)	99	124	140
Earnings per share - basic	(\$)	0	30	46
Earnings per share - diluted	(\$)	0	30	46
Cash flow from operating activities p/s	(\$)	184	46	59
Issued ordinary shares		1,000	1,000	1,000
Share premium		500,000	500,000	500,000



Notes to interim condensed consolidated financial statements

1. Corporate information

The interim condensed consolidated financial statements of the Rusneftegaz Group for the quarter ended 31 December 2020, which comprise Rusneftegaz Ltd. and its subsidiaries, were authorised for issue in accordance with a resolution of the directors on 17 February 2021. Rusneftegaz Ltd. is a company registered in the British Virgin Islands and domiciled in Russian Federation, whose principal activity is the generation of electricity. The registered office is located at 3rd Tverskaya-Yamskaya ul. 39, Moscow, Russian Federation.

2.1. Basis of preparation

The interim condensed consolidated financial statements of the Rusneftegaz Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

All of the companies within the Rusneftegaz Group maintain their own financial statements in accordance with the laws and requirements of the state or country which that company is incorporated. The Rusneftegaz Group's interim condensed consolidated financial statements are based on the records of these companies and adjusted to adhere to the standards required under IFRS.

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for revalued items which have been measured at fair value. The interim condensed consolidated financial statements are presented in US dollars, and all values are rounded to the nearest million (USD), except where otherwise indicated.

2.2. Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of all of the entities that the Rusneftegaz Group is deemed to control as at 31 December 2020. Control is achieved when the Rusneftegaz Group has the right to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Rusneftegaz Group is considered to be in control if it has the authority to influence the aforementioned returns.

It is presumed that holding a majority of voting rights results in control. Such a presumption is made when assessing whether the Rusneftegaz Group holds power over a company, including from any contractual arrangements or potential future voting rights. The Rusneftegaz Group determines if it controls a company when there is a material change in circumstances, such as a merger or acquisition.



Notes to consolidated financial statements

2.2. Basis of consolidation *continued*

A company is consolidated when the Rusneftegaz Group obtains control and ceases when the Rusneftegaz Group loses control. All income, expenses, assets and liabilities of a subsidiary acquired or disposed of during the financial year are consolidated in the financial statements from the date the Rusneftegaz Group gains control or the date the Rusneftegaz Group loses control of the entity.

Any intergroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Rusneftegaz Group are eliminated upon consolidation. Adjustments may be made to the interim condensed consolidated financial statements to align the accounting policies of the subsidiary with the Rusneftegaz Group's existing accounting policies.

3.1. Significant accounting judgements, estimates and assumptions

The preparation of the Rusneftegaz Group's interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported revenues, expenses, assets liabilities and accompanying disclosures at the date of the interim condensed consolidated financial statements. In particular, the management has identified areas where these significant judgements, estimates and assumptions are required, and how each of these areas affect the various accounting policies of the Rusneftegaz Group's interim condensed consolidated financial statements.

The Rusneftegaz Group has based its estimates and assumptions on parameters available when the interim condensed consolidated financial statements were prepared. However, current circumstances and assumptions about future developments may change due circumstances beyond the control of the Rusneftegaz Group. Changes in judgements, estimates and assumptions are accounted for prospectively.

3.2. Joint arrangements

Management judges if it has joint control over an arrangement by establishing whether decisions made in relation to its agreed operations require unanimous consent. The Rusneftegaz Group has determined that the activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work program and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements.



Notes to consolidated financial statements

3.2. Joint arrangements *continued*

The classifications of joint arrangements are determined by the Rusneftegaz Group, requiring assessment into the rights and obligations of the Rusneftegaz Group arising from such arrangement. Conclusions regarding both joint control and whether the arrangement is a joint venture or a joint operation can materially impact the accounting for such arrangements. To classify as either a joint venture or a joint operation, the Rusneftegaz Group considers whether the arrangement is structured through a separate vehicle, due to the fact that under such circumstances the Rusneftegaz Group must also consider the rights and obligations arising from the legal form of the entity and the terms of the arrangement contractually.

3.3. Contingencies

Contingencies may arise from claims against the Rusneftegaz Group, and will only be resolved when one or more events occur, or fail to occur, in the future. These claims may be legal, contractual or any other type of claims. The assessment of the existence of contingencies involves making estimates and judgements as to the outcome of these future events.

3.4. Hydrocarbon reserve and resource estimates

The Rusneftegaz Group reports the value of its hydrocarbon reserves according to the Petroleum Resources Management Reporting System using an annual assessment by a qualified auditor, who estimates the extent of hydrocarbon reserves based upon technical and geological data on the depth, size, shape and grade of the reserve. The fair value of reserves are quantified using estimates of future commodity prices and expected recovery rates, on the basis of the amount of hydrocarbons that can be legally and economically extracted.

The financial and geological information used to make estimates and assumptions is subject to change, and as additional information is obtained during the operation of a field, estimates of the quantity, quality and fair value of recoverable reserves may change. These may impact the Rusneftegaz Group's reported financial position and results. Any impact on the total amount of recoverable reserves and the proportion of the gross reserves may also impact contracts with third parties under the terms of existing agreements.

Future costs are estimated using assumptions as to the number of wells necessary for production, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price used in the estimation of commercial reserves is USD \$50/bbl.



Notes to consolidated financial statements

3.5. Exploration and evaluation expenditure

Potential future economic benefits from prior expenditures on exploration and evaluation can be as a result of future production or from a sale. The Rusneftegaz Group judges whether future economic benefits are likely, or whether the reported resources are not yet at a stage where an assessment of their existence is permissible.

The determination of these resources requires estimating within a degree of uncertainty, but can nonetheless impact whether the Rusneftegaz Group defers exploration and evaluation expenditure. Such deferrals require management to make assumptions about future events, such as if a viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available.

If there is a change to material facts indicating that the recovery of any expenditure is unlikely after expenditure is capitalised, the amount is instead expensed in the statement of profit or loss and other comprehensive income in the period in which the new information becomes apparent.

3.6. Recoverability of assets

The Rusneftegaz Group assesses assets at the end of the financial year for impairment. When an asset is considered impaired, an estimate of the recoverable amount is made, which is considered to be the higher of the fair value, less costs of disposal, and value in use. Such assessments require the use of estimates, including long-term oil price projections, current operating performance, existing reserves, future operating costs, expected decommissioning costs and any future capital requirements. Estimates are subject to a degree of risk and volatility, and future changes in circumstances may impact these projections.

3.7. Decommissioning costs

Decommissioning costs are expected to be incurred at the end of the operating life of some of the Rusneftegaz Group's assets. The final decommissioning costs are uncertain and are influenced by certain factors, including changes to the expected timing, changes to legal requirements and or the emergence of new, relevant technologies.

Management assesses its decommissioning provision at each reporting date, although adjustments may be necessary to the provision established which could affect future financial results. The provision reported in the interim condensed consolidated financial statements is the Rusneftegaz Group's current estimate of the future decommissioning costs required. External valuation may be necessary to project future decommissioning costs, with its necessity being determined on a case by case basis, and in regards to factors such as the expiry date of the operating agreement and expected gross cost.



Notes to consolidated financial statements

3.8. Recoverability of deferred tax assets

Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position, such as deferred tax assets from previous tax losses. Management assesses whether the Rusneftegaz Group will generate sufficient taxable earnings in future periods to claim these deferred tax assets. This also requires management to make estimates of future taxable profits, based upon forecast cash flows from operations.

These projections may be influenced by future commodity prices, projected production rates, sales volumes, future operating costs, hydrocarbon reserves, projected capital expenditure, capital management transactions, existing hydrocarbon reserves and changes to regional and national taxation legislation and rules. Future changes in legislation in the jurisdictions in which the Rusneftegaz Group operates could limit tax deductions in future periods.

3.9. Fair value measurement

At the end of each reporting period, the Rusneftegaz Group recognises its financial instruments at fair value, which is the consideration that would be paid or received to transfer an asset on the measurement date between market participants. In order to report fair value, the relevant valuation methods are used under the circumstances for which sufficient data and observable inputs are available, with the use of unreliable data and unobservable inputs mitigated when possible.

External valuation may be used to assess the fair value of non-financial assets, with qualified surveyors being selected on the basis of current market knowledge, independence, professionalism and reputation. The decision to use external valuation is made by the Audit Committee, with the committee making the final decision as to which valuation techniques to use after consultation with the surveyors.

The fair values of non-financial assets are estimated by determining the potential economic benefits of an asset at its best use or by transferring it to another market participant that would realise the asset at its best use. The fair value of financial instruments, such as derivatives, are calculated by using the same judgements, estimates and assumptions that a market participant would use, assuming that said market participants act in their own best interest. Changes to judgements, estimates and assumptions could affect the fair value reported in the consolidated statement of financial position.



Notes to consolidated financial statements

4.1. Summary of significant accounting policies

The Rusneftegaz Group has predetermined a number of significant accounting policies relevant to its operations and the jurisdictions where its activities are conducted. These are set forth in the following section.

4.2.1. Interests in joint arrangements

A joint arrangement is an agreement over which two or more parties exert joint control. Joint control is established once the parties have contractually agreed to share control of an arrangement and when decisions about the relevant activities of the arrangement require the unanimous agreement of the relevant parties. A joint arrangement is classified as a joint operation or a joint venture.

