

Alliance Oil Company Ltd

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2019

ALLIANCE OIL COMPANY LTD

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ALLIANCE OIL COMPANY LTD

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Alliance Oil Company Ltd and its subsidiaries (the Group) as at 31 December 2019, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards (IFRS).

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies and significant estimates;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

On behalf of management:



Andreas Andreou
Director



V.V. Bondarenko
Chief Financial Officer

9 April 2020



Independent Auditor's Report

To the Shareholder and Management of Alliance Oil Company Limited:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alliance Oil Company Limited (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

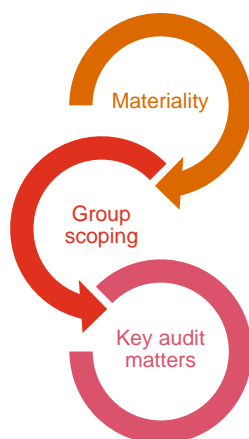
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Material uncertainty relating to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of USD 19.4 million during the year ended 31 December 2019 and, as at that date, the Group's current liabilities exceeded its total assets by USD 1 067.6 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



Overall Group materiality: United States dollars ("USD") 36,655 thousand, which represents 1% of the Group's revenue for the reporting period.

- The Group has offices and operations in several countries. PwC network offices in Russia and Kazakhstan performed audit procedures in respect of all entities of the Group located in Russia and Kazakhstan.
- The group auditor reviewed the quality and extent of work carried out by auditors of PwC network offices as well as executed other audit procedures at the level of consolidated financial statements as a whole.
- Our audit scope addressed 99% of the Group's revenue.
- Analysis of indicators of impairment of property, plant and equipment, assessment of impairment of goodwill.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	USD 36,655
How we determined it	1% of Group's revenue for the reporting period
Rationale for the materiality benchmark applied	We chose revenue as the materiality benchmark. Given the volatility of the Group's financial results, revenue represents a more appropriate measure of the size of the business than profit before tax. We chose 1% of the benchmark, which is within the range of acceptable quantitative materiality thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Analysis of indicators of impairment of property, plant and equipment, assessment of impairment of goodwill</p> <p><i>Refer to Notes 5, 14, 16 to the consolidated financial statements</i></p> <p>In accordance with IAS 36, Impairment of Assets, the Group shall assess at the end of each reporting period whether there is any indication that property, plant and equipment may be impaired, and test goodwill for impairment, at least annually.</p> <p>We focused on this area due to the size of goodwill (USD 40 million as at 31 December 2019) and property, plant and equipment balance (USD 2,190 million as at 31 December 2019) and because the management assessment of the 'value in use' of the Group's Cash Generating Units ("CGU's") involves judgements and estimates about the future results of the business, commodity prices and discount rates.</p> <p>The Group management analysed the Group's financial performance, industry outlook and operational plans, and assessed whether there are indicators of impairment of property, plant and equipment or potential release of previously recognised impairment losses, by cash generating unit. For cash generating units where such indicators were identified, the management assessed the recoverable amounts of property, plant and equipment. Also, management tested for impairment cash generating units to which goodwill has been allocated. As a result of management's impairment test, the Group accrued a net impairment loss of USD 67.4 million in the consolidated statement of profit or loss for the year ended 31 December 2019.</p>	<p>As a part of our procedures we obtained an understanding of internal processes and controls and analysed methodology used by management to assess property, plant and equipment and goodwill for impairment for compliance with IAS 36</p> <p>We discussed with the management the management's analysis of the potential indications that property, plant and equipment may be impaired. Our procedures included analysis of internal as well as external factors, which in particular included analysis of current macroeconomic indicators of oil and gas industry, confirmation of the absence of indications of obsolescence or physical damage of property, plant and equipment, based on our overall understanding of the business of the Group and other procedures in respect of entities of the Group.</p> <p>We performed the following audit procedures to evaluate the results of the impairment test performed by management of the Group in respect of property plant and equipment:</p> <ul style="list-style-type: none"> • examination, on a sample basis, of the models and calculations used for the assessment of impairment losses; • analysis of key assumptions (the forecasts for the oil price, the USD/ RR exchange rate, the Consumer Price Index and the discount rate) used by the Group's management when estimating the recoverable values; • verification of the mathematical accuracy of discounted cash flow models (if applicable).

Key audit matter	How our audit addressed the key audit matter
	<p>We evaluated and critically assessed the composition of future cash flows in management's forecasts prepared as a part of goodwill impairment test, and the process for preparing them.</p> <p>We engaged our internal valuation experts to assist us in evaluating the assumptions and methodologies used by the Group's management in the goodwill impairment model. The management's key assumptions used in the impairment model were evaluated as follows:</p> <ul style="list-style-type: none"> • the long-term growth rate was compared to economic and industry growth rate forecasts; • the forecasts for the oil price, the USD/ RR exchange rate, and the Consumer Price Index were compared to independent forecasts by widely known information agencies and/or government economic and statistical bodies; • the discount rate was assessed by our valuation experts, who reviewed the methodology of discount rate calculation and its components by comparing the cost of debt and equity to similar companies. <p>We compared the actual financial results for the year ended 31 December 2019 to the 2019 forecasts included in the previous year impairment model to assess whether the assumptions included in the forecast are reasonable.</p>

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We bear sole responsibility for expressing an opinion on the consolidated financial statements of the Group, therefore we are responsible for the direction, supervision and performance of the group audit. When scoping our audit we determined the nature of audit procedures and the scope of work to be performed at significant entities in order to ensure receipt of sufficient audit evidence to enable us to provide an opinion on the consolidated financial statements as a whole. When determining our audit approach we considered materiality of the Group components for the consolidated financial statements, our risk assessment for each component, volume of evidence received from our audit procedures at the level of the Group as a whole as well as risks associated with non-significant components for which no full scope audit procedures were performed. Our approach to group audit scoping is a process under which the audit should cover significant entities, taking into account their material effect on the financial statements, existence of significant risk or their audit being an element of unpredictability.

Based on the above we determined the nature and scope of audit procedures at the level of significant entities as well as at the level of the group as a whole.

PwC network offices located in Russia and Kazakhstan performed audit procedures in respect of all entities of the Group in Russia and Kazakhstan. On the whole, our audit procedures that were performed, in our opinion, provided adequate coverage of individual line items in the consolidated financial statements. Thus, for example, our procedures covered 99% of the Group's revenue.

We, as the Group auditor, reviewed the work performed by auditors of PwC offices in Russia in respect of significant and non-significant components as well as performed audit procedures at the level of the consolidated financial statements of the Group as a whole.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Vladimir Konoplin.

AO PricewaterhouseCoopers Audit

9 April 2020

Moscow, Russian Federation

B. Konoplin



Vladimir Konoplin, certified auditor (licence No. 01-000491), AO PricewaterhouseCoopers Audit

Audited entity: Alliance Oil Company Limited

Record made on 1 September 1998 under Registration Number 25413
Clarendon House, 2 Church Street, Hamilton HM11, Bermuda

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber
on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on
22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association
«Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors
and Audit Organizations – 12006020338

ALLIANCE OIL COMPANY LTD

CONSOLIDATED STATEMENT OF PROFIT OR LOSS in thousands of US Dollars (TUSD)

	Note	2019	2018
Revenue			
Revenue from sales of crude oil and gas		1,088,467	1,063,279
Revenue from sales of oil products		2,535,029	2,706,744
Revenue from other sales		41,999	43,773
	6	3,665,495	3,813,796
Cost of sales			
Production costs of crude oil and gas	7	(795,638)	(732,336)
Production costs of oil products	8	(2,094,795)	(2,335,496)
Cost of other sales		(21,598)	(24,833)
Depletion and depreciation of oil and gas production and refining assets		(158,552)	(169,645)
Impairment of oil and gas production assets	14	(67,409)	-
Gross profit		527,503	551,486
Selling expenses	9	(264,099)	(256,375)
Administrative expenses	10	(100,303)	(93,567)
Depreciation and amortisation of marketing and other assets		(35,851)	(14,497)
Changes in expected credit losses		(15,215)	(1,565)
Other operating expenses, net	11	(48,813)	(11,082)
Foreign currency exchange gain/(loss) from non-financing activities, net		113,535	(94,289)
Operating income		176,757	80,111
Interest income		57,166	58,958
Finance costs	12	(225,960)	(209,391)
Foreign currency exchange gain/(loss) from financing activities, net		4,571	(83,302)
Profit/(Loss) before income tax		12,534	(153,624)
Income tax expense	13	(31,978)	(114,620)
Loss for the year		(19,444)	(268,244)
Attributable to:			
Owner of the Company		(64,955)	(338,722)
Non-controlling interests	23	45,511	70,478
Loss for the year		(19,444)	(268,244)

The accompanying notes on pages 6-51 are an integral part of these consolidated financial statements

ALLIANCE OIL COMPANY LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *in thousands of US Dollars (TUSD)*

	<u>2019</u>	<u>2018</u>
Loss for the year	(19,444)	(268,244)
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of post-employment benefit obligations	739	-
Items that may be reclassified subsequently to profit or loss:		
Effect of translation to presentation currency	73,610	(162,998)
Other comprehensive income/(loss) for the year, net of income tax	<u>74,349</u>	<u>(162,998)</u>
Total comprehensive income/(loss) for the year	<u><u>54,905</u></u>	<u><u>(431,242)</u></u>
Attributable to:		
Owner of the Company	(4,214)	(473,461)
Non-controlling interests	<u>59,119</u>	<u>42,219</u>
Total comprehensive income/(loss) for the year	<u><u>54,905</u></u>	<u><u>(431,242)</u></u>

The accompanying notes on pages 6-51 are an integral part of these consolidated financial statements

ALLIANCE OIL COMPANY LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION in thousands of US Dollars (TUSD)

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,189,959	2,028,144
Right-of-use assets	15	94,910	-
Goodwill	16	40,012	35,655
Deferred tax assets	13	81,038	66,504
Other financial assets	20	655,777	502,426
Other non-current assets		2,078	2,188
		3,063,774	2,634,917
Current assets			
Inventories	17	251,637	196,232
Trade and other accounts receivable	18	62,750	82,947
Value added tax recoverable and other taxes receivable	19	148,427	94,464
Income tax receivable		15,766	8,580
Advances paid and prepaid expenses		62,485	65,225
Cash and cash equivalents	21	157,078	133,233
		698,143	580,681
TOTAL ASSETS		3,761,917	3,215,598
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	2	2
Additional paid-in capital		1,353,809	1,353,807
Reserve on translation to presentation currency	22	(1,992,638)	(2,052,640)
Retained earnings		772,441	836,657
Equity attributable to owner of the Company		133,614	137,826
Non-controlling interests	23	127,658	122,347
TOTAL EQUITY		261,272	260,173
Non-current liabilities			
Loans and borrowings	24	646,565	1,183,748
Lease liabilities	25	65,651	-
Advances received	3, 26	813,047	598,024
Deferred tax liabilities	13	138,943	136,551
Provision for decommissioning and site restoration costs	28	63,597	39,620
Post-employment benefit obligations		7,087	6,154
		1,734,890	1,964,097
Current liabilities			
Loans and borrowings	24	1,021,536	421,759
Lease liabilities	25	33,457	-
Trade and other accounts payable	27	94,603	117,493
Advances received and accrued expenses	26	477,381	362,160
Income tax payable		191	4,617
Other taxes payable	30	138,587	85,299
		1,765,755	991,328
TOTAL LIABILITIES		3,500,645	2,955,425
TOTAL EQUITY AND LIABILITIES		3,761,917	3,215,598

The accompanying notes on pages 6-51 are an integral part of these consolidated financial statements

ALLIANCE OIL COMPANY LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY in thousands of US Dollars (TUSD)

	Attributable to owner of the Company				Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Reserve on translation to presentation currency	Retained earnings		
Balance as at 31 December 2017	2	1,353,807	(1,917,901)	1,210,153	166,235	812,296
Adjustment on initial application of IFRS 9, net of income tax (Notes 20, 24)	-	-	-	(34,774)	-	(34,774)
Balance as at 1 January 2018 (adjusted for the effect of IFRS 9)	2	1,353,807	(1,917,901)	1,175,379	166,235	777,522
(Loss)/Profit for the year	-	-	-	(338,722)	70,478	(268,244)
Other comprehensive loss, net of income tax	-	-	(134,739)	-	(28,259)	(162,998)
Total comprehensive (loss)/income for the year	-	-	(134,739)	(338,722)	42,219	(431,242)
Changes in ownership of subsidiaries	-	-	-	-	(16)	(16)
Dividends distributed (Note 23)	-	-	-	-	(63,831)	(63,831)
Transactions with non-controlling interests (Note 23)	-	-	-	-	(22,260)	(22,260)
Balance as at 31 December 2018	2	1,353,807	(2,052,640)	836,657	122,347	260,173
(Loss)/Profit for the year	-	-	-	(64,955)	45,511	(19,444)
Other comprehensive income, net of income tax	-	-	60,002	739	13,608	74,349
Total comprehensive income/(loss) for the year	-	-	60,002	(64,216)	59,119	54,905
Changes in ownership of subsidiaries	-	2	-	-	(7)	(5)
Dividends distributed (Note 23)	-	-	-	-	(53,801)	(53,801)
Balance as at 31 December 2019	2	1,353,809	(1,992,638)	772,441	127,658	261,272

The accompanying notes on pages 6-51 are an integral part of these consolidated financial statements

ALLIANCE OIL COMPANY LTD

CONSOLIDATED STATEMENT OF CASH FLOWS in thousands of US Dollars (TUSD)

	2019	2018
Operating activities		
Profit/(Loss) before income tax	12,534	(153,624)
Adjustments for:		
Depreciation, depletion and amortisation	194,403	184,142
Interest income	(57,166)	(58,958)
Finance costs	225,960	209,391
Foreign currency exchange (gain)/loss from financing activities, net	(4,571)	83,302
Foreign currency exchange (gain)/loss from non-financing activities, net	(113,535)	94,289
Impairment of oil and gas production assets	67,409	-
Loss on disposal of assets	9,509	4,695
Changes in expected credit losses	15,215	1,565
Other non-cash items	511	1,241
Operating cash flows before changes in working capital	350,269	366,043
Movements in working capital and other liabilities		
Increase in inventories	(27,391)	(35,800)
Increase in accounts receivable, advances paid and prepaid expenses	(11,009)	(37,049)
Increase in accounts payable, advances received and accrued expenses	358,145	407,592
Cash generated from operations	670,014	700,786
Interest paid	(219,346)	(203,776)
Income tax paid	(60,891)	(69,447)
Total cash generated from operating activities	389,777	427,563
Investing activities		
Investments in oil and gas production assets	(146,315)	(146,869)
Investments in refining assets	(18,227)	(13,456)
Investments in marketing and other assets	(11,705)	(10,158)
Interest capitalised and paid	(4,620)	(2,712)
Proceeds from disposal of assets	85	890
Interest received	5,718	13,072
Loans provided	(64,262)	(103,460)
Loans repaid	-	161,151
Total cash used in investing activities	(239,326)	(101,542)
Financing activities		
Proceeds from loans and borrowings	533,218	711,056
Repayment of loans and borrowings	(437,499)	(864,527)
Partial RUB bonds repayment	(22,260)	(58,840)
Partial Eurobond repayment	(179,048)	(89,720)
Proceeds from sale of repurchased RUB-denominated bonds	57,537	-
Payments of obligations under lease agreements	(28,520)	-
Bank loans issue costs	-	(1,939)
RUB bonds refinancing costs	-	(1,837)
Dividends distributed	(57,539)	(56,723)
Other financial activities	(5)	(22)
Total cash used in financing activities	(134,116)	(362,552)
Effect of foreign currencies exchange rate changes	7,510	(13,347)
Change in cash and cash equivalents	23,845	(49,878)
Cash and cash equivalents at beginning of the year	133,233	183,111
Cash and cash equivalents at end of the year	157,078	133,233
Non-cash investing and financing activities		
Transactions with non-controlling interests	-	22,260

The accompanying notes on pages 6-51 are an integral part of these consolidated financial statements

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS in thousands of US Dollars (TUSD) unless indicated otherwise

1. ORGANISATION

Alliance Oil Company Ltd (the "Company") and its subsidiaries (together, referred to as the "Group") is an independent vertically integrated oil and gas holding with upstream operations in the Russian Federation and Kazakhstan as well as downstream operations in the Russian Federation. The Group's upstream operations include crude oil and gas exploration, extraction and production in the Timano-Pechora, Volga-Urals and Tomsk regions of the Russian Federation and the Atyrau region of Kazakhstan. The downstream operations include oil refining, transportation, marketing and sales of oil products in the Russian Far East and Eastern Siberia.

The principal activities of the significant subsidiaries of the Company and voting power held by the Group as at 31 December 2019 and 2018 were as follows:

Activity/Operating entity	Country	Voting power held by the Group, %	
		31 December 2019	31 December 2018
Holding companies			
Vostok Oil (Cyprus) Limited	Cyprus	100.00	100.00
Apelda Investments Ltd	Cyprus	100.00	100.00
AO Sbytovoy tsentr	Russian Federation	100.00	100.00
AO Neftepererabotka	Russian Federation	100.00	100.00
AO Begstar	Russian Federation	99.54	99.54
Bekstar International Limited	British Virgin Islands	99.54	99.54
Financing of subsidiaries			
O&G Credit Agency Ltd	Cyprus	100.00	100.00
Oil and gas exploration and production			
OOO Vostochnaya Transnationalnaya Kompaniya	Russian Federation	100.00	100.00
AO NNK-Pechoraneft	Russian Federation	99.93	99.93
ZAO Kolvinskoye	Russian Federation	100.00	100.00
OOO SN-Gazdobycha	Russian Federation	100.00	100.00
TOO Potential Oil	Kazakhstan	79.64	79.64
OOO Gusikhinskoye	Russian Federation	100.00	100.00
AO Saneco	Russian Federation	51.00 ¹	51.00 ¹
AO Tatnefteotdacha	Russian Federation	50.77 ¹	50.77 ¹
Oil refining			
AO NNK- Khabarovsk Oil Refinery	Russian Federation	99.69	99.69
Marketing and sales of oil products			
AO Neftegazkholding	Russian Federation	100.00	100.00
AO Nezavisimaya Neftegazovaya Kompaniya	Russian Federation	100.00	100.00
PAO NNK-Khabarovsknefteproduct	Russian Federation	93.46	93.46
AO NNK-Amurnefteproduct	Russian Federation	96.44	96.44
AO NNK-Primornefteproduct	Russian Federation	95.38	95.38
OOO NNK-Baikalnefteproduct	Russian Federation	100.00	100.00
OOO NNK-Bunker	Russian Federation	100.00	100.00
AO NNK-Gavanbunker	Russian Federation	100.00	100.00
AO NNK-Kamchatnefteproduct	Russian Federation	93.40	93.40
OOO Kompaniya "Solnechniy Veter"	Russian Federation	100.00	100.00
Transportation services			
AO NNK-Trans	Russian Federation	100.00	100.00

¹ Control over AO Saneco and AO Tatnefteotdacha is based on presently exercisable potential voting rights (Note 5)

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

1. ORGANISATION (CONTINUED)

Alliance Oil Company Ltd was incorporated in Bermuda on 1 September 1998 as a tax exempted limited liability private company. Alliance Oil Company Ltd's registered office was located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

As at 31 December 2019 and 2018, the Group's principal beneficial shareholder and ultimate controlling party was Mr. Eduard Y. Khudaynatov.

As at 31 December 2019 and 2018, the Group's immediate parent company was Geltome Ltd, the Group's ultimate parent company was Independent Petroleum Company Holding LLC.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by IASB.

The Group's entities maintain their accounting records in accordance with the laws and accounting and reporting regulations of the countries of their incorporation. Statutory accounting principles and procedures may differ substantially from those generally accepted under IFRS. Therefore, the accompanying consolidated financial statements, which have been prepared from the statutory accounting records of the Group's entities, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments that are all measured at fair value at initial recognition, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Material uncertainty related to going concern

In assessing Group's going concern status, management has taken into account of the Group's financial position, expected future trading performance, its borrowings and available credit facilities, anticipated additional borrowing facilities under negotiation and its capital expenditures commitments and plans, together with other risks facing the Group.

The main factor that may cast doubt upon the Group's ability to continue as going concern is a significant amount of short-term loans and borrowings that causes Group's excess of current liabilities over its current assets and loss for the year due to substantial finance costs.

For the year ended 31 December 2019 the Group has incurred a loss of USD 19.4 million (2018: loss of USD 268.2 million), and cash generated from operating activities USD 389.8 million (2018: USD 427.6 million). As at 31 December 2019 the Group's current liabilities exceeded its current assets by USD 1067.6 million (2018: by USD 410.6 million).

In April 2020, the Group requested consents from holders of Eurobonds in amount USD 504.7 million to amend the terms and conditions of its existing debt to extend debt maturities beyond 12 months, until May 2023. The results are to be determined and announced on or about 4 May 2020 (Note 34).

Also the Group is negotiating financing options with various major banks to refinance current loan portfolio.

Management has concluded that the existing uncertainty about the Group's availability of free cash flow for repayment, its ability to refinance and restructure current liabilities described above, represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. As described above, management is in the process of and intends to achieve a debt restructuring with its lenders to enable the Group to continue in operational existence for at least 12 months after the date of approval of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

2. BASIS OF PREPARATION (CONTINUED)

The management of the Group will make all reasonable efforts to enter into agreement with Eurobonds holders and other creditors to restructure and refinance its current debt portfolio and will, therefore, continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce its activities.

Due to the COVID-19 outbreak has developed rapidly in 2020 the economic environment and economic conditions in the major segments of the Group's operations retain uncertainty about the level of demand for the Group's products, the pricing of major products produced or refined by the Group, operating and financial results, the availability of free cash flow for repayment or ability to refinance and restructure current liabilities (Note 34).

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and revised Standards affecting the consolidated financial statements

IFRS 16 «Leases» (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019) have been applied in preparing these consolidated financial statements for the first time in 2019. The new Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees are required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of profit or loss. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group has adopted IFRS 16 using the modified retrospective approach with the effect of initial application recognised as at 1 January 2019. Accordingly, the information represented for comparative period has not been restated.