4.2.2. Joint operations

Joint operations are an arrangement where the parties that possess joint control can claim rights to the assets and obligations for the liabilities of the arrangement. The Rusneftegaz Group recognises the revenue from the sale of its share of the output from the joint operation as well as a share of any revenue from the joint operation incurred jointly. Likewise, the Rusneftegaz Group also recognises any of its own assets or liabilities attributed to the joint operation, including its share of any assets or liabilities that are held or incurred jointly.

4.2.3. Joint ventures

Joint ventures are a type of joint arrangement where the parties that assert joint control can claim rights to the net assets of the arrangement. The Rusneftegaz Group's investments in joint ventures are accounted for using the equity method, under which the investment in the joint venture is recognised at cost until any necessary adjustments are made to acknowledge any recognised changes in the Rusneftegaz Group's share of the net assets.

The share of the financial results from the joint venture attributed to the Rusneftegaz Group is included in the statement of profit or loss and other comprehensive income, with any transactions between the Rusneftegaz Group and the venture being eliminated to the extent of the interest in the joint venture upon consolidation. The aggregate of the Rusneftegaz Group's share of profit or loss from the joint venture is recorded after tax as part of operating profit. Adjustments may be made to the financial statements of the joint venture in order to align accounting policies and the financial year with the Rusneftegaz Group.



Notes to consolidated financial statements

4.2.3. Joint ventures *continued*

The investment in the joint venture is tested for impairment at the end of the financial year, being calculated as the difference between the recoverable amount of the joint venture and its recorded book value. Any loss is then deducted from operating profit in the statement of profit or loss and other comprehensive income. Goodwill affiliated with the joint venture is included in the book value of the investment but is not tested for impairment separately.

The Rusneftegaz Group measures and recognises any retained investment at its fair value upon losing joint control over the venture, with difference between the proceeds from disposal, the fair value of the retained investment and the final reported book value of the joint venture being recognised in the statement of profit or loss and other comprehensive income.

4.2.4. Reimbursement of costs of the operator of the joint arrangement

When the Rusneftegaz Group receives reimbursement of the costs recharged to the joint arrangement to act as the operator of a joint arrangement, such recharges are the reimbursement of costs incurred as an agent for the joint arrangement and has no effect on the statement of profit or loss and other comprehensive income.

The Rusneftegaz Group is considered to be not acting as an agent if it charges a management fee to cover the costs incurred when carrying out operations for a joint arrangement. Under such circumstances any fees received and expenses incurred are reported in the statement of profit or loss and other comprehensive income as income and an expense respectively. Such charges are based on a fixed percentage of total costs incurred for the year.

4.3. Foreign currencies

The interim condensed consolidated financial statements are presented in United States Dollars (USD), which is the Rusneftegaz Group's presentational currency. The functional currency for all of the entities within the Rusneftegaz Group is the Russian Ruble (RUB), with any transactions, including those related to revenue, assets and liabilities, occurring in currencies other than the United States Dollar being recorded at the rate of exchange on the date the transaction is first recognised.

At the reporting date, all monetary assets and liabilities that are denominated in currencies that are not the United States Dollar are converted to the closing exchange rate. Non-monetary items that are measured at historical cost in a foreign currency are converted using the exchange rates as at the date of the initial transaction, with any items measured at fair value being translated using the exchange rate when the fair value was determined. Any gains or losses occurring from the currency conversion of a non-monetary item measured as fair value is reported accordance to the recognition of the gain or loss in the change in fair value on the item.



Notes to consolidated financial statements

4.3. Foreign currencies *continued*

Any differences occurring on the settlement or currency conversion of a monetary item is recognised in the statement of as a component of profit or loss in the consolidated financial statements. However, it may also be reported as an element of other comprehensive income if it is a monetary item that has been designated as part of hedge of any net investment of a foreign operation until the net investment is disposed of. All tax credits and charges affiliated to any exchange differences on said monetary items would also be recognised as other comprehensive income. After disposal, the full amount would then be reclassified as part of profit or loss, including the value of the net investment and any tax implications.

To determine the correct exchange rate for the initial recognition of a related income, expense or asset upon the derecognition of a non-monetary asset or liability affiliated with advance consideration, the date on which the non-monetary asset or liability is initially recognised as a result of the advanced consideration is considered the date of the transaction. If there are multiple payments or receipts in advance, then the transaction date for each payment or receipt in advance is used to determine the value of said consideration in the Rusneftegaz Group's functional currency.

Any goodwill arising from the acquisition of a foreign entity, and any corresponding adjustments in fair value to the book value of the assets and liabilities recognised as part of the purchase, are translated using the exchange rate at the end of the reporting period. Likewise, all differences in currency conversion occurring upon the consolidation of foreign operations are recognised as a component of other comprehensive income, until the disposal of the foreign operation when it is reclassified as a constituent of profit or loss.

4.4. Business combinations

Under IFRS 3, a business combination is recognised when a business takes control of another under an acquisition or merger. Such transactions are accounted for using the acquisition method, which measures the aggregate of the consideration at fair value and the amount of any non-controlling interests. After the transaction is formally completed, the recognised assets and liabilities are classified and designated in line with the economic circumstances, conditions and contractual terms under the Rusneftegaz Group's accounting policies, with any derivatives embedded in host contracts being recognised separately. The value of any asset acquired that cannot be reliably estimated is subsumed in goodwill and reassessed at the end of the financial year.



Notes to consolidated financial statements

4.4. Business combinations *continued*

At the acquisition date, the Rusneftegaz Group judges whether it recognises such non-controlling interests at fair value or as a proportionate share of the recognised assets. Any equity interests held in the purchased business before the acquisition date are then measured at fair value once the transaction is completed, with any gains or losses in value being reported in the statement of profit and loss and other comprehensive income, along with the costs relating to business combinations are recorded as administrative expenses.

Under the acquisition agreement, any obligations to transfer additional assets or equity to the previous shareholders of a purchased business are recognised as contingent consideration, with such transfers being recognised at fair value on the date of acquisition. If the consideration is deemed to be an asset or liability classified under IFRS 9 then any changes in the recorded fair value is recognised in the statement of profit and loss and other comprehensive income, with any assets or liabilities not under the remit of IFRS 9 being measured with the appropriate valuation methods. Any contingent consideration recorded as equity is not revalued or recognised in the statement of profit or loss and other comprehensive income.

Under a business combination that occurs when both parties are under the common control of the same shareholder, the acquisition or merger is accounted for under the existing methods. All acquired assets and liabilities are reported at the book value previously recorded, but any consideration paid for the transaction is recognised directly as equity.

4.5. Goodwill

Goodwill is an intangible asset occurring from the acquisition of a business at a price different to its fair value. Such an asset is reported initially at cost, the aggregate of the transferred consideration at book value and the amount of any non-controlling interests over the fair value of the acquired assets and liabilities, and is subsequently measured at cost minus any accumulated impairment losses.

In order to test for impairment, any goodwill arising from the acquisition of a business is allocated to cash-generating units that are expected to benefit from the combination on the acquisition date, regardless of whether other acquired assets or liabilities are assigned to those units. If goodwill forms part of a cash-generating unit, and also as part of the operation in which that unit is disposed of, the goodwill associated with the disposed operation is included in the book value of the operation when determining the gain or loss from said disposal. Any goodwill disposed under such circumstances being reported based on the value of the disposed operation and the portion retained.



Notes to consolidated financial statements

4.5. Goodwill *continued*

After initial recognition, the Rusneftegaz Group assesses whether it has correctly identified all of the assets and liabilities acquired. If the fair value of the acquired net assets acquired exceeds the amount of consideration transferred, the Rusneftegaz Group reviews the procedures used to measure the recognised fair values on the date of acquisition. A gain is only recognised in the statement of profit or loss and other comprehensive income if the review still reports a positive balance between the fair values of net assets being acquired over the aggregate of the consideration transferred as part of the acquisition.

4.6. Farmout agreements

A farmout agreement is an arrangement whereby a party acquires fractional ownership of a mineral lease in exchange for the provision of services, differing from a lease where the consideration is financial. Under an agreement, the Rusneftegaz Group derecognises the proportion of the asset it has sold to and reports any consideration received or receivable, such as the amount of cash paid or the value of the obligation to fund capital expenditure proportional to the percentage of rights sold.

Any expenditures, gains or losses by the counterparty are not reported on the Rusneftegaz Group's financial statements. However, any costs previously capitalised in relation to the whole interest are redesignated proportionately to the value of the interest retained. Any cash consideration received from the counterparty is credited against previously capitalised costs to the value of the interest in the asset, with any excess accounted for as a gain on disposal by the counterparty. The Rusneftegaz Group also tests the retained interests for impairment if the terms of the arrangement indicate that the value of the agreement has decreased.

The consideration received for any assets disposed of under a farmout agreement is initially reported at fair value, unless payment is deferred whereby the consideration is originally recognised at the cash price equivalent. The difference between the cash price equivalent and the nominal amount of consideration is then reported as interest revenue. Any consideration receivable as cash is recognised as a financial asset and accounted for at amortised cost.