The Group applied the new rules with the following practical expedients permitted by the Standard:

- Existing long-term service contracts which were not classified as lease contracts under the principles of IAS 17 «Leases» and IFRIC 4 «*Determining whether an Arrangement contains a Lease*» were not reassessed by the new guidance regarding the definition of a lease in IFRS 16 «Leases»;
- Lease contracts with a remaining lease term of 12 months or less from the date of initial application are accounted for as short-term leases and the related expenses are recognised as rent within operating expenses in the consolidated statement of profit or loss;
- A single discount rate was used to a portfolio of leases with reasonably similar characteristics, such as lease term, type of leased assets, etc.
- Non-lease components were not separated for the purpose of lease liabilities accounting as they are not material and in majority of the Group's contracts they are not specifically predetermined;
- Initial direct costs were excluded for the measurement of right-of-use assets at the date of initial recognition as they are considered to be not material.

One-off increase in non-current assets and financial liabilities due to recognition of leases previously classified as an operating lease applying IAS 17 amounted to USD 70 million and USD 71 million, respectively, as at 1 January 2019.

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3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

This amount can be reconciled to the undiscounted future minimum lease payments under the operating lease agreements as at 31 December 2018 as follows:

Future minimum lease payments under operating lease agreements as at 31 December 2018	49,682
Effect of discounting	(14,822)
Present value of future minimum lease payments	34,860
Adjusted to the present value of the following:	
payments with variable component for the rent of land	(5,105)
payments for the rent of land related to exploration and production	(1,139)
payments for leases of low-value items	(110)
other	(440)
change in estimation of the lease term	42,723
Lease liabilities as at 1 January 2019 (Note 25)	70,789

The following amendments to IFRS Standards and Interpretations issued by the IASB became effective for the Group from 1 January 2019, but did not have any material impact on the consolidated financial statements:

- IFRIC 23 - Uncertainty over Income Tax Treatments (issued on 7 June 2017);
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017);
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 «*Investments in Associates and Joint Ventures*» (issued on 12 October 2017);
- Annual Improvements to IFRS Standards 2015–2017 Cycle - Amendments to IFRS 3 «*Business Combinations*», IFRS 11 «*Joint Arrangements*», IAS 12 «*Income Taxes*», and IAS 23 «*Borrowing Costs*» (issued on 12 December 2017);
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 «*Employee Benefits*» (issued on 7 February 2018).

Change in accounting policy

In the ordinary course of business the Group receives long-term advances from customers for the sale of crude oil and oil products where the Group shall discharge relevant advances by delivery of products up to the value of the advances as per agreed schedule. Interest accrues at a contractual rate on market terms on the outstanding principal amount of the advances and settled in cash.

Until the 2019 financial year the Group presented the interest payable component separately from long-term advances received and carried it at amortised cost using the effective interest method in accordance with delivery schedules stipulated by the contracts.

During the 2019 year, the Group has changed its accounting policy taking into consideration management's experience and other factors, including ongoing application of the new IFRS Standards «*Revenue*» and «*Financial Instruments*» and as practice evolves.

Under the revised policy, advances received for the delivery of oil and oil products are accounted for as a single unit of account, being non-financial obligations because the outflow of economic benefits associated with them is the delivery of goods and services rather than a combination of this and a contractual obligation to pay cash or another financial asset. The Group does not recognise or present any financial liability component separately from the long-term advances received. Interest at the market related interest rate is accrued over time on the outstanding balance of the advances.

The Group believes that the change provides reliable and more relevant information and is more consistent with industry practice. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

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3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The effect of reclassifications for presentation purposes was as follows:

	As originally presented	Reclassifi- cation	As reclassified
As at 31 December 2018			
Advances received	508,662	89,362	598,024
Financing component of long-term advances received	89,362	(89,362)	-
As at 1 January 2018			
Advances received	286,004	40,110	326,114
Financing component of long-term advances received	40,110	(40,110)	-

New Standards and amendments to existing Standards that are not yet effective and have not been early adopted by the Group

A number of new Standards and amendments to Standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements, none of these is expected to have a significant effect on the consolidated financial statements of the Group:

- IFRS 17 «Insurance Contracts» (issued on 18 May 2017 and is effective for annual reporting periods beginning on or after 1 January 2021);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 «Consolidated Financial Statements» and IAS 28 (issued on 11 September 2014, the effective date of the amendments has yet to be set by the IASB; earlier application is permitted);
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries including structured entities). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all of the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of its returns.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Company has less than a majority of the voting rights of an investee, it has a power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control over the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in additional paid-in capital and attributed to owners of the Company. When the Group loses control over a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary's assets or liabilities are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 "*Financial Instruments*" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

A monetary item that is receivable from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Exchange differences arising on such items are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control over the acquiree.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *"Income Taxes"* and IAS 19 *"Employee Benefits"*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *"Share-based Payment"* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated statement of profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 *"Provisions, Contingent Liabilities and Contingent Assets"*, as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGU) that is expected to benefit from the synergies of the combination.

A cash generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence (directly or indirectly). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint venture is a joint arrangement whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Profits and losses resulting from transactions between the Group and its associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates or joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

An investment in associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the period in which the investment is acquired.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The requirements of IAS 28 «*Investments in Associates and Joint Ventures*» are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 «*Impairment of Assets*» as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Foreign currency translation

Amounts presented in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The individual financial statements of each Group's entity are prepared in its functional currency:

- For entities operating in the Russian Federation – Russian Rouble ("RUB");
- For entities operating in Kazakhstan – Kazakhstan Tenge ("KZT");
- For entities operating in Cyprus and Bermuda – US Dollar ("USD").

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has chosen to present its consolidated financial statements in USD, as management believes it is a convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the oil and gas industry.

The translation of balances and transactions of the Group's entities from their functional currencies to the presentation currency is performed as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting period end date;
- All income and expenses are translated at the quarterly average exchange rates for the period, except for significant transactions that are translated at rates on the date of such transactions and in instances where exchange rates fluctuate significantly during the period;
- Components of equity are translated at the historic rate;
- Resulting exchange differences are recognised in other comprehensive income as "Effect of translation to presentation currency" and accumulated in equity (attributed to non-controlling interests as appropriate);
- All cash flows are translated at the quarterly average exchange rates for the period, except for significant transactions that are translated at rates on the date of such transactions. Resulting exchange differences are presented as «Effect of foreign currencies exchange rate changes».

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a partial disposal of an interest in a joint venture or an associate of which the retained interest becomes a financial interest that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Following exchange rates were used in preparation of the consolidated financial statements:

	RUB per 1 USD		RUB per 1 KZT	
	2019	2018	2019	2018
Average for the quarter ended:				
31 March	66.1271	56.8803	0.1746	0.1759
30 June	64.5584	61.7998	0.1696	0.1874
30 September	64.5685	65.5323	0.1673	0.1840
31 December	63.7192	66.4822	0.1646	0.1795
As at 31 December	61.9057	69.4706	0.1622	0.1806

Property, plant and equipment

The Group's property, plant and equipment consist of oil and gas assets involved in crude oil and gas exploration and production ("oil and gas assets"), refining assets involved in oil refining ("refining assets") and marketing and other assets involved in oil and oil products transportation, sales and marketing of oil products ("marketing and other assets"). Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortisation and impairment.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas assets

Exploration and evaluation assets

The Group follows the “successful efforts” method of accounting for its oil and gas assets, under which all costs for acquiring licenses and for the exploration and evaluation, drilling and development of oil fields are initially capitalised in field area cost centres pending determination of oil and gas reserves.

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the consolidated statement of profit or loss as they are incurred. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and license acquisition costs incurred during the various exploration and appraisal phases are recognised through consolidated statement of profit or loss. License acquisition costs and exploratory drilling costs are recognised as assets in line “property, plant and equipment” until commercial reserves have been established or the determination process has been completed. If no proved reserves are found, the capitalised drilling costs are charged to consolidated statement of profit or loss.

When commercial reserves are discovered and plans to develop are approved, exploration and evaluation assets are transferred to oil and gas production assets.

The cost of geological and geophysical expenditures used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalised as development costs.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when reclassified to oil and gas production assets or when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

- The term of exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of oil and gas resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of oil and gas resources in the specific area have not led to the discovery of commercially viable quantities of oil and gas resources and the decision was made to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although the development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration license areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out below.

Oil and gas production assets

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, reclassified exploration and evaluation assets and for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas production assets are depleted in accordance with the unit-of-production method over proved and probable reserves; the base for depletion includes management’s best estimates of future development costs related to probable reserves.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities. Expenditures for the construction, installation, or completion of infrastructure facilities are capitalised within oil and gas assets.

Refining, marketing and other assets

Marketing and other assets include network of gas stations and wholesale oil products terminals and other assets involved in non-core activities.

Depreciation of these assets commences when the assets are ready for their intended use and is calculated on a straight-line basis over the estimated useful economic lives of assets, which are:

Buildings	20 – 50 years
Infrastructure	5 – 30 years
Machinery and equipment	3 – 20 years
Vehicles	3 – 10 years
Fixtures and fittings	2 – 8 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Provision for decommissioning and site restoration costs

Decommissioning and site restoration provision relates primarily to the conservation and abandonment of wells, removal of pipelines and other oil and gas facilities together with site restoration related to the Group's license areas. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning and site restoration costs, discounted to net present value, are capitalised within property, plant and equipment as oil and gas assets subject to depletion using the unit-of-production method based on proved and probable reserves. The unwinding of the discount is recognised as finance costs. A corresponding obligation recorded when a constructive obligation to incur such costs exists and the amount can be reliably estimated. The Group records the long-term portion of the obligation for decommissioning and site restoration costs as a separate line item in the consolidated statements of financial position.

The adequacy of the decommissioning and site restoration provision is periodically reviewed in the light of current laws and regulations, and adjustments made as necessary. Changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes in the discount rate are reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment but not exceeding carrying value of related property, plant and equipment in case of reduction. The excess is recognised in the consolidated statement of profit or loss.

Impairment of tangible and intangible assets (excluding goodwill and exploration and evaluation assets)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *in thousands of US Dollars (TUSD) unless indicated otherwise*

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss. After the recognition of an impairment loss depletion charge for impaired oil and gas assets is adjusted in the reporting periods following the date of impairment recognition.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss.

Lease

The Group leases buildings and constructions, shipping vessels, land plots, and other assets.

The Group continues to account as an operating lease agreements with variable lease payments that do not depend on index or a rate and those to explore for or use crude oil, natural gas and similar non-regenerative resources.

Group treats the land plots rent payments based on cadastral value as variable payments not resulting in recognising a lease liability and a right-of-use asset, unless the lease contract itself establishes a fixed period for determining lease payments. The Group recognises variable lease payments as an expense in the period when the event that triggers those payments occurs.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straightline basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are subject to impairment.

The recognised right-of-use assets related to refining, marketing and other assets are depreciated on a straight-line basis:

Buildings and constructions	5-10 years
Shipping vessels	2-4 years
Land plots	2-10 years

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After initial recognition the lease liability is measured at amortised cost and interest expense on the lease liability is recognised in consolidated statement of profit or loss as part of finance expenses.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The term used to measure a liability and an asset in the form of a right-of-use is defined as the number of days during which the Group has sufficient confidence that it will lease the asset. Any option for renewal or termination is taken into account when estimating the term. The Group considers monetary and non-monetary aspects to determine the lease term of the contract, such as business plans, past practices and economic incentives to extend or terminate the contract (the presence of inseparable improvements, etc.) and other factors that may affect management's judgment on the lease term.

Cash flows relating to leases must be presented as follows:

- cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- cash payments for the interest portion consistent with presentation of interest payments chosen by the Group, and
- variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis and crude oil stock being valued on a weighted average basis. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

Advances

Advances paid are carried at cost less provision for impairment. Advance paid is classified as non-current when the goods or services relating to the advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the advances paid are received. If there is an indication that the assets, goods or services relating to advance paid will not be received, the carrying value of the advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the Group's entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

Financial assets

Financial assets of the Group are classified as financial assets at amortised cost. The classification depends on business model for managing the financial asset and the contractual cash flow characteristics of the financial asset and is determined at the time of initial recognition.

A financial asset is measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are measured at amortised cost using the effective interest method, less loss allowance for expected credit losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables, the loss allowance is determined at initial recognition and throughout its life at an amount equal to the lifetime. The Group uses a provision matrix to estimate ECL for trade receivables. For other financial assets, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

The Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit loss, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical payment profiles of sales, and the corresponding historical credit losses experienced. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired amounts are derecognised when they are assessed as uncollectible.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For other receivables, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. The following indicators are incorporated:

- internal and external (as far as available) credit rating;
- actual or expected significant changes in the operating results, performance and behaviour of the counterparty, including changes in the payment status;
- changes in general economic and/or market conditions.

The Group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when (a) the asset is redeemed or the rights to the cash flows from the asset expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less at the date of investment, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities of the Group are classified as financial liabilities at amortised cost. Classification is determined at the time of initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modification of financial liabilities

Modifications of financial liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the consolidated statement of profit or loss.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised. All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

Employee benefits

Remuneration to employees, in respect of the services rendered during the period is recognised as an expense in the consolidated statement of profit or loss in that reporting period.

Defined contribution plan

The Group's entities are legally obliged to make defined contributions to the State Pension Funds of the Russian Federation and Kazakhstan where the Group operates (a defined contribution plan financed on a pay-as-you-go basis). In the Russian Federation all obligatory social contributions, including contributions to the Russian Federation State Pension Fund, are collected through social security charges at the rate of 30% for annual gross remuneration of each employee not exceeding certain amount, for remuneration exceeding the set amount the rate drops to 10%. The Group's contributions to the State Pension Funds of the Russian Federation and Kazakhstan where the Group operates relating to defined contribution plans are charged to the consolidated statement of profit or loss in the period to which they relate. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the unified social tax payments to the statutory defined contribution schemes.

Defined benefit plans

The Group has defined benefit plans, which are unfunded. The cost of providing benefits under these defined benefit plans is determined separately for each plan using the projected unit credit method. Remeasurements, comprising actuarial gains and losses, are recognised in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income will not be reclassified to the consolidated statement of profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Past service cost is recognised in the consolidated statement of profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the defined benefit liability. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurements.

The Group presents service costs in the consolidated statement of profit or loss in the line item Employee benefits in either Cost of Sales, Selling expenses or Administrative expenses depending on the function of subsidiary. Curtailment gains and losses are accounted for as past service costs.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Revenue recognition

The Group recognises revenue from the sale of crude oil and gas, oil products and other goods and services. Revenue represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, value added tax and custom duties.

Revenues are recognised at a point in time when control over products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. Transfer occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group considers indicators that customer has obtained control of an asset, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators need to be met for management to conclude that control has transferred and revenue could be recognised. Management uses judgement to determine whether factors collectively indicate that the customer has obtained control.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is a Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. The contract liability balance presented as advances received.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group receives long-term advances from customers for the sale of crude oil and oil products where Group shall discharge relevant advances by delivery of goods as per schedule. Interest accrued at contractual rate on the principal amount outstanding of the prepayment, which shall be paid in cash. Since interest shall be paid on the principal amount outstanding of the prepayment, so despite that the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year, the Group concluded that there is no financing component for those contracts under IFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loyalty program

Sales of goods that result in award credits for customers, under the Group's loyalty program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Incidental revenues from production of crude oil at the well's development stage or revenues associated with initial test production are offset against capitalised costs of the related field area cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

Revenue from rendering of services is recognised in the period the services are provided to the customer.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group's entities operate.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Current and deferred tax for the period***

Current and deferred tax are recognised in the consolidated statement of profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the Group's accounting policies management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. They are reviewed on an ongoing basis. Actual results may differ from those estimates.

Critical judgments in applying accounting policies

The following are critical judgments, apart from those involving estimations, that management has made while applying the Group's accounting policies. Such judgment bear the most significant effect on the amounts recognised in the consolidated financial statements.

Control over AO Saneco and AO Tatnefteotdacha

In 2011, the Group together with Repsol Exploration S.A. established the joint venture AR Oil & Gas B.V. (AROG) registered in the Netherlands. The Group holds a 51% stake in the company. In 2012, the Group contributed 100% of the shares of AO Saneco and 99.54% of the shares of AO Tatnefteotdacha to AROG. The shareholders agreement for AROG stipulates that key policy decisions regarding the entity's relevant activities require unanimous agreement of both participants. However, in case of a deadlock, the Group has option to buy-back the entities, which were contributed to AROG. Based on the definition of control under IFRS 10 «*Consolidated Financial Statements*», the Group's management considers that it has retained control over AO Saneco and AO Tatnefteotdacha (Note 23). This determination is made on the basis that the Group holds a substantive potential voting right with respect to the contributed entities, as well as through the existence of a presently exercisable buy-back option, which can be exercised based on the fair value of the entities as determined by independent valuers. Management expects to obtain non-monetary benefits from exercising this option such as utilising accumulated knowledge of these companies and obtaining synergies from the sharing of infrastructure of the entities with the Group's other assets. Thus, management deems the option to be substantive, which is a determining factor in retaining control.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Recoverability of loans provided to an entity under common control

As at 31 December 2019 and 2018, other financial assets of the Group included loans provided to an entity under common control engaged in oil and gas exploration and production business (Note 20). The Group considers the entity to have a positive financial outlook and the loans to be fully recoverable.

Key sources of estimation uncertainty

The following include key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, which bear a significant risk of causing material adjustment to the carrying amounts of assets and liabilities over the next financial year.

Useful economic lives of property, plant and equipment and right-of-use assets

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the carrying values of the property, plant and equipment and right-of-use assets and may result in adjustments to future depreciation rates and expenses for the period (Note 14, 15).

Oil and gas production assets

The Group's oil and gas production assets are depleted over the respective life of oil and gas fields using the unit-of-production method based on proved and probable oil and gas reserves, as well as giving due consideration to the anticipated future capital costs for the development of those reserves.

For this purpose, the Group has determined estimates of oil and gas reserves in accordance with the definitions provided by Petroleum Resources Management System with the involvement of an internationally recognised reserve engineer firm, DeGolyer and MacNaughton. Depletion of field area is charged to the consolidated statement of profit or loss when production commences.

Proved and probable reserves include volumes of oil and gas, which the Group expects to produce after the expiry dates of its current licenses. The Group's current production licenses for oil and gas fields expire between 2021 and 2123. Where a license's term is shorter than the production phase for the oil and gas field in question, the oil and gas properties are depreciated over the production phase of the fields, as management believes that such licenses will be renewed – in due order. Any changes to this assumption may significantly affect prospective depreciation charges and the assets' carrying values.

The production phase of oil and gas fields is determined based on estimates of commercially viable reserves.

Proved reserves are those volumes of oil and gas, which, upon analysis of geological and engineering data, are estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. At the same time, proved reserves can be categorised as developed or undeveloped.

Probable reserves are those additional reserves which as the analysis of geological and engineering data suggests are more likely than not to be recoverable, under current economic conditions, operating methods and government regulations.

When determining the life of an oil and gas field, assumptions that were valid at the time of estimation, may change when new information becomes available. The factors that could affect estimates on the life of an oil and gas field include the following:

- Changes in the estimate of proved and probable oil and gas reserves;
- Variances between actual and forecasted commodity prices used in the estimation of oil and gas reserves;
- Unforeseen operational issues; and
- Changes in capital, operating, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of oil and gas reserves.

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5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Any of these changes could affect prospective depletion of oil and gas production assets, as well as their carrying value.

Anticipated future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

Refining, marketing and other assets

Property, plant and equipment other than oil and gas assets are depreciated on a straight-line basis over their useful economic lives. Management, at the end of each reporting period, reviews the appropriateness of the assets' useful economic lives and their residual values. This review is based on the current condition of the assets, the estimated period during which they will continue to provide economic benefits to the Group and their estimated residual value.

Impairment of goodwill, tangible assets, and exploration and evaluation assets

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to a cash-generating unit «Downstream segment» which is also a reportable operating segment (Note 16).

The recoverable amount of the Downstream segment's assets was determined based on value in use calculations relying on cash flows based on the 2020 – 2024 budgets as approved by management. Cash flows beyond 2024 are based on past performance and management expectations for the segment's development. Furthermore, growth rates do not exceed the long-term average rate for the business sector of the economy in which the CGU operates.

Costs and capital expenditures were based on management's forecasts, which reflect the current structure of the business, while also adjusting for inflationary increases.

The assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2019	2018
Brent crude oil price based on Intercontinental Exchange crude oil price futures data 2020-2024, USD per bbl	From 66.0 to 73.2	From 63.1 to 83.3
Growth rate beyond a five-year period	2.4% p.a.	2.0% p.a.
Pre-tax discount rate	13.3% p.a.	13.1% p.a.
Long-term RUB inflation rate for a 10-year period	4.0% p.a.	4.0% p.a.
Exchange rate data 2020-2029, RUB per 1 USD	From 66.00 to 77.35	From 66.00 to 78.57

Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not result in the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

No impairment related to goodwill has been recognised for the years ended 31 December 2019 and 2018.

Impairment of tangible assets

The Group considers both external and internal sources of information when assessing whether there are any indications that its tangible assets have been impaired.

External sources of information considered by the Group may include changes in the market economic and legal environment in which it operates that are not within its control.

Internal sources of information considered by the Group include the manner in which oil and gas properties are being used or expected to be used, as well as actual and forecasted expectations of economic performance of such assets.

In determining the recoverable amounts of the Group's tangible assets, management determines the fair value less costs to sell by estimating the discounted future after-tax cash flows expected to be derived from the Group's properties, costs to sell such properties and the appropriate pre-tax discount rate.

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5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Reductions in oil and gas price forecasts, increases in estimated future costs of production, rises in estimated future development costs, reductions in the amount of 2P reserves and/or adverse current economic conditions may result in a write-down of the carrying amounts of the Group's tangible assets.

When making assessments for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management relies on its own judgment in allocating assets that do not generate independent cash inflows to cash-generating units, and also when estimating the timing and value of underlying cash flows within the value-in-use calculations. Changes to cash-generating unit allocations or to the timing of cash flows may impact the carrying value of the respective assets.

Management has assessed that each exploration deposit is a CGU for impairment review for the «Upstream segment». All assets associated with Downstream segment were allocated to CGU «Downstream segment».