Furthermore, gains or losses are reported on the statement of profit or loss and other comprehensive income in respect of the difference between the net proceeds and the book value of the disposed asset. A gain is only recognised if the value of consideration can be reliably determined, otherwise the Rusneftegaz Group reports the received consideration as a devaluation of the underlying assets.



Notes to interim condensed consolidated financial statements

4.7.1. Oil and natural gas exploration, evaluation and development expenditure

Exploration, evaluation and development expenditures are accounted for using the successful efforts method of accounting, with exploration licenses granted being reported as intangible assets and any costs relating to the purchase of these licences, and or property, being capitalised and also reported as an intangible asset.

Licence costs paid in relation to the right to explore in an existing exploration area are capitalised and amortised over the term of the permit, with any pre-licence costs being expensed during the reporting period. Expenditures on the construction, installation and completion of infrastructure, including pipelines and the drilling of wells are capitalised as tangible assets regardless of whether such wells are considered successful.

For works not yet complete, licence and property acquisition costs are analysed to clarify that the book value exceeds the recoverable amount of the recorded asset at the end of the financial year. Analysis includes confirming that exploratory drilling is planned or has been started, and that work is under way to determine that the discovery is financially viable. This is based on progress being made on establishing development plans and or the commercial and technical information available.

The book value of the licence and or property acquisition costs are written off in the statement of profit or loss and other comprehensive income if the licence has expired or been relinquished, or no future activity is planned.

4.7.2. Exploratory and evaluation costs

Exploratory and evaluation activities involve the search for hydrocarbon reserves and the determination of technical and commercial viability of the discovered resources. Once the Rusneftegaz Group has obtained the legal right to explore, any costs associated with the development of exploratory wells are capitalised as intangible assets until the drilling of the well has been completed and analysed. Such costs include the materials and fuel used, equipment costs, employee remuneration and payments made to contractors. Amortisation is not charged during the exploratory and evaluation of a site, except to license costs, whereas any geological costs are expensed in the statement of profit or loss and other comprehensive income.

Any capitalised costs are subjected to a commercial and technical review, as well as a review for impairment, at least once a year. Reviews of undeveloped reserves highlight the Rusneftegaz Group's intention to develop the site and extract value from the discovery. If a site is not reviewed, it means that the Rusneftegaz Group no longer considers a reserve to be viable and the costs are written off through the statement of profit or loss and other comprehensive income.



Notes to interim condensed consolidated financial statements

4.7.2. Exploratory and evaluation costs *continued*

Costs attributed with reviews to determine the characteristics and commercial potential of a reserve, including the costs of wells where hydrocarbons were not discovered, are also initially capitalised as an intangible asset. If no commercially viable reserves are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income. Once any reserves are commercially developed, the costs remain capitalised as an intangible asset until the final fair value of the reserve can be reported. The capitalised expenditure is then assessed for impairment and any losses are recognised, with the remaining balance being transferred to property, plant and equipment.

4.8.1. Property, plant and equipment

Property, plant and equipment is any asset that the Rusneftegaz Group's interest compromises the contractual or legal right of use, and is reported at cost minus any accumulated depreciation and impairment losses. Such assets are initially recognised at cost, this being either the purchase price of the asset or the cost of construction, plus any costs that are considered directly attributable to bring an asset into operation, such as wages and salaries. The Rusneftegaz Group recognises the price to purchase an asset or the construction cost of an asset as the aggregate of the amount paid and the fair value of any other consideration.

Any gains and losses from the transfer of assets to another party are determined by comparing the proceeds of sale with the book value recorded in the statement of financial position, and is reported as other income in the statement of profit and loss and other comprehensive income. If an asset is disposed of without receiving payment from another party, then the cost of disposal is recorded as an expense. Expenditure on the purchase or construction of new assets are recognised as additions, including any investments in the enhancement or extension of existing assets and any spending on safety or the environment that do not qualify as expenses. Once a new development begins its economic life, the capitalisation of any expenditure is stopped and the costs are recognised as either an expense or the cost of inventory.

Most assets are depreciated annually on a straight-line basis in order to reduce its book value over the course of its estimated useful economic life, with the majority of assets being depreciated over a 5 to 20 year period. At the end of the financial year, the useful economic life of an asset is reassessed, with due consideration given to any contractual or operational requirements for certain assets or groups of assets. Certain properties are recognised as depletable assets, such as an oil field, and are amortised on a cost basis over the course of the estimated life of the asset. The estimated life of a depletable asset is calculated by totalling the proven quantity of both developed and undeveloped reserves. Cost depletion is computed by allocating a proportional amount of the initial investment to the total extraction in the reporting period in relation to the total quantity of unextracted resources.



Notes to consolidated financial statements

4.8.1. Property, plant and equipment *continued*

Property, plant and equipment is tested for impairment annually, or if there is an indication that the book value of the asset may have been impaired, and is recorded as an expense in the statement of profit and loss and other comprehensive income. Impairment is computed as the difference between the book value of an asset and its recoverable amount, although assets that have been recognised as impaired in a previous reporting period may be reviewed and have this impairment reversed.

4.8.2. Repairs, inspections and maintenance

Expenditure on repairs, inspections and maintenance comprises the inspection costs, cost of replacement assets or parts of assets, and overhaul costs. Inspection costs affiliated with maintenance programs are capitalised and amortised over the period of time until the next inspection. All other maintenance and repair costs are expensed in the statement of profit and loss and other comprehensive income.

Expenditure is capitalised when an asset, or part of an asset, that was previously depreciated and or impaired separately, is replaced and potential future economic benefits associated with the item will be utilised. Likewise, when part of a replaced asset was not considered as a component, and thus depreciated separately, the replacement value is used to estimate the book value of the replaced asset and the amount is reported as an expense.

4.9. Intangible assets

All intangible assets are recorded at cost less accumulated amortisation after initial recognition, which is computed on a straight line basis over the course of its useful economic life. Any changes to the useful economic life of an asset affect the amortisation calculation method or period, and are treated as changes in accounting estimates. Accumulated amortisation is recognised in the statement of profit and loss and other comprehensive income as an expense, as is the fair value of any impairment.

Intangible assets are assessed as either finite or indefinite, with any indefinite intangible assets not being assessed for amortisation, but are tested for impairment accordingly. Assets with finite lives are also evaluated for impairment if there are any indications that it may be impaired, but the useful life of such assets is reviewed annually at the end of the financial year.

Intangible assets created internally by the Rusneftegaz Group, such as computer software, are only recognised in the statement of financial position if it can be identified as an asset, or has potential future economic benefits. If such expenditure is not treated as an asset, then the amount is expensed. If an intangible asset is acquired during a business combination under IFRS 3, then the asset is recorded at fair value on the date of the acquisition.



Notes to consolidated financial statements

4.10.1. Impairment of non-financial assets

An asset is considered to be impaired if it no longer generates the same level of economic benefits that it did at the time of acquisition, and its book value must be reduced accordingly. Impairment is recognised as an expense in the statement of profit and loss and other comprehensive income in the category relevant to the impaired asset, as well as in the statement of financial position with the corresponding reduction in the book value of the asset. At the end of the financial year the Rusneftegaz Group evaluates all assets, and groups of assets, for any indications of impairment. If an asset or an asset group is deemed to be impaired, the assets' recoverable amount is estimated as the higher of fair value less costs of disposal or value in use unless its cash flows are dependent on another asset or group of assets, in which case, said asset is analysed as part of a relevant group. An asset must always be considered impaired if the recorded book value of an asset is greater than its recoverable amount.

Impairment is calculated separately for each of the asset groups, with individual assets being allocated to said groups, by preparing cash flow forecasts in line with the expected performance of an asset over a five year period, or longer if considered necessary. Calculations are corroborated by using available fair value indicators, such as quoted prices and valuation multiples. In order to measure the fair value less cost of disposal of an asset, the Rusneftegaz Group reviews recent market transactions and determines relevant valuation techniques if there is no sufficient data available. Estimated future cash flows are reduced to their fair value using a discount rate that takes into account risks specific to the asset and the time value of money to determine an assets' fair value in use, although the value in use calculation does not take into account any enhancements or improvements to asset performance that could affect estimated future cash flows positively, with any improvements being recognised in the calculations for the fair value less cost of disposal.

Assets that were previously reported as impaired are reassessed at the end of the financial year and evaluated to determine whether any impairment reported in prior periods has been reversed or decreased. The level of impairment is restated if there has been a material change in the judgements, estimates and assumptions used to determine the recoverable amount of the asset since the initial recognition of the impairment. The value of any reversal of impairment is limited so that the book value of an asset does not exceed the figure that would have been recorded, net of all depreciation and amortisation, had the asset not been recognised as impaired in previous years, or the determined recoverable amount of the asset. The new book value of the asset is recorded once the reassessment is complete, with the reversal being recognised in the statement of profit and loss and other comprehensive income.



Notes to consolidated financial statements

4.10.2. Impairment of goodwill

At the end of the financial year, goodwill is assessed for impairment by evaluating the recoverable amount of the assets to which goodwill is affiliated. An impairment loss is recognised in the statement of profit and loss and other comprehensive income if the recognised recoverable amount of an asset is less than the recorded book value, including goodwill. Any recognised impairment losses affiliated to goodwill cannot be reversed in later periods, regardless of the outcome of any future reassessments.