Impairment of exploration and evaluation assets

Management's judgment is used to determine whether the expenditures that are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale, or whether they should be impaired. Upon reaching this conclusion, management then estimates the possibilities finding recoverable oil and gas reserves in regards to the area of interest. However, these estimates are subject to significant uncertainties.

Decommissioning and site restoration costs

In regards to fields where the Group is required to perform decommissioning and site restoration, a provision is recorded to recognise existing commitments (Note 28). In addition, the Group performs an analysis in order to estimate the probability, timing and amount involved with the probable required outflow of resources. Estimating the amounts and timing for decommissioning and site restoration obligations to be recorded requires significant judgment. This judgment is based on cost and engineering studies relying on currently available technology. It is also based on current environmental regulations. Liabilities for decommissioning and site restoration costs are subject to change owing to changes in laws and regulations, as well as variations in their interpretation.

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required when determining the provision for income tax and other taxes owing to the complexity of the tax legislation of the countries where the Group operates (Note 32).

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgment on the part of management is required to determine total deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Future taxable profits and total tax benefits that are probable in the future are based on a midterm business plan prepared by management and the extrapolated results thereafter. This business plan is based on management's expectations that are believed to be reasonable under the relevant circumstances.

6. SEGMENT INFORMATION

The Group identifies segments in accordance with the criteria set forth in IFRS 8 «*Operating segments*», as well as based on how its operations are regularly reviewed by the chief operating decision-maker in order to analyse performance and allocate resources.

The Group has identified the following business segments:

- Upstream segment, which includes crude oil and gas exploration, extraction and production;
- Downstream segment, which includes oil refining, transportation and sale of oil products;
- Management and other segments, which includes the management function, parent company and subsidiaries involved in non-core activities.

Management reviews and evaluates the performance of these segments on a regular basis.

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6. SEGMENT INFORMATION (CONTINUED)

Management assesses the performance of the operating segments based on segment-adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The segment financial information provided to management is prepared using management accounts and also includes segment-adjusted EBITDA as a measure of profitability in order to allocate finance and make operational decisions. Segment-adjusted EBITDA is prepared on a basis that does not directly align with IFRS. The explanations for the differences as to IFRS are included below, as a reconciliation of segment-adjusted EBITDA to profit/(loss) before income tax.

Business segment assets and liabilities are not reviewed by management and, thus, are not disclosed in these consolidated financial statements.

a) Financial information by reportable segments is presented below:

Year ended 31 December 2019

	Upstream	Downstream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	753,308	2,909,043	1,055	3,663,406	(2,619)	4,708	3,665,495
Less inter-segment revenue	-	(1,744)	(875)	(2,619)	2,619	-	-
Revenue from external customers	753,308	2,907,299	180	3,660,787	-	4,708	3,665,495
Segment-adjusted EBITDA	258,421	195,850	(105,257)	349,014	-	(9,241)	339,773

Year ended 31 December 2018

	Upstream	Downstream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	760,490	3,070,149	1,402	3,832,041	(8,740)	(9,505)	3,813,796
Less inter-segment revenue	(6,537)	(1,081)	(1,122)	(8,740)	8,740	-	-
Revenue from external customers	753,953	3,069,068	280	3,823,301	-	(9,505)	3,813,796
Segment-adjusted EBITDA	292,565	178,441	(91,287)	379,719	-	(19,922)	359,797

Revenue of the Upstream and Downstream segments includes revenue from sales of crude oil and gas and oil products, respectively, as well as revenue from other sales.

The reconciliation of segment-adjusted EBITDA to the Group level adjusted EBITDA includes the following main reconciling items:

- elimination of unrealised gains/losses on intra-segment operations;
- recognition of operating leases in accordance with IFRS 16.

The prices used in transactions between reportable segments are determined at an arm's length basis in a manner equal to transactions with third parties, with the exception of received and provided interest-free loans.

b) Reconciliation of the segment-adjusted EBITDA to profit/(loss) before income tax is presented below:

	2019	2018
Adjusted EBITDA of reportable segments	349,014	379,719
Effect of reconciling items	(9,241)	(19,922)
Adjusted EBITDA	339,773	359,797
Depreciation, depletion and amortisation	(194,403)	(184,142)
Impairment of oil and gas production assets	(67,409)	-
Expected credit losses	(15,215)	(1,565)
Interest income	57,166	58,958
Finance costs	(225,960)	(209,391)
Foreign currency exchange gain/(loss) from financing activities, net	4,571	(83,302)
Foreign currency exchange gain/(loss) from non-financing activities, net	113,535	(94,289)
Other	476	310
Profit/(Loss) before income tax	12,534	(153,624)

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6. SEGMENT INFORMATION (CONTINUED)

c) Major customers

For the year ended 31 December 2019 the Group had one customer that represented more than 10% of the Group's revenue. Total revenue from this customer was USD 439.7 million, or 12.0% of the revenue (2018: one customer with a revenue of USD 442 million, or 11.6%).

d) Geographical information

The Group operates in two geographical regions, Russia and Kazakhstan.

The Group's revenue from external customers according to country of registration was as follows:

	2019	2018
Cyprus	429,055	416,140
China	379,150	89,493
Switzerland	170,126	52,251
Singapore	127,855	36,538
Bulgaria	60,262	116,821
Marshall Islands	43,349	87,675
Canada	36,986	-
Japan	23,207	3,762
United Kingdom	9,771	118,660
Other foreign countries	672	1,178
	1,280,433	922,518
Domestic revenue ²	2,385,062	2,891,278
	3,665,495	3,813,796

7. PRODUCTION COSTS OF CRUDE OIL AND GAS

	2019	2018
Mineral extraction tax	345,032	316,224
Crude oil and gas liquids purchased for re-sale	343,368	307,378
Employee benefits	29,933	28,794
Repairs and maintenance	18,466	22,641
Materials and fuel	15,314	12,412
Taxes other than income tax and mineral extraction tax	14,848	15,911
Transportation	8,600	7,755
Oil preparation	7,162	7,657
Other	12,915	13,564
	795,638	732,336

Production costs of crude oil and gas represent the costs of products sold to external customers.

8. PRODUCTION COSTS OF OIL PRODUCTS

	2019	2018
Crude oil purchased for refining	1,544,873	1,727,771
Oil products purchased for re-sale	180,759	105,164
Transportation	143,670	143,546
Taxes other than income tax	100,228	247,667
Materials	52,349	47,162
Employee benefits	25,142	23,659
Other	47,774	40,527
	2,094,795	2,335,496

² Domestic revenue includes revenue generated by the Group's Russian and Kazakhstan subsidiaries and predominant amount of revenue is received from Russia. The disclosure requirements of IFRS 8 «Operating segments» call for using the reporting entity's country of domicile. However, since no revenues are earned in Bermuda, this information is presented as an alternative.

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8. PRODUCTION COSTS OF OIL PRODUCTS (CONTINUED)

From 1 January 2019 due to changes in the Tax Code new excise duties on petroleum feedstocks with appropriate double deductions and dempfer part were introduced. To apply the deductions oil refiner must obtain a processing certificate, which is provided if the taxpayer meets specific requirements. The Group has met the requirements, obtained the processing certificate and accordingly applied deductions.

9. SELLING EXPENSES

	2019	2018
Transportation	166,287	168,208
Employee benefits	60,190	54,926
Repairs and maintenance	10,124	8,660
Export related expenses	5,693	4,312
Energy and utilities	5,177	4,983
Taxes other than income tax	2,720	3,601
Other	13,908	11,685
	264,099	256,375

10. ADMINISTRATIVE EXPENSES

	2019	2018
Employee benefits	70,303	54,348
Professional fees (legal, audit, consulting, etc.)	11,368	10,037
Bank charges	7,172	5,815
Security	4,151	3,790
Transportation	3,254	3,198
Rent	20	12,649
Other	4,035	3,730
	100,303	93,567

11. OTHER OPERATING EXPENSES, NET

	2019	2018
Correction of mineral extraction tax of prior years, net	29,344	3,890
Loss on disposal of assets	9,509	4,695
Other	9,960	2,497
	48,813	11,082

12. FINANCE COSTS

	2019	2018
Interest expense on loans and borrowings	104,341	96,946
Interest expense on bonds	50,733	71,896
Interest expense on advances received	61,205	33,916
Interest expense on lease liabilities (Note 25)	9,296	-
Amortisation of debt issue costs and bank commissions	3,866	410
Loans and borrowings modification (gain)/losses, net (Note 24)	(2,219)	5,895
Unwinding of discount on provision for decommissioning and site restoration costs (Note 28)	3,362	3,213
Less: amounts included in the cost of qualifying assets	(4,624)	(2,885)
	225,960	209,391

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13. INCOME TAX

The parent company, Alliance Oil Company Ltd, which is registered in Bermuda, is exempt from income tax.

The statutory income tax rate in the Russian Federation, which is the location of the majority of the Group's entities, is 20%. Since 1 January 2019 profit from AO NNK-Khabarovsk Oil Refinery is subject to a 16.5% income tax rate owing to a reduced regional budget component within the income tax.

Profit from TOO Potential Oil, the Group's subsidiary in Kazakhstan, is subject to a 30% income tax rate.

Profit from Cyprus-based subsidiaries is subject to a 12.5% income tax rate.

Income tax on temporary differences from associate and joint venture is recognised at 0% based on Luxemburg and Cyprus legislation.

Income tax recognised in the consolidated statement of profit or loss:

	2019	2018
Current tax	50,306	63,460
Deferred tax	(18,328)	51,160
Total income tax expense	31,978	114,620

Income tax recorded in the consolidated statement of profit or loss differs from the theoretical amount that would have arisen when applying the tax rate to the profit before income tax according by jurisdiction and is reconciled as follows:

	2019	2018
Profit/(Loss) before income tax	12,534	(153,624)
Theoretical tax at rate 20% for Russian Federation	9,084	(28,359)
Theoretical tax at rate 16.5% for Russian Federation	1,261	-
Theoretical tax at rate 30% for Kazakhstan	4,302	12,951
Theoretical tax at other rates	(6,986)	(7,461)
Unrecognised current year tax losses and write-off of previously recognised asset on tax losses	11,004	83,220
Withholding tax on intercompany dividends	4,966	40,638
Effect of change in tax rate	1,167	(381)
Adjustments recognised in relation to the current tax of prior years	(6,529)	3,763
Non-deductible interest expense	470	5,338
Other	13,239	4,911
Total income tax expense	31,978	114,620

The recognised deferred tax asset represents income taxes recoverable through future deductions from income tax expense and is recorded in the consolidated statement of financial position. Deferred income tax assets are recognised to the extent that utilisation of the related tax benefit is probable. Taking into account recent legal and market developments management recognised allowance for deferred tax assets for unused tax losses in the amount of USD 11.0 million (2018: USD 83.2 million) (Note 32).

As at 31 December 2019, the Group unrecognised the deferred tax asset in the amount of USD 119.4 million (2018: USD 102.7 million) in relation to cumulative tax loss carry forward which has no expiry.