4.11.1. Financial instruments

Financial instruments are any type of monetary contract between two or more parties that can be created, traded, modified or settled and from which a financial asset arises for one party and a financial liability or equity instrument is recognised consequentially by the counterparty. Financial assets include cash and cash equivalents, receivables and derivative financial assets.

4.11.2. Initial recognition and subsequent measurement

At initial recognition, financial assets are classified and subsequently measured at fair value through profit or loss, at fair value through other comprehensive income or at amortised value. All classifications of financial assets are initially reported at fair value plus any attributable transaction costs, except for any financial assets at fair value through profit or loss which are reported solely on the basis of its fair value. The trading of any financial assets that require delivery within a timeframe in line with market regulations and or conventions are recognised on the date of sale or purchase rather than the date of delivery.

All financial assets are managed using a business model that is intended to yield cash flows, which may arise from the generation of contractual cash flows and or from the trading of said assets. The Rusneftegaz Group utilises the SPPI test to assess the intricacies of the cash flow reported from each financial instrument, and if such cash flows are recognised as solely payments of principal and interest on the outstanding amount, the financial asset may be classified and reported at either amortised cost or at fair value through other comprehensive income. Conversely, the business model of a financial asset is materially irrelevant if any cash flows are not considered to be solely payments of principal and interest, and such assets are reported at fair value through profit or loss.

If a financial asset uses a business model with the sole intention of receiving contractual cash flows, then it is recognised at amortised cost. Whereas if the business model discloses the joint intention of both the receipt of contractual cash flows and the asset in-itself being sold, then the financial asset is reported at fair value through other comprehensive income.



Notes to consolidated financial statements

4.11.2. Initial recognition and subsequent measurement *continued*

The Rusneftegaz Group recognises any trade receivables that do not have a significant financing component, or any financial asset with a maturity of one year or less covered under the practical expedient defined in IFRS 15, are measured at their respective transaction price.

Financial assets may be or remain categorised after subsequent measurement and recognition as at fair value at profit and loss. Debt instruments could also be reorganised as either at fair value through other comprehensive income with recycling of cumulative gains and losses, or at amortised cost, and equity instruments can be classified as designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon recognition.

4.11.3. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include any assets held for trading, such as derivative financial instruments, or any financial assets designated at the reporting date as such upon initial recognition, including debt or equity instruments and any assets with contractual cash flows that are not solely payments of principal and other interest. A debt instrument may also be regarded as a financial asset at fair value through profit and loss, regardless of if it meets the criteria for recognition at amortised cost or fair value through other comprehensive income, if doing so reduces or eliminates an accounting discrepancy. An asset is reported as being held for trading if it is acquired in order to sell within the next financial year, these include any derivative financial instruments that are not designated as hedging instruments under IFRS 9 or any separated embedded derivatives that are not designated as effective hedging instruments. Financial assets at fair value through profit or loss and embedded derivatives are recorded at fair value, with any changes in fair value presented as finance income or costs in the statement of profit or loss and other comprehensive income, depending on whether the change in fair value is positive or negative respectively.

Embedded derivatives are reported at fair value, with any changes in this figure being recognised in the statement of profit and loss and other comprehensive income. The value of such a derivative may be subject to reassessment if a corresponding financial asset is reclassified from being measured at fair value through profit or loss, or a material change in the terms of the contract occurs that would modify the cash flows of the asset.



Notes to consolidated financial statements

4.11.3. Financial assets at fair value through profit or loss *continued*

Any embedded derivatives in a hybrid contract with a financial liability or non-financial host may be accounted for as an independent derivative and separated from its host under certain circumstances, such as if a financial instrument with identical terms as the embedded derivative would otherwise qualify as a derivative. This may also arise if the corresponding economic characteristics of the embedded derivative are largely unaffiliated with the host and or if the hybrid contract associated with the embedded derivative is not reported at fair value through profit or loss.

4.11.4. Financial assets carried at amortised cost

A financial asset is measured at amortised cost, which includes all receivables, if it is held within a model to generate contractual cash flows, and the contractual terms grant cash flows on specific dates that are solely payments of principal and interest on the outstanding amount. Post-recognition, an asset recognised at amortised cost is subsequently measured using the effective interest rate method and is tested for impairment, with any interest received recorded as a component of finance income in the Rusneftegaz Group's consolidated financial statements. If during its life, the asset is modified, impaired or derecognised, then a respective gain or loss will be also be reported in the statement of profit or loss and other comprehensive income.

For interest-bearing loans and receivables not subject to provisional pricing and due in less than 12 months, losses occurring from impairment are recognised in the statement of profit or loss and other comprehensive income. As a result, the book value of the asset is reduced through an allowance account calculated by estimating credit losses at the end of the reporting period under the guidance of IFRS 9, instead of actively monitoring changes in credit risk. Interest income continues to be accrued, but is not recognised, on any bad debts using the agreed contractual rate of interest. The value of the impairment is computed using an algorithm based on previous credit losses, the present economic environment and any material facts related to the debtor. When determining whether the probability of a future credit loss has increased, the Rusneftegaz Group utilises all material information available that is relevant, verifiable and readily available without extraordinary effort or cost. This includes both qualitative and quantitative information and analysis based on previous experiences with the debtor, credit assessments from third parties and any forecasted data and information.



Notes to consolidated financial statements

4.11.5. Financial assets at fair value through other comprehensive income

Under IAS 32, equity investments may be irrevocably recognised at fair value through other comprehensive income on an instrument-by-instrument basis if it is not held for trading. The only gains or losses from such assets that are reported in the statement of profit and loss and other comprehensive income are dividends, which are recognised as other income once the right to payment has been established. However, a gain from a dividend may be recorded as a component of other comprehensive income if it is earned as a result of the recovery of a financial asset. All equity instruments measured at fair value through other comprehensive income are not assessed for impairment.

The Rusneftegaz Group may also recognise debt instruments as assets held at fair value through other comprehensive income, with changes in fair value are acknowledged as a component of other comprehensive income. Upon derecognition, this change is recycled from other comprehensive income to become a constituent of profit or loss. Gains or losses arising, such as through foreign exchange revaluations, interest accrual and or impairment charges, are reported in the statement of profit and loss and other comprehensive income and calculated uniformly to financial assets measured at amortised cost.

4.11.6. Loans and receivables

Loans and receivables are non-derivative, interest-bearing financial assets with determinable or fixed receipts or payments. After initial measurement, such financial assets are subsequently valued at amortised cost using the effective interest rate method, less any impairment. Amortised cost is calculated by taking into account any premium or discount on acquisition, and any costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income, with losses arising from impairment being recognised in finance costs for loans, and in cost of sales or other operating expenses for receivables. Such financial instruments are only derecognised once there is considered to be no realistic prospect of the asset or any affiliated cash flows from being recovered, and any collateral has been realised or transferred. If the amount of the impairment loss increases or decreases because of events occurring after recognition, the reported impairment loss is increased or reduced by adjusting an allowance account, with a derecognised financial asset being credited to the statement of profit or loss and other comprehensive income if it is recovered at a later date.



Notes to consolidated financial statements

4.11.7. Derecognition

An asset is primarily derecognised when the rights to receive cash flow from the asset have expired or been transferred. This is as a result of the Rusneftegaz Group having transferred substantially all the risks and rewards of the asset, or neither transferring nor retaining substantially all the risks and rewards of the asset, but has transferring control of the asset. Any gain or loss arising on derecognition of the asset is included in the statement of profit or loss and other comprehensive income, and calculated as the difference between the net disposal proceeds and the book value of the asset. An asset may also be derecognised if the rights to receive cash flows from an asset have been transferred to another party or the Rusneftegaz Group has an obligation to pay said cash flows in full under a pass-through arrangement, and also has transferred substantially all of the risks and rewards of an asset or has neither transferred or retained all the risks and rewards of the asset, but has transferred control.

Under the terms of a pass-through arrangement, the Rusneftegaz Group analyses if and to what extent it has retained the risks and rewards of an asset. If it has neither transferred control nor retained the risks and rewards of ownership substantially, the asset continues to be recognised to the extent of its continued involvement with the Rusneftegaz Group. Likewise, a corresponding liability is recorded, with both the asset and liability being valued in accordance to the value of the rights and obligations that have been retained. Any continued involvement that takes place under a guarantee over the transferred asset is valued at the original book value of the asset, or the maximum amount of consideration that the Rusneftegaz Group could be required to repay, depending on which figure is lower.

4.11.8. Impairment of financial assets

A financial asset is deemed to be impaired if any event has occurred since initial recognition that has impacted on the projected future cash flows of the asset, and that the monetary loss can be reliably estimated. At the end of the financial year assessments are made as to whether there are any indications of impairment of the asset, including any evidence that a debtor may not be able to meet its obligations through difficulty, delinquency or default. The Rusneftegaz Group also uses data to test for impairment, such as looking for indicators that estimated future cash flows will be diminished, observing current and future economic conditions that could correlate with defaults on payments and or bankruptcy.



Notes to consolidated financial statements

4.11.8. Impairment of financial assets *continued*

The value of impairment incurred is calculating using the expected credit losses from an asset, which is based on the difference between the contractual cash flows due under the terms of such contract and the amount of cash flows that are expected to be received, minus discounts from the estimation of their forecasted effective interest rate. In this calculation, expected cash flows include any earned from the sale of collateral or other credit enhancements that are integral to the contractual terms. If there has been a significant increase in credit risk over the life of an asset since it was initially recognised, a loss allowance is acknowledged over the full length of time there is a risk of a credit loss. Likewise, expected credit losses are also reported for any probable default events occurring within the next twelve months.

The Rusneftegaz Group designates a financial asset as being in default then the contractual payments are 90 days past due, although it may also be considered in default if there is relevant internal or external information indicating that payments are unlikely to be received for the outstanding balance of the contract. The value is only written off when there is an expectation that any outstanding cash flows will not be recovered in the future, usually occurring when a balance is past due for more than 365 days, and or not subject to legal enforcement.

The Rusneftegaz Group tests whether any financial assets held at amortised cost are credit impaired by analysing whether there have been any significant events that could have negatively impacted the estimated future cash flows from an asset. An allowance would also be reported for any expected credit losses for debt instruments not held at fair value through profit and loss.

4.12.1. Financial liabilities

Financial liabilities include loans, borrowings, payables and derivative financial liabilities. These are initially recognised at fair value, with all barring derivative financial instruments being reported net of any direct costs. At initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives, as appropriate.



Notes to consolidated financial statements

4.12.2. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include any financial liabilities held for trading or any financial liabilities designated at the reporting date as such upon initial recognition under the conditions in IFRS 9. A Liability is reported as being held for trading if it is acquired in order to sell it within the next financial year, these include any derivative financial instruments that are not designated as hedging instruments under IFRS 9 or any separated embedded derivatives that are not designated as effective hedging instruments. Any gains or losses on financial liabilities held for trading are reported in the statement of profit or loss and other comprehensive income.

4.12.3. Loans and borrowings

Loans and borrowings are reported at amortised cost using the effective interest rate method. Any gains or losses are reported in the statement of profit or loss and other comprehensive income through effective interest rate amortisation, which is included as a finance cost. Effective interest rate amortisation measures any discount or premium on acquisition and costs that should be considered as integral part of the effective interest rate. When loans and borrowings are derecognised, this is also reported in the statement of profit or loss and other comprehensive income.

4.12.4. Derecognition

The derecognition of financial liabilities occurs when an existing obligation is settled, cancelled, expired or replaced. Under the terms of replacement, the previous liability is recognised with the new liability being recognised concurrently, with the difference in book value being recorded in the statement of profit or loss and other comprehensive income. A liability is only considered to have been replaced if the terms of the liability are sufficiently modified, such as a change of interest rate, and or the liability is still held by the same party under sufficiently modified terms.

4.12.5. Offsetting of financial instruments

When there is an enforceable legal right to offset an amount and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously, then financial assets and liabilities are offset with the net amount recognised in the consolidated statement of financial position, with any affiliated income and expenses also being offset in the statement of profit and loss and other comprehensive income.



Notes to consolidated financial statements

4.13. Trade and other receivables

All receivables are amounts which are due from customers for products and services the Rusneftegaz Group have provided, or prepayments for products and services that has not yet provided. After initially being measured at fair value, trade and other receivables are subsequently measured at amortised cost less an estimated allowance for any irrecoverable amounts. A provision is created for any irrecoverable amount where there is evidence to suggest that the amount due on the agreed payment terms will not be collected.

Under a provisionally-priced contract whereby the sales price is determined using market prices at the end of a quotation period, a corresponding receivable is reported at fair value through profit or loss from the date the sale is recognised once the customer has received all the goods and services stipulated. Any subsequent movements in commodity prices are acknowledged in the consolidated financial statement as fair value gains or losses on provisionally priced trade receivables.

4.14. Assets classified as held for sale

Subsequent to initial recognition, assets classified as held for sale are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value are included in the statement of profit or loss and other comprehensive income. Assets classified as held for sale are measured initially at cost, including transaction costs, which include fees for legal services and any applicable taxes.

Assets classified as held for sale are classified as such when it is held to earn rentals or and for capital appreciation, rather than for sale in the ordinary course of business or for use in production or administrative functions. Capital appreciation is recognised when the property is revalued and then reported on the statement of profit or loss and other comprehensive income. Assets classified as held for sale are classified as both completed property, and property under construction or substantial re-development.

4.15. Cash and short-term deposits

Cash and short-term deposits consist of cash, both at bank and in hand, and short-term deposits with a maturity of less than three months. Cash at bank earns interest at a fixed or variable rate. All cash and short-term deposits held in foreign currencies other than US dollars have been converted into US dollars using the exchange rate at the end of the reporting period. Any cash that is not considered liquid, such as cash set aside, is not reported in the statement of financial position, and recorded net of any outstanding bank overdrafts. Any short-term deposits must be readily convertible to cash and have a minimal potential risk for significant fluctuations in value.



Notes to consolidated financial statements

4.16. Derivative financial instruments

The Rusneftegaz Group sometimes uses derivative financial instruments to hedge the risk associated with fluctuations in currency exchange rates. These are initially recognised at fair value and then revalued at the end of the reporting period. Any gains and losses associated with the changes in value of derivatives are recorded in the statement of profit and loss and other comprehensive income. Derivative financial instruments, such as forward foreign currency contracts, are reported in the statement of financial position as financial assets if the fair value is positive and as financial liabilities when the fair value is negative. In regards to such assets and liabilities, the Rusneftegaz Group utilises hedge accounting and relevant risk management policies to evaluate the effectiveness of changes in the fair value of hedging instruments in offsetting the exposure to changes in the fair value of the hedged items or cash flows attributable to the hedged risk throughout the periods for which they were designated.

All embedded derivatives are reported at fair value, with any changes recognised in the statement of profit or loss and other comprehensive income, and this figure is only revalued if there is a change in the terms of the contract that would materially modify the cash flows or the embedded derivative is reclassified at another fair value categorisation. If the derivative is embedded in a hybrid contract with a financial liability or non-financial host, then it is separated from said host and recognised as a separate derivative if another instrument with the same terms would meet the definition of a derivative, the economic characteristics and risks are not affiliated the host and the hybrid contract is not recorded at fair value through profit or loss.

4.17. Inventory

Inventories represent assets that are intended to be used in order to generate revenue in future periods, either by being used to fulfil a service or to be sold by the Rusneftegaz Group. Inventories are stated at the lower of cost and net realisable value, on a first-in, first-out basis. Where applicable, cost comprises direct material and labour costs as well as any other costs that have been incurred in bringing the inventories to their present condition and location.

The net realisable value of oil and gas products is based on the estimated price on the market. The cost of oil and gas products is the purchase cost, which includes the cost of refining and any additional overheads based on normal operating capacity, less depreciation, depletion and amortisation.



Notes to consolidated financial statements

4.18. Leases

A lease is a contractual arrangement whereby one party pays consideration to the owner of property, plant or equipment for the use of an asset over the time that the contract is legally binding, after which time both parties will make an arrangement of how to return, sell or dispose of the leased asset. At the inception of an arrangement, the Rusneftegaz Group assesses whether a contract contains a lease if it conveys the right to control the use of a specified asset for an allotted period of time in exchange for consideration. During the period, the Rusneftegaz Group was a lessee in various transactions, but was not party to any contractual arrangements where it would be considered a lessor. Leases are recognised if an arrangement conveys the right to use an asset, regardless of whether such a right is explicitly specified, and the arrangement is dependent on the use of a specific asset. The Rusneftegaz Group utilises a single recognition and measurement approach for all of its leased property, plant and equipment, with exception for and leases of low-value assets and short-term lease contracts. Correspondingly, a lease liability is recognised when there is a contractual obligation to make lease payments to another party in exchange for consideration, and an asset is recognized when the Rusneftegaz Group has the right to use an underlying asset. A lease arrangement under which all the risks and benefits of ownership are transferred is classified as a finance lease, whereas, arrangements under which all the risks and benefits have not been transferred are classified as an operating lease.

In the consolidated financial statements, all payments made under an operating lease are recorded as an operating expense on a straight line basis over the lease term. Moreover, finance leases are capitalised upon the initiation of the arrangement at the lower value of either the present value of the minimum lease payments, or the fair value of the leased property. Payments made under such contracts are allocated proportionally as either a finance expense, being recognised in the statement of profit or loss and other comprehensive income, or as a reduction of the lease liability, maintaining a constant rate of interest on the remaining balance of the liability. All assets held under lease arrangements are depreciated over the useful life of the asset, unless there is no reasonable certainty that the Rusneftegaz Group will obtain ownership by or at the end of the arrangement. In which case, the asset is depreciated over the shorter of its estimated useful life or the lease term.

A leased asset may be exempted from recognition under certain circumstances, including if the lease contract is classified as short-term, with a term of 12 months or less from inception, and does not contain a purchase option, regardless of the value or classification of the asset leased. Similarly, a leased asset may also be disregarded if the contract is considered to be of low monetary value, such as office equipment. The payments made both on low-value and short-term leases are reported as an expense in the statement of profit and loss and other comprehensive income as an expense on a straight-line basis.



Notes to consolidated financial statements

4.18. Leases *continued*

As a lessee of both short-term and low-value assets, the Rusneftegaz Group recognises an operating lease when the risks and rewards affiliated with the ownership of an asset have not been substantially transferred to another party under the terms of a lease contract. The income incurred under the arrangement, such as rents, is reported in the statement of profit or loss and other comprehensive income on a straight-line basis for the duration of the contract, with any contingent income arising during this period also being recognised as revenue immediately when it is earned. Any costs directly incurred during the arrangement and negotiation of an operating lease are added to the book value of the leased asset, and amortised as income throughout the duration of the contract.