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13. INCOME TAX (CONTINUED)

The movement of the Group's net deferred tax asset/(liability) for the years ended 31 December 2019 and 2018 was as follows:

Year ended 31 December 2019

	1 January 2019	Recognised in profit or loss	Other	Effect of translation to presentation currency	31 December 2019
Property, plant and equipment	(200,494)	4,085	(970)	(24,367)	(221,746)
Inventories	5,574	(874)	(1,951)	365	3,114
Trade, other receivables and prepaid expenses	(1,401)	(1,265)	(64)	(271)	(3,001)
Effect of currency exchange differences on intercompany loans	37,185	(2,237)	-	5,315	40,263
Valuation of loans and borrowings	13,341	(7,446)	269	557	6,721
Trade, other payables and accrued expenses	16,105	(15,085)	1,052	1,113	3,185
Tax loss carry forward	85,556	35,879	(586)	12,030	132,879
Withholding tax	(26,671)	(422)	1,210	-	(25,883)
Other	758	5,693	(181)	293	6,563
Total	(70,047)	18,328	(1,221)	(4,965)	(57,905)
Recognised in the consolidated statement of financial position					
Deferred tax assets	66,504	5,048	1,125	8,361	81,038
Deferred tax liabilities	(136,551)	13,280	(2,346)	(13,326)	(138,943)
Net deferred tax asset/(liability)	(70,047)	18,328	(1,221)	(4,965)	(57,905)

Year ended 31 December 2018

	31 December 2017	Adjustment on initial application of IFRS 9	1 January 2018	Recognised in profit or loss	Other	Effect of translation to presentation currency	31 December 2018
Property, plant and equipment	(247,187)	-	(247,187)	1,553	3,595	41,545	(200,494)
Inventories	8,667	-	8,667	1,359	(3,595)	(857)	5,574
Trade, other receivables and prepaid expenses	(5,637)	-	(5,637)	3,822	-	414	(1,401)
Effect of currency exchange differences on intercompany loans	50,946	-	50,946	(4,374)	-	(9,387)	37,185
Valuation of loans and borrowings	12,293	1,487	13,780	1,130	-	(1,569)	13,341
Trade, other payables and accrued expenses	(1,276)	-	(1,276)	18,660	-	(1,279)	16,105
Tax loss carry forward	146,599	-	146,599	(41,878)	-	(19,165)	85,556
Withholding tax	-	-	-	(26,671)	-	-	(26,671)
Other	(186)	6,902	6,716	(4,761)	-	(1,197)	758
Total	(35,781)	8,389	(27,392)	(51,160)	-	8,505	(70,047)
Recognised in the consolidated statement of financial position							
Deferred tax assets	60,942	7,692	68,634	9,688	-	(11,818)	66,504
Deferred tax liabilities	(96,723)	697	(96,026)	(60,848)	-	20,323	(136,551)
Net deferred tax asset/(liability)	(35,781)	8,389	(27,392)	(51,160)	-	8,505	(70,047)

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13. INCOME TAX (CONTINUED)

Based on its budgets and forecasts, the Group believes the remaining amount of its deferred tax assets to be fully recoverable in the normal course of business.

As at 31 December 2019, deferred tax liabilities had not been recognised for temporary differences associated with investments in subsidiaries in the amount of US D 368.4 million (2018: USD 360.4 million) as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

14. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Oil and gas production assets	Refining assets	Marketing and other assets	Total
Cost					
As at 1 January 2019	77,528	1,714,940	1,186,248	238,521	3,217,237
Reclassifications	(7,481)	7,251	(3,365)	3,595	-
Additions	9,898	127,600	16,751	13,569	167,818
Change in estimates for provision for decommissioning (Note 28)	-	20,708	-	-	20,708
Disposals	(5,622)	(6,538)	(1,352)	(1,708)	(15,220)
Effect of translation to presentation currency	9,581	213,374	145,544	29,934	398,433
As at 31 December 2019	83,904	2,077,335	1,343,826	283,911	3,788,976
Accumulated depletion and depreciation					
As at 1 January 2019	-	(550,499)	(470,573)	(117,005)	(1,138,077)
Charge for the year	-	(86,238)	(70,561)	(15,243)	(172,042)
Disposals	-	1,907	1,070	1,028	4,005
Effect of translation to presentation currency	-	(92,099)	(60,762)	(15,097)	(167,958)
As at 31 December 2019	-	(726,929)	(600,826)	(146,317)	(1,474,072)
Accumulated impairment					
As at 1 January 2019	-	(32,294)	(15,574)	(3,148)	(51,016)
Impairment charge	-	(67,409)	-	-	(67,409)
Depletion of accumulated impairment	-	973	-	-	973
Effect of translation to presentation currency	-	(5,876)	(1,407)	(210)	(7,493)
As at 31 December 2019	-	(104,606)	(16,981)	(3,358)	(124,945)
Net book value as at 31 December 2019	83,904	1,245,800	726,019	134,236	2,189,959

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Exploration and evaluation assets	Oil and gas production assets	Refining assets	Marketing and other assets	Total
Cost					
As at 1 January 2018	87,065	1,901,928	1,411,048	278,228	3,678,269
Reclassifications	-	(465)	(463)	928	-
Additions	5,738	195,929	19,099	10,189	230,955
Change in estimates for provision for decommissioning (Note 28)	-	7,638	-	-	7,638
Disposals	-	(6,768)	(705)	(2,115)	(9,588)
Effect of translation to presentation currency	(15,275)	(383,322)	(242,731)	(48,709)	(690,037)
As at 31 December 2018	77,528	1,714,940	1,186,248	238,521	3,217,237
Accumulated depletion and depreciation					
As at 1 January 2018	-	(621,524)	(467,582)	(125,921)	(1,215,027)
Charge for the year	-	(77,838)	(92,806)	(15,534)	(186,178)
Disposals	-	1,587	403	1,219	3,209
Effect of translation to presentation currency	-	147,276	89,412	23,231	259,919
As at 31 December 2018	-	(550,499)	(470,573)	(117,005)	(1,138,077)
Accumulated impairment					
As at 1 January 2018	-	(40,186)	(19,105)	(3,795)	(63,086)
Depletion of accumulated impairment	-	1,143	-	-	1,143
Effect of translation to presentation currency	-	6,749	3,531	647	10,927
As at 31 December 2018	-	(32,294)	(15,574)	(3,148)	(51,016)
Net book value as at 31 December 2018	77,528	1,132,147	700,101	118,368	2,028,144

The cost of construction in progress included in property, plant and equipment was USD 304.5 million as at 31 December 2019 (2018: USD 254.1 million).

Borrowing costs in the total amount of USD 4.6 million were capitalised in the cost of property, plant and equipment for the year ended 31 December 2019 (2018: USD 2.9 million). The Group capitalised its borrowing costs arising on financing directly attributable to the construction of qualifying assets on a quarterly basis. In 2019 capitalisation rates ranged between 9.4% and 9.7% (2018: 8.6% – 9.1%) per annum.

Impairment of oil and gas production assets

As at 31 December 2019 and 2018, the Group's property, plant and equipment were assessed for impairment in accordance with IAS 36.

Following operational performance results and analysis of impairment indicators at each cash generating unit ("CGU") during 2019, management conducted impairment valuation reviews at AO NNK-Pechoraneft, ZAO Kolvinskoye, OAO Tatnefteotdacha, AO Saneco, OOO Vostochnaya Transnationalnaya Kompaniya, and OOO SN-Gazdobysha. For these CGUs the recoverable amounts were calculated based on the value-in-use, using discounted cash flow projections.

The recoverable amount valuations are sensitive to changes in key assumptions, particularly future Brent crude oil prices, domestic gas prices, production volumes and costs and discount rates, which are subject to a high level of estimation uncertainty. Key assumptions used by the Group in determining the value-in-use of reviewed CGUs were as follows:

- Brent crude oil price from 66.0 to 73.2 USD per bbl, based on Intercontinental Exchange crude oil price futures data 2020-2024;
- Domestic gas prices from 4,145 to 4,666 RUB per cubic metre, based on MED long-term projection;

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- Long-term inflation rate 4.0% p.a.;
- Pre-tax real discount rates for Upstream CGUs from 14.7% to 20.2%, based on the CGU's weighted average cost of capital and specific asset risk factors.

Management performed a sensitivity analysis as to whether a reasonably possible adverse change to any of the key assumptions used would lead to any impairment loss in all of impairment models for all of CGUs above with impairment indicators. No impairment losses were identified for CGUs, except for OOO SN-Gazdobycha. Impairment loss was recognised in consolidated statement of profit or loss in the amount of USD 67.4 million.

Exploration and evaluation assets

Total cash invested in exploration and evaluation of crude oil and gas for the year ended 31 December 2019 included in the consolidated statement of cash flows under «Investments in oil and gas production assets» amounted to USD 7.2 million (2018: USD 5.4 million).

As at 31 December 2019 and 2018, the Group's exploration and evaluation assets were assessed for impairment in accordance with IFRS 6. No impairment losses were identified.

15. RIGHT-OF-USE ASSETS

The Group's right-of-use assets include buildings and constructions, shipping vessels, and other assets. Movements of the right-of-use assets were as follows:

	Buildings and constructions	Shipping vessels	Other	Total assets
As at 1 January 2019	49,599	17,709	2,836	70,144
Additions	9,741	30,797	71	40,609
Disposals	(5)	-	-	(5)
Depreciation charge	(10,326)	(11,760)	(3,001)	(25,087)
Effect of translation to presentation currency	6,002	3,035	212	9,249
As at 31 December 2019	55,011	39,781	118	94,910

16. GOODWILL

All of the Group's goodwill was allocated to the Downstream segment (Note 5) and is monitored by the management on annual basis. Movements in goodwill arising from business combinations are:

	2019	2018
Balance at beginning of the year	35,655	43,003
Effect of translation to presentation currency	4,357	(7,348)
Balance at end of the year	40,012	35,655

As at 31 December 2019 and 2018, the Group tested its total goodwill for impairment. No impairment loss was identified. Major assumptions used in the impairment test are disclosed in Note 5.

17. INVENTORIES

	31 December 2019	31 December 2018
Oil products	158,581	129,044
Crude oil	40,853	29,251
Other inventories	64,341	48,158
Less: impairment of slow-moving and obsolete inventories	(12,138)	(10,221)
	251,637	196,232

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18. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Trade accounts receivable	53,192	72,056
Other accounts receivable	10,254	11,400
Less: expected credit losses	(696)	(509)
	62,750	82,947

For trade and other receivables, the Group applies the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Group monitors trade and other accounts receivable through a special committee on a monthly basis. The majority of retail and wholesale customers operate on advance payment terms. Only customers with a high reputation are supplied on a credit basis.

As at 31 December 2019 and 2018, the Group's trade accounts receivable were mainly represented by receivables for the sales of oil from international traders, reputable Russian oil companies and domestic customers, as well as receivables for sales of oil products from international and domestic companies. No interest was charged on the outstanding balances.

As at 31 December 2019 and 2018, the balances of the Group's largest customers each exceeded 10% of the outstanding balance of trade accounts receivable neither past due nor impaired:

	31 December 2019	31 December 2018
Company A	14,865	32,764
Company B	4,051	7,611
Company C	2,289	7,833
Company D	-	17,352

19. VALUE ADDED TAX RECOVERABLE AND OTHER TAXES RECEIVABLE

	31 December 2019	31 December 2018
VAT recoverable	120,381	91,188
Excise tax	21,198	-
Export and other custom duties	6,360	1,963
Other taxes receivable	488	1,313
	148,427	94,464

20. OTHER FINANCIAL ASSETS

	31 December 2019	31 December 2018
Non-current		
Loans provided to an entity under common control, including interest accrued (Note 31)	704,691	532,011
Less: expected credit losses	(49,187)	(29,837)
Other	273	252
	655,777	502,426

As a result of initial application of IFRS 9, the Group recognised directly in equity expected credit losses in respect of loans provided in the amount of USD 27.6 million, net of income tax, as at 1 January 2018.

For other financial assets, the Group applies a three-stage impairment model, based on changes in credit quality since initial recognition. As at 31 December 2019 other financial assets at amortised cost were at Stage 2 (2018: Stage 1) (Note 33).

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20. OTHER FINANCIAL ASSETS (CONTINUED)

As at 31 December 2019, other financial assets included the following:

- long-term loans provided to an entity under common control denominated in RUB, bearing interest in the range of 6.95%-14.5% per annum, maturing not earlier than 31 December 2020;
- long-term loans provided to an entity under common control denominated in USD, bearing interest of 6.89% per annum, maturing not earlier than 31 December 2020.

As at 31 December 2018, other financial assets included the following:

- long-term loans provided to an entity under common control denominated in RUB, bearing interest in the range of 8.45%-14.5% per annum;
- long-term loans provided to an entity under common control denominated in USD, bearing interest of 5.74% per annum.

All loans provided are non-collateralised.

21. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in banks:		
in RUB	36,896	19,841
in USD	13,104	10,239
in EUR	26,887	2,866
in other currencies	2	3
Cash in transit	3,676	6,437
Cash deposits:		
in RUB	47,537	34,915
in USD	27,430	55,113
in other currencies	195	2,387
Petty cash	1,098	1,131
Other	253	301
	157,078	133,233

As at 31 December 2019, cash deposits bore interest of 0.25% – 7.0% (2018: 0.01% – 7.4%) per annum.

The credit quality of the Group's cash and cash equivalents balances may be summarised based on Moody's and Standard and Poor's international ratings as follows:

	31 December 2019	31 December 2018
From Baa1/BBB+ to Baa3/BBB-	76,630	52,310
From Ba1/BB+ to B3/B-	74,725	70,429
Unrated	5,723	10,494
	157,078	133,233

22. SHARE CAPITAL AND RESERVES

As at 31 December 2019 and 2018, the authorised and issued share capital of the parent company amounted to 2,100 ordinary shares with a par value of USD 1 per share. All issued ordinary shares were fully paid. There was no movement in the share capital for the years ended 31 December 2019 and 2018.

The Group's translation reserve on intercompany loans was previously presented as a separate line item in the consolidated statement of financial position. However, management considers it to be more relevant if all translation reserves were presented in one separate line item in the consolidated statement of financial position within Reserve on translation to presentation currency, since relevant intercompany loans were repaid. Prior year comparatives as at 31 December 2018 have been reclassified in the amount of loss of USD 512.6 million, accordingly.

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23. NON-CONTROLLING INTERESTS

	Country of incorporation	Ownership held by non-controlling interests, %		Voting rights held by non-controlling interests, %		Non-controlling interests		Profit/(loss) attributable to non-controlling interests	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	2019	2018
AO Tatnefteotdacha	Russian Federation	49.23	49.23	49.23	49.23	76,349	69,045	32,747	45,675
AO Saneco	Russian Federation	49.00	49.00	49.00	49.00	23,646	24,163	9,114	18,143
TOO Potential Oil	Kazakhstan	20.36	20.36	20.36	20.36	6,176	11,744	1,805	8,030
AO NNK-Khabarovsk Oil Refinery	Russian Federation	0.61	0.61	0.31	0.31	1,822	1,218	425	(881)
PAO NNK-Khabarovsk-nefteproduct	Russian Federation	10.18	10.18	6.54	6.54	3,626	2,855	396	58
AO NNK-Primornefteproduct	Russian Federation	4.62	4.62	4.62	4.62	2,583	2,190	110	(410)
AO NNK-Pechoranefit	Russian Federation	0.99	0.99	0.07	0.07	1,091	713	276	(234)
AO NNK-Amurnefteproduct	Russian Federation	5.11	5.11	3.56	3.56	727	636	10	6
AO NNK-Kamchatnefteproduct	Russian Federation	20.67	20.67	6.60	6.60	11,638	9,783	628	91
Total						127,658	122,347	45,511	70,478

A summary of financial information (before intragroup eliminations) on the Group's largest subsidiaries with significant non-controlling interests is set out below.

AO Saneco

	31 December 2019	31 December 2018
Non-current assets	61,972	52,687
Current assets	15,545	21,982
Non-current liabilities	(14,526)	(9,975)
Current liabilities	(14,989)	(15,623)
Net assets	48,002	49,071
	2019	2018
Revenue	102,753	97,630
Profit for the year	18,592	37,070
Other comprehensive income/(loss)	6,018	(10,335)
Dividends distributed	(25,679)	(37,807)
Net (decrease)/increase in cash and cash equivalents	(9,753)	3,000

AO Tatnefteotdacha

	31 December 2019	31 December 2018
Non-current assets	167,351	135,142
Current assets	40,311	45,763
Non-current liabilities	(27,455)	(19,438)
Current liabilities	(25,158)	(21,373)
Net assets	155,049	140,094
	2019	2018
Revenue	235,991	260,266
Profit for the year	66,554	92,727
Other comprehensive income/(loss)	17,688	(29,185)
Dividends distributed	(69,287)	(83,504)
Net (decrease)/increase in cash and cash equivalents	(3,270)	7,657

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23. NON-CONTROLLING INTERESTS (CONTINUED)

TOO Potential Oil

	31 December 2019	31 December 2018
Non-current assets	22,478	46,326
Current assets	13,177	18,777
Non-current liabilities	(4,030)	(1,714)
Current liabilities	(1,296)	(7,711)
Net assets	30,329	55,677
	2019	2018
Revenue	32,836	44,098
Profit for the year	8,866	39,431
Other comprehensive loss	(26,476)	(23,983)
Dividends distributed	(7,738)	(21,384)
Transactions with shareholders	-	(111,147)
Net (decrease)/increase in cash and cash equivalents	(34,696)	11,468

24. LOANS AND BORROWINGS

			31 December 2019		
	Currency	Interest rate	Principal	Interest	Total
Bank loans denominated in RUB	RUB	7.8%-10.85%	1,035,490	2,585	1,038,075
Non-convertible interest-bearing Eurobonds	USD	7%	499,344	5,444	504,788
Non-convertible interest-bearing bonds	RUB	8.75%	124,424	814	125,238
Total loans and borrowings			1,659,258	8,843	1,668,101
Short-term and current portion of long-term loans and borrowings					1,021,536
Long-term loans and borrowings					646,565

			31 December 2018		
	Currency	Interest rate	Principal	Interest	Total
Bank loans denominated in RUB	RUB	9.25% - 13%	836,185	3,020	839,205
Non-convertible interest-bearing Eurobonds	USD	7% - 11.5%	677,279	11,750	689,029
Non-convertible interest-bearing bonds	RUB	9.75%	76,752	521	77,273
Total loans and borrowings			1,590,216	15,291	1,605,507
Short-term and current portion of long-term loans and borrowings					421,759
Long-term loans and borrowings					1,183,748

As a result of initial application of IFRS 9 as at 1 January 2018, the Group recognised directly in equity effect of non-substantial modifications of loan agreements in the amount of USD 7.2 million, net of income tax.

In December 2019, the Group received tranches in the amount of RUB 1,500 million (USD 24 million as of the transaction dates) within a credit line available until December 2022. The tranches have an interest rate of 10% and mature in June 2020.

During the 2019, AO NNK-Khabarovsk Oil Refinery, a subsidiary of the Group, partially repaid a RUB-denominated bank loan in the amount of RUB 3,955 million (USD 60.7 million).

During the 2019, the Group partially repaid RUB-denominated bank loans in the amount of RUB 1,791 million (USD 28.1 million).

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24. LOANS AND BORROWINGS (CONTINUED)

In April and May 2019, the Group received tranches in the amount of RUB 5,000 million (USD 77.5 million as of the transaction dates) within a credit line available until April 2022. The tranches have an interest rate of 7.8% and mature in March 2020.

In January-March 2019, the Group fully repaid five-year USD-denominated Eurobonds, prolonged by Alliance Oil Company Ltd in March 2015, in the total amount of USD 189.5 million, including interest accrued.

In March 2019, the Group obtained a short-term bank loan in the amount of RUB 7,000 million (USD 107.0 million as of the transaction date). The loan has a fixed interest rate of 9.5% and matures in March 2020.

In March 2019, the Group sold previously repurchased RUB-denominated bonds in the total amount of RUB 3,692 million (USD 57.5 million as of the transaction date). In December 2019, the Group partially repaid RUB-denominated bonds in the amount of RUB 880 million (USD 13.7 million as of the transaction date).

In December 2018, the Group fully repaid tranches of two long-term credit lines in the amount of RUB 11,500 million (USD 166.9 million as of the transaction dates).

In November 2018, the USD-denominated bank loan facility obtained by AO NNK-Khabarovsk Oil Refinery, was converted in RUB-denominated bank loan facility. In 2018, the loan was partially repaid in the amount of USD 52.3 million.

In March and September 2018, the Group partially repaid five-year USD-denominated Eurobonds, prolonged by Alliance Oil Company Ltd in March 2015, in the total amount of USD 89.7 million.

In 2018, non-convertible interest-bearing RUB-denominated bonds issued by AO Neftegazkholding were partially redeemed in the amount of RUB 324 million and repurchased by the subsidiary of the Group in the amount of RUB 3,384 million (USD 5.1 million and 53.7 million as of the transaction dates, respectively).

In February 2018, AO Neftegazkholding obtained a new revolving credit line in the amount of RUB 1,000 million (USD 17.5 million as of the transaction date) for Eurobonds refinancing. The credit line has an interest rate of the Central Bank of Russia key rate increased by 3 percentage points. The credit line is available till February 2020.

In February and May 2018, AO Neftegazkholding obtained a new revolving credit line in the total amount of RUB 4,000 million (USD 67.4 million as of the transaction dates). The credit line has an interest rate of the Central Bank of Russia key rate increased by 2 percentage points. The credit line was obtained for Eurobonds and bank loans refinancing and is available till February 2020.

Reconciliation of loans and borrowings principal, including both cash and non-cash changes is represented below:

	2019	2018
As at 1 January	1,590,216	2,029,625
Financing cash flows	(48,052)	(302,031)
Non-cash changes:		
Changes in amortised finance costs	1,216	(3,393)
Effect of loans and borrowings modifications, net (Note 12)	(2,219)	5,895
Effect of foreign exchange differences	-	82,573
Effect of translation to presentation currency	118,097	(222,453)
As at 31 December	1,659,258	1,590,216

Amendments to loan agreements signed in 2019 resulted in modification gain in the amount of USD 2.2 million recognised in profit or loss (2018: net modification losses of USD 5.9 million) (Note 12).

As at 31 December 2019 and 2018, the Group had borrowings with fixed rate or linked Central Bank of Russia key rate.