4.19. Right-of-use assets

Under certain circumstances, the Rusneftegaz Group may elect to recognise a right-of-use asset when it has acquired the authority to utilise property, plant or equipment under the terms of a lease contract. Such assets are recognised at cost, minus any impairment losses and or depreciation, upon the commencement of the lease on the date which the asset is first available for the lessee to utilise. The total cost for a right-of-use asset incorporates the lease payments made prior to or upon the commencement date less any incentives received, initial costs incurred directly and the value of lease liabilities recognised. Right-of-use assets are depreciated over either the estimated useful life of the asset or the length of the lease contract, depending on which timeframe is shorter, on a straight-line basis. Depreciation is always calculated utilising the estimated useful life of the assets if the cost of the lease contract includes a purchase option and or the ownership of the underlying asset is transferred to the Rusneftegaz Group upon the cessation of a lease contract. For right-of-use assets, the estimated useful life of plant and heavy equipment is between 3 to 15 years, with automobiles and other equipment being depreciated between 3 to 5 years. All right-of-use are also tested and subject to impairment using the same accounting rules and conventions as non-leased assets.

The book value of any lease liability is reported as a component of loans and borrowings in the statement of financial position in the financial statements. This figure may be recalculated if there is a material change in the lease payments as a result of an alteration to an index or rate utilised to determine future cash flows under a contract. The liability may also be modified if it is considered that there have been modifications to the contract or terms of the lease or, in the instance that a right to buy the leased asset is included in the terms of the contract, a revision in the Rusneftegaz Group's assessment of an option to purchase the underlying asset. If the interest rate disclosed in the lease contract is yet to be determined, the financial cost of lease payments are computed using the incremental borrowing rate at the lease commencement date. The lease liability is subsequently modified accordingly to correspond with interest accretion and the value of previous lease payments.



Notes to consolidated financial statements

4.20. Employee benefits

Wages, salaries and any other short-term employee benefits, including bonuses, are reported as an expense on the statement of profit and loss and other comprehensive income after the service is provided by the employee. If the Rusneftegaz Group has obligations for services provided by employees that have not yet been paid, a corresponding liability is reported for the amount due regardless of whether the amount can be estimated reliably.

Contributions are made towards post-employment benefit plans for current employees, where payments are made to an independent party in return for said post-employment benefits and there is not an obligation to pay further amounts. As well as contributions made to independent parties, any payments made that are considered to provide a benefit after the cessation of employment, such as a government pension plan, are also qualified as a post-employment benefit plan. After the employees' service has been provided, all contributions are recorded in the statement of profit and loss and other comprehensive income as an expense. If additional payments to the plan are made that result in a reduction or elimination of future payments, the fair value of said payments is recognised as an asset in the statement of financial position.

4.21. Provisions

Provisions are recognised in the interim condensed consolidated financial statements when there is a legal obligation as a result of current or previous activities conducted by the Rusneftegaz Group, and future resources will be necessary to settle the obligation. An estimate is made as to the future financial cost of the obligation and reports this figure as a non-current liability. Expenses related to any provision are presented net of any reimbursement in the statement of profit or loss and other comprehensive income. When the Rusneftegaz Group can reasonably expect some or all of a provision to be reimbursed, it is recognised as an asset once the restitution is certain.

Where any provision is previously discounted, the increase in the provision due to the passage of time is recognised as part of finance costs in the statement of profit or loss and other comprehensive income.

4.22. Decommissioning liabilities

A decommissioning liability is recognised where it has a present legal obligation as a result of current or previous activities conducted by the Rusneftegaz Group, and future resources will be necessary to settle such obligations. Such a liability arises after the development of an oil field under the terms of a licence granted by a governmental authority or under the terms stipulated under a mineral lease. When the liability is recognised initially, the value of the estimated future costs is capitalised by increasing the book value of the affiliated assets to the extent that it was incurred during the development of the field.



Notes to consolidated financial statements

4.22. Decommissioning liabilities *continued*

Amendments to the cost or time of decommissioning are reported by adjusting the provision and a corresponding adjustment to oil and gas asset. Any reduction to the liability and any deduction from the asset to which it relates may not exceed the book value of that asset, any excess over this value is reported on the statement of profit or loss and other comprehensive income.

If amendments to estimates result in an increase in the decommissioning liability and a corresponding change to the book value of the asset, the Rusneftegaz Group considers whether this is an impairment of the asset. If the estimate for the revised value of any asset, net of decommissioning liabilities, exceeds the total recoverable value, that increase is charged to the statement of profit or loss and other comprehensive income. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market valuation and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost.

The Rusneftegaz Group recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

4.23. Environmental expenditures and liabilities

Under the terms of existing licenses and or leases, environmental expenditures that are required to facilitate current or future revenues are capitalised or expensed, with any expenditures relating to past operations that do not contribute to current or future earnings being reported as an expense.

Environmental liabilities are recognised when the costs can be estimated, and this usually coincides with the closure of a site, or a commitment to close a site. The amount recognised is the Rusneftegaz Group's best estimate of the expenditure required to fulfil its legal obligations.

4.24.1. Taxation

The tax charge for the period is recognised in the statement of financial position. Current tax assets and liabilities for the current reporting period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted, or substantively enacted, at the end of the reporting period in the countries where the Rusneftegaz Group operates and generates taxable income.



Notes to consolidated financial statements

4.24.1. Taxation *continued*

All revenue, expenses and assets are recognised net of the amount of sales tax, except when any sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition or as an expense. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

The computation of the Rusneftegaz Group's total tax charge involves a degree of estimation and judgement, and management periodically evaluates the positions taken in tax returns, with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions, where appropriate, for any additional amounts expected to be paid to tax authorities.

4.24.2. Deferred tax

Deferred tax assets and liabilities are the unused tax credits and tax losses carried forward from previous periods that can influence future tax payments resulting from the temporary differences between the tax base and the book value of assets and liabilities at the end of the financial year. Such assets and liabilities are recorded in relation to the tax rates that are projected when the asset is expected to be realised or the liability settled. Judgements, estimates and assumptions made about tax rates are based on enacted or substantively enacted tax laws during the financial year.

The deferred tax assets and liabilities are reported using the balance sheet method for all taxable temporary differences, except in regard to any temporary differences associated with investments in subsidiaries and joint ventures where the reversal of the temporary differences can be controlled by another party and these temporary differences are not likely to reverse in the foreseeable future. Equally, where a deferred tax liability arises from the recognition of an asset, liability or of goodwill, which would be in a transaction that is not a business combination and does not affect the accounting profit nor taxable profit or loss at the time of transaction.

At the end of the financial year, the book value of any deferred tax assets and liabilities, including any unrecognised assets and liabilities, are reassessed and if it is deemed that the taxable profits recorded will result in all or part of the deferred tax asset to be utilised or recovered, then the value of the deferred tax asset or liability will be reduced or recognised accordingly. Deferred tax assets and liabilities relating to items reported as other comprehensive income or as equity are not recognised in the main profit or loss statement but as other comprehensive income as required.



Notes to consolidated financial statements

4.24.2. Deferred tax *continued*

Deferred tax assets and liabilities are offset if the Rusneftegaz Group has a right set off current tax assets and liabilities, and the deferred tax asset and liabilities are affiliated with taxes levied by the same taxation authority on the same entity or an entity which has the intention to settle current tax assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Any tax benefits that do not qualify for separate recognition after a business combination are only recognised subsequently if any new circumstances or facts result in material changes to the statement of financial position. In such cases, any adjustment will result in recognition in the statement of profit or loss and other comprehensive income if said changes are recorded during the measurement period, otherwise any recognition is treated as a reduction in goodwill, as long as it does not exceed the value of the recorded goodwill.

4.24.3. Other taxes

The Rusneftegaz Group's interim condensed consolidated financial statements include and recognise other types of taxes on income including royalties; resource rent taxes and revenue-based taxes as income taxes. These taxes have the characteristics of an income tax as the amount payable is based upon taxable income rather than a percentage of revenue or production quantities and are imposed under government authority.

Other taxes are accounted for under IAS 12, for which current and deferred tax is recognised on the same basis as regular corporate income tax. Obligations from other types of taxes that do not satisfy criteria under IAS 12 are included in cost of sales, such as the mineral extraction tax. Only corporate income taxes payable by the Rusneftegaz Group are considered to meet the criteria to be treated as part of income taxes.

4.24.4. Sales tax

All assets, revenues, expenses are recognised net of the amount of sales tax, except when the sales tax incurred on a purchase is not recoverable from the taxation authority. In which case, the sales tax is recognised as part of the cost of acquisition or as an expense on the statement of profit and loss and other comprehensive income. Receivables and payables include the net amount of sales tax payable or recoverable from the taxation authority in the consolidated statement of financial position.



Notes to consolidated financial statements

4.25.1. Revenue

The Rusneftegaz Group is primarily engaged in the production and sale of energy, either in the form of petroleum or electricity. Revenue represents the value of sales received or receivable for goods sold, excluding discounts, intra-group sales, sales taxes, excise duties and similar levies, and is recognised when the significant risks of ownership have been transferred. This is considered to have occurred once any title has passed to the customer, for example, revenue from oil extraction is recognised based on the Rusneftegaz Group's working interest and the terms of the relevant production sharing contracts. Revenue can also be recognised when it is probable that the corresponding economic benefits will flow to the Rusneftegaz Group and can be reliably measured. Where forward sale and purchase contracts for oil or gas have been determined to be for trading purposes, the associated sales and purchases are reported net of any deductions. All revenue is recorded net of any taxes accrued.

4.25.2. Contract assets and liabilities

A contract asset is the right to consideration in exchange for goods or services transferred to a customer that have been delivered prior to payment, likewise, a contract liability is an obligation to transfer goods or services for which consideration has been, or is due, from a purchaser. Contract assets and liabilities are differentiated from receivables and payables due to their conditionality, inasmuch as all receivables and payables are unconditional, meaning that only the passage of time is required before the payment is due, but contract assets and liabilities require the terms of the contract to be satisfied. If the Rusneftegaz Group transfers goods or services before consideration is paid, then a contract asset is recognised for the corresponding earned consideration that is conditional. Likewise, if a customer has paid consideration before goods or services have been transferred, a contract liability is recorded when either the payment is made or is due, depending on which is earlier. Such liabilities are later reported as revenue when the contract has been executed in full. The Rusneftegaz Group has no contract asset or liabilities at the end of the financial year.



Notes to consolidated financial statements

4.25.3. Provisionally priced commodity sales

The terms of a number of the Rusneftegaz Group's contracts allow for price adjustments based upon the market price of a commodity at the end of a corresponding quotational period, with changes to the sales price arising as a result of movements in quoted market prices until final settlement at the end of the quotational period. As a result, all revenues from such sales are recognized when control of the commodity is exchanged to the customer, and is estimated at the amount that the Rusneftegaz Group expects to be entitled to at the end of the quotational period, otherwise known as the provisional pricing arrangements, or the forward price. For all said arrangements, any price movements that occur during the quotational period are embedded within provisionally priced trade receivables that are accounted for within the remit IFRS 9 and not IFRS 15. However as a result of exposure to alterations in commodity prices, these receivables must be initially recognized at fair value through profit or loss until the date of settlement, as such assets do not have the cash-flow characteristics to be fully accounted for using IFRS 9. Any subsequent modification in fair value is reported in the statement of profit or loss and other comprehensive income for each corresponding period, and presented separately from revenue arising from other contracts as component of fair value gains or losses on provisionally priced trade receivables. All alterations to this fair value during and until the end of the quotational period are estimated by using the current forward market prices for the corresponding commodity, whilst also noting any other fair value considerations, including any interest rate and or credit risk adjustments.

4.25.4. Trading activities

The Rusneftegaz Group may elect to partake in various trading activities, including purchasing and taking delivery of crude oil before promptly reselling the product and or completing a sale of said product whilst it is still under the control of the selling party. It should be noted that should the Rusneftegaz Group receive a physical delivery of crude oil, under which it becomes the full, legal owner of this shipment, it may only be for the purposes of trading activities. All such transactions are accounted for as derivatives under the terms of IFRS 9. This is because arrangements such as the aforementioned do not comply with the purchase and sales exemption of the standard, under which an entity undertakes the practice of taking delivery of an underlying asset and sells it within a short period of time after delivery, explicitly for the purpose of generating a profit from the short-term fluctuations in price and or dealer's margin. Similarly, any physical commodity-based contracts to be settled net in cash also do not conform to the purchase and sales exemption of the standard.



Notes to consolidated financial statements

4.25.5. Principal versus agent considerations in commodity-based contracts

The Rusneftegaz Group may elect to act as an agent for a third party to market or procure commodities. Under such an arrangement, no purchase or sale will be reported in the consolidated financial statements, but the fee earned for the rendering of such services shall be reported as a component of revenue in the consolidated statement of profit and loss and other comprehensive income.

4.25.6. Revenue from purchase and sale agreements

Under the terms of a purchase and sale agreements, the Rusneftegaz may earn a share of said contracts and correspondingly sells the acquired commodities to a purchasing party. Under this arrangement, both the transaction itself and any customer party to such an agreement are considered to conform to the necessary definition to be accounted for within the scope of IFRS 15. As a result, the share of any revenue arising from such agreements is reported net of the Rusneftegaz Group's share of the costs incurred, including the corporate income tax imposed upon and due for the sale.

4.25.7. Take-or-pay contracts

Under a take-or-pay contract, the Rusneftegaz Group makes a commitment to supply goods in return for a commitment from the counter-party to purchase a minimum quantity, regardless of whether the order is fulfilled. Revenue is recognised in the statement of profit and loss and other comprehensive income once the counter-party has received the goods ordered. If the counter-party does not take receipt of the quantity ordered under the terms of the contract, revenue is recognised when the corresponding penalty is triggered. The take-or-pay contract may allow the buyer to reconcile their commitments in their future orders without a penalty being triggered.



Notes to consolidated financial statements

4.25.8. Freight and shipping services

The Rusneftegaz Group does not provide freight and shipping services for the majority of commodity contracts, nor is it regarded as a performance obligation provided to customers, thus all charges incurred in regards to freight and shipping are usually reported under costs of goods sold. However under certain agreements, the Rusneftegaz Group may elect to negotiate a performance obligation for a contract, and would be obliged to allocate the transaction price to said performance obligations, such as freight and shipping services. In such a situation, revenue would be recognized once the goods have been shipped to the customer under the terms of the contract. Thus, the Rusneftegaz Group must make a judgement for each contract with a performance obligation to determine when control for each of the performance obligations occurs; typically control of goods occurs at a point in time, and for the shipping services, over a period of time. For example, the Rusneftegaz Group uses Incoterms for all freight and shipping services rendered, and may opt for an arrangement whereby it pays for the transportation of goods to the port of shipment, otherwise known as FOB, or incurs the full cost, insurance and freight charges, alternatively known as CIF.

The Rusneftegaz Group may receive a percentage of the agreed transaction price as a direct cash payment on the day of or prior to the agreed date of shipment under the terms of a provisional invoice. As such, a percentage of the agreed transaction price affiliated with the rendering of freight and shipping services is received in advance of the provision of aforementioned services. Under the scope of IFRS 15, these cash advances are to be initially recognized as a contractual liability before later being reported as revenue once the services have been fully provided.

4.25.9. Revenue from electricity production

Any revenue derived from the private sale of electricity is recognised based on monthly meter readings, under the terms of supply agreements signed by the corresponding parties. Under such agreements, the price-per-unit is determined and the total payment due is calculated, with the amount being recorded as a receivable in the statement of financial position until payment is received. All revenue is then reported in the statement of profit and loss and other comprehensive income once an appropriate payment has been made.

4.25.10. Government subsidies

Any government grant or subsidy is recognised once the Rusneftegaz Group has a reasonable expectation that payment will be received and any terms and conditions will be met, with payments of compensation being recorded in the statement of profit and loss and other comprehensive income in the period in which the revenue is earned. Payments affiliated with an asset or an expense are also recognised as income and distributed over the expected life of the asset, or over the period that the compensation relates to the expense.



Notes to consolidated financial statements

4.25.11. Interest revenue

Interest revenue is included in finance income in the statement of profit or loss and other comprehensive income for revenue or expenses derived from interest-bearing financial assets or liabilities. Interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated future cash receipts or payments over the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

4.26. Borrowing costs

Borrowing costs consist of interest and other costs incurred with the borrowing of funds. Such costs that are attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of the respective assets, with the amount capitalised representing the costs incurred. Borrowing costs that are not attributable to the asset expenditures are recognised in the statement of profit or loss and other comprehensive income in the period incurred.

Where surplus funds are available from borrowings to finance a project, any income generated is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Rusneftegaz Group during the period.

4.27. Fair value measurement

At the end of each reporting period, the Rusneftegaz Group recognises assets and liabilities at fair value, which is the consideration that would be paid or received to transfer an asset on the measurement date between market participants, assuming that a transaction takes place in either the principal market or the most advantageous market for the asset or liability in a market accessible to the Rusneftegaz Group. In order to report fair value, the relevant valuation methods are used under the circumstances for which sufficient data and observable inputs are available, with the use of insufficient or unreliable data and unobservable inputs mitigated when possible.

Accounting policies for fair value measurements are determined by the audit committee, for both recurring and non-recurring fair value measurements, by assessing the changes to the value of any assets or liabilities that are required to be revalued at the end of each financial year. The committee determines whether the changes made are accurate by comparing any alterations to fair value with external sources, and by verifying the major inputs in the latest valuation of an asset or liability by corroborating the data used for the valuation with contracts and other relevant documents.



Notes to consolidated financial statements

4.27. Fair value measurement *continued*

Assets and liabilities are classified based on their characteristics, nature, risks and level on the fair value hierarchy, with the fair value of non-financial assets being estimated by determining the potential economic benefits of an asset at its best use or by transferring it to another market participant that would realise the asset at its best use. Some of the Rusneftegaz Group's non-financial assets are recorded at fair value less costs of disposal to determine the recoverable amount for the purpose of testing for impairment. Fair value is calculated by using the same judgements, estimates and assumptions that a market participant would use, assuming that said market participants act in their own best interest. Changes to judgements, estimates and assumptions could affect the fair value reported in the consolidated statement of financial position.