Total borrowings include collateralised liabilities of USD 33.3 million (2018: USD 40.1 million).

As at 31 December 2019, loans and borrowings were collateralised by:

- 100% of the Group's holding in OOO SN-Gazdobycha (2018: 100%);
- Proceeds from sale of gas in the amount of USD 4.0 million (2018: USD 6.2 million);
- Property, plant and equipment with a carrying value of USD 53.7 million (2018: USD 64.3 million).

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24. LOANS AND BORROWINGS (CONTINUED)

The maturity profile of the Group's loans and borrowings based on contractual undiscounted payments, including accrued interest is as follows:

	31 December 2019		
	Principal	Interest	Total
Within one year	1,015,520	101,922	1,117,442
Within second year	196,790	57,631	254,421
Within years three and four	449,026	70,233	519,259
Five years and more	2,524	71	2,595
	1,663,860	229,857	1,893,717

	31 December 2018		
	Principal	Interest	Total
Within one year	405,767	131,070	536,837
Within second year	644,319	85,069	729,388
Within years three and four	237,827	88,842	326,669
Five years and more	302,590	25,453	328,043
	1,590,503	330,434	1,920,937

The Group is subject to external requirements imposed on Eurobonds and loans provided by certain banks based on following ratios: total debt to adjusted EBITDA, net debt to adjusted EBITDA and adjusted EBITDA to interest expense. As at 31 December 2019, the Group was restricted from obtaining additional loans and borrowings, except for refinancing of the existing borrowings, owing to the increase in the statutory ratios. This restriction does not create breach or event of default for the Eurobonds and other loans.

25. LEASE LIABILITIES

The lease liability is discounted using discount rates ranged from 9.04% p.a. to 10.37% p.a. as at 1 January 2019 and from 8.85% p.a. to 10.37% p.a. as at 31 December 2019 based on the interest rate applicable to the Group's borrowings and depending on the lease agreement's length.

	2019
Lease liabilities as at 1 January	70,789
Additions	40,610
Interest accrued	9,296
Lease payments	(28,520)
Disposals	(37)
Effect of translation to presentation currency	6,970
Lease liabilities as at 31 December	99,108
Short-term lease liabilities	33,457
Long-term lease liabilities	65,651

The maturity analysis of the Group's lease payments is as follows:

	31 December 2019
Within one year	34,498
Within second year	31,933
Within years three and four	39,960
Five years and more	16,822
	123,213

Expenses related to land leases for exploration and production purposes and with variable component, along with short-term and low value lease expenses are recognised within profit or loss for 2019 and are not material for disclosure.

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26. ADVANCES RECEIVED AND ACCRUED EXPENSES

	31 December 2019	31 December 2018
Non-current		
Advances received	813,047	598,024
	813,047	598,024
Current		
Advances received	455,855	346,414
Accrued vacations	13,240	8,923
Wages and salaries payable	7,902	6,528
Other accrued expenses	384	295
	477,381	362,160

As at 31 December 2019, long-term advances received in the amount of USD 813.0 million (31 December 2018: USD 598.0 million) represented contract liabilities for crude oil delivery.

Contract liabilities in the amount of USD 346.4 million recognised in consolidated statement of financial position as at 31 December 2018, were recognised as revenue upon delivery of crude oil and oil products for the year ended 31 December 2019. The residual amount will be recognised until the end of 2025.

27. TRADE AND OTHER ACCOUNTS PAYABLE

	31 December 2019	31 December 2018
Trade accounts payable	48,588	42,247
Accounts payable for property, plant and equipment	37,590	65,882
Other payables	8,425	9,364
	94,603	117,493

28. PROVISION FOR DECOMMISSIONING AND SITE RESTORATION COSTS

	2019	2018
As at 1 January	39,620	34,290
New obligation raised	5,847	1,313
Utilised during the year	(11,279)	(210)
Change in estimates (Note 14)	20,708	7,638
Unwinding of the present value discount (Note 12)	3,362	3,213
Effect of translation to presentation currency	5,339	(6,624)
As at 31 December	63,597	39,620

The provision estimated by the Group was based on existing technology and current prices.

The principal assumptions used for the estimation of provision for decommissioning were as follows:

	31 December 2019	31 December 2018
Discount rates	5.61%- 6.6% p.a.	8.51%- 8.88% p.a.
Expected inflation rates in Russian Federation	3.0%-4.0% p.a.	3.8%-4.3% p.a.
Expected oil and gas fields closure dates	2021-2119	2023-2118

29. EMPLOYEES BENEFITS

	2019	2018
Remuneration to key management personnel	28,124	17,682
Remuneration to other employees	157,444	144,045
	185,568	161,727

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29. EMPLOYEES BENEFITS (CONTINUED)

For the purpose of these consolidated financial statements key management personnel included the President, directors of departments, and heads of independent units, as well as others charged with governance.

The Group's employee benefits for the years ended 31 December 2019 and 2018 were recorded in the consolidated statement of profit or loss within the «Production costs of crude oil and gas», «Production costs of oil products», «Selling expenses» and «Administrative expenses».

The Group operates unfunded defined benefit plans for qualifying the employees of its subsidiaries in the Russian Federation. The employees are entitled to flat retirement benefits payable upon actual retirement. Furthermore, recurring social benefits are available to employees and retired employees, as well as flat payments on an employee's death. No post-employment healthcare benefits are provided.

Social security charges

Social security charges, recorded within payroll and related taxes, for the year ended 31 December 2019 included contributions to the Pension Fund of the Russian Federation of USD 24.8 million (2018: USD 22.2 million).

30. OTHER TAXES PAYABLE

	31 December 2019	31 December 2018
Mineral extraction tax	60,564	20,933
VAT payable	42,140	38,923
Excise tax	25,542	15,640
Other taxes	10,341	9,803
	138,587	85,299

31. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties include shareholders, associate, joint venture, entities under common ownership and control with the Group, members of key management personnel and other related parties.

Significant balances with related parties:

	31 December 2019	31 December 2018
Entities under common control		
Loans provided including interest accrued	704,691	532,011
Less: expected credit losses	(49,187)	(29,837)
Trade and other accounts receivable	2,128	1,728
Other related parties		
Trade and other accounts receivable	4,051	7,611

All related party balances are unsecured and will be settled in cash under normal commercial credit terms. No guarantees have been given or received in relation to any related party balance.

Significant transactions with related parties:

	2019	2018
Joint venture		
Purchase of services	4,753	4,506
Entities under common control		
Interest income	51,345	51,905
Loans provided	64,262	103,460
Loans repaid	-	161,151
Other related parties		
Revenue	77,648	80,346

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31. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Transactions with shareholders with significant influence, associate, entities under common control and other related parties relate to transactions in the ordinary course of business with terms and conditions, which management believes to be similar to transactions with third parties.

Revenue from sales to related parties mainly includes sales of oil products in the domestic market. Purchase of services from related parties mainly includes management services.

Disclosure of transactions in relation to members of key management personnel is presented in Note 29.

As at 31 December 2019 and 2018, 100% of the Company's shares were pledged under the loan provided to the parent company.

32. COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group's contractual capital commitments, including value added tax, as at 31 December 2019 and 2018 amounted to USD 74.4 million and USD 131.0 million, respectively.

License commitments

The Group is subject to periodic reviews of its activities and operations by local regulatory authorities with respect to the requirements of its oil and gas licenses. Management of the Group's entities agrees with local regulatory authorities in that remedial actions necessary in order to resolve any findings resulting from these reviews. Non-compliance with the terms of a particular license could result in penalties, fines or license limitations, suspension or revocation. The Group's management believes that any non-compliance with license terms that it may have in the future will be resolved through negotiations or proposed amendments without material effect on the Group's consolidated financial positions or the operating results.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had or is expected to have, individually or in the aggregate, a material adverse impact on the Group.

However, the legal system in Russia is not fully developed and cannot be compared with legal systems in the West. It is also subject to constant changes, sometimes with a retroactive effect. This could imply negative consequences to the Group's companies.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the Russian Federation and Kazakhstan. The Group's operations involve air and water venting of detrimental impurities, which may have a potential impact on flora and fauna in the region of operations, and other environmental concerns.

Management believes that the Group's operations are in compliance with all current existing environmental laws and regulations. However, environmental laws and regulations of the Russian Federation and Kazakhstan continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

In accordance with the terms of various laws and extracting licenses upon completion of the oil and gas field exploitation the Group is liable to perform decommissioning and site restoration of the oil fields. The estimated cost of known environmental obligations has been recorded in the consolidated financial statements (Note 28). Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements, the terms of license agreements and the size and nature of the oil and gas fields under the licenses. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

32. COMMITMENTS AND CONTINGENCIES (CONTINUED)**The Russian Federation's economic and political environment**

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2019 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Tax contingencies

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by the tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities with respect to taxes for three calendar years preceding the year when a decision about a review was taken. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to controlled transactions (i.e., transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls in order to be in compliance with the new transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The Group's tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, as they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently. However, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. Management has assessed the Group's tax positions and reached the conclusion that neither additional current tax expense nor deferred taxes should be recognised in the consolidated financial statements as the result of the changes in legislation.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce its overall tax rate. While management currently assumes that the tax positions and interpretations that it has taken will be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or overall operations of the Group.

ALLIANCE OIL COMPANY LTD

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33. RISK MANAGEMENT

Capital risk management

The Group's objective for managing capital is to deliver competitive, secure and sustainable returns in order to maximise long-term shareholders value and reduce the cost of capital maintenance.

The Group monitors its capital structure on the basis of the total debt to equity ratio. Total debt comprises non-current and current loans and borrowings and lease liabilities as shown in the consolidated statement of financial position. The Group's equity comprises share capital, additional paid-in capital, a reserve on translation to presentation currency, retained earnings and non-controlling interests.

In addition, the management of the Group reviews the following ratios on a quarterly basis: net debt³, total debt to adjusted EBITDA⁴, net debt to adjusted EBITDA, and adjusted EBITDA to interest expense.

	31 December 2019	31 December 2018
Total debt	1,767,209	1,605,507
Equity	261,272	260,173
Net debt	1,610,131	1,472,274
Total debt to adjusted EBITDA	5.20	4.46
Net debt to adjusted EBITDA	4.74	4.09
Adjusted EBITDA to interest expense	1.48	1.77

Major categories of financial assets and financial liabilities are presented below:

	31 December 2019	31 December 2018
Financial assets measured at amortised cost:		
Other financial assets	655,617	502,244
Trade and other accounts receivable	62,750	82,947
Cash and cash equivalents	157,078	133,233
	875,445	718,424
Financial liabilities measured at amortised cost:		
Loans and borrowings	1,668,101	1,605,507
Lease liabilities	99,108	-
Trade and other accounts payable	94,603	117,493
	1,861,812	1,723,000

Foreign currency risk

Currency risk is the risk that the Group's financial results will be adversely impacted by changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. Furthermore, the Group has a substantial exposure to currency risk as the significant part of its revenues are denominated in USD. However, the significant part of the Group's liabilities are also USD denominated, allowing it to partially offset the associated currency risk. The Group has minimal currency risk exposure in regards to its assets and operational costs as they are mostly RUB denominated.

The Group's exposure