Any asset or liability measured at fair value is recognised within the fair value hierarchy, with assets and liabilities being attributed to the lowest possible level that the Rusneftegaz Group can provide evidence for. If an asset or liability has been previously recognised at fair value, it is assessed whether any of these assets or liabilities has transferred between the levels of the hierarchy if any new data or inputs are available and the asset has not been transferred outside of the Rusneftegaz Group. The fair value hierarchy is as follows:

- ▶ Level 1 – Market prices quoted on an active market for assets or liabilities identical to those held by the Rusneftegaz Group
- ▶ Level 2 – Valuations for assets and liabilities where the lowest-level input that is significant are directly or indirectly observable
- ▶ Level 3 – Valuations for assets and liabilities where the lowest-level input that is significant are unobservable

4.28. Current versus non-current classification

Assets and liabilities reported in the statement of financial position are recognised as either current or non-current. Assets are deemed to be current if it is expected to be realised, consumed or intended to be sold in the current or subsequent financial year. Also, the Rusneftegaz Group considers any asset to be current if it is held primarily for the purpose of trading, including cash or cash equivalents, unless such assets are restricted from being used or exchanged in the 12 months after the conclusion of the reporting period.

A liability is considered to be current if it is expected to be settled in the current or subsequent reporting period or there is no right to defer the settlement of the liability for at least the 12 months following the conclusion of the financial year. The Rusneftegaz Group classifies any other assets and liabilities that do not meet the disclosed parameters as non-current, including deferred tax assets and liabilities.



Notes to consolidated financial statements

5. Changes in accounting policies and disclosures

For this reporting period, the Rusneftegaz Group adopted the new standards and interpretations that were brought into force by the International Accounting Standards Board on the 1 January 2020. Beyond the accounting policies that have been altered, all other standards and interpretations that were used in the last reporting period remain in force and were used in order to produce the financial statements in this period. Any of the new standards that may have a material impact on the financial statements immediately or in the future are disclosed below, with policies that are not considered relevant to the Rusneftegaz Group not being reported.

IFRS 3 - Definition of a Business

A change to IFRS 3 – Business Combinations issued by the IASB in October 2018 that establishes the integrated activities and assets that are required to be considered an enterprise. These are defined at a minimum as both an input and a substantive process that in conjunction with one another contribute significantly to the ability to create an output. The amendment also clarifies circumstances in which an enterprise or business can exist without the defined inputs necessary to create outputs. These alterations had no material impact on the interim condensed consolidated financial statements of the Rusneftegaz Group as there were no business combinations to report during this financial period, but may impact on any business combinations in the future.

IFRS 7, IFRS 9 and IAS 39 - Interest Rate Benchmark Reform

These modifications to IFRS 7, IFRS 9 and IAS 39 Financial Instruments – Recognition and Measurement relate to any hedges that are directly affected by interest rate benchmark reform. Hedges are only impacted by these changes if the reform to the interest rate benchmark causes uncertainty in regards to amount and or timing of benchmark-based cash flows arising for a hedged instrument or item. Currently, it is not expected that these amendments will have any material impact of the Rusneftegaz Group's consolidated financial statements, unless the Group elects to hedge changes in interest rates in future financial years.

IFRS 16 - Covid-19 Related Rent Concessions

The changes issued by the IASB in May 2020 grant relief from applying the guidance stipulated under IFRS 16 in regards to accounting for lease modifications arising from rent concessions as a direct consequence of the coronavirus pandemic. As such, the lessee may elect not to assess whether a pandemic-related rent concession should be considered as a lease modification, and should account for any changes in lease payments arising from said concession in the same manner it would account for any other adjustments under the terms of IFRS 16 if the change were not ordinarily considered a lease modification.



Notes to consolidated financial statements

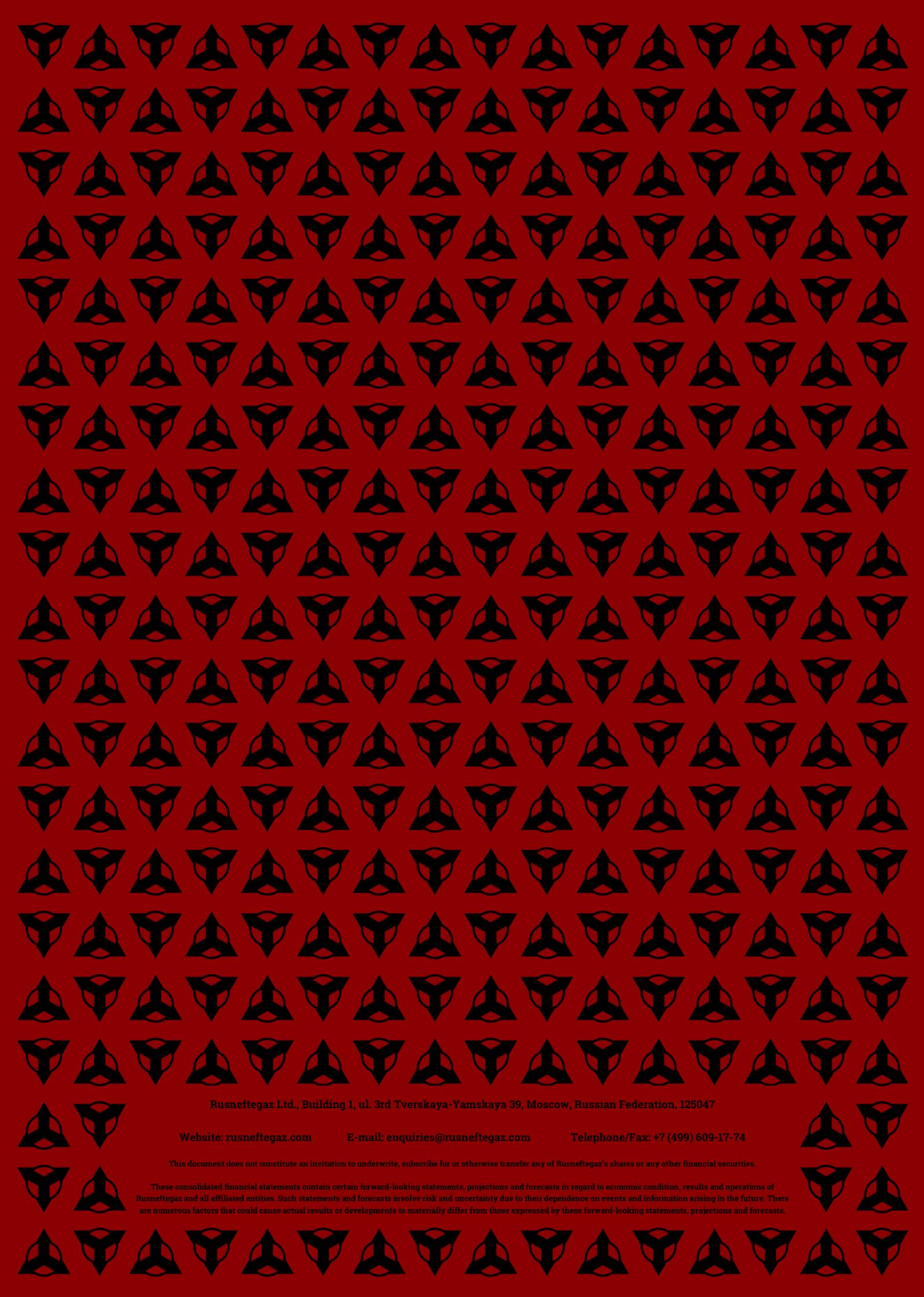
5. Changes in accounting policies and disclosures *continued*

IAS 1 and IAS 8 - Definition of Material

An amendment issued in October 2018 to align the fundamental definition of material in the accounting standards, including IAS 1 and IAS 8, and to clarify aspects of the revised interpretation. The updated definition states that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' These modifications also establish that materiality is dependent on the magnitude and or nature of the information, either in combination with additional information or taken individually within the broader context of the consolidated financial statements. The changes additionally ascertain that any misstatement that could reasonably be expected to influence the decision of the primary users of the consolidated financial statement is to be considered material. The revised definition will not have a significant impact on the accounting or financial reporting of the Rusneftegaz Group upon implementation.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The IASB have made alteration to the Conceptual Framework, which is utilized to both develop consistent accounting policies and to facilitate interpretation and understanding of the current financial reporting standards. Developments include revisions to definitions contained within, various new financial concepts and adjustments to the criteria for recognizing assets and liabilities. Whilst the Conceptual Framework is not a standard and none of the information contained within the Framework supersedes any standards, the amendments will impact any entity which bases their accounting policies on this material. Therefore, the changes to the Conceptual Framework had no impact on the interim condensed consolidated financial statements of the Rusneftegaz Group.



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These consolidated financial statements contain certain forward-looking statements, projections and forecasts in regard to economic condition, results and operations of Rusneftegaz and all affiliated entities. Such statements and forecasts involve risk and uncertainty due to their dependence on events and information arising in the future. There are numerous factors that could cause actual results or developments to materially differ from those expressed by these forward-looking statements, projections and forecasts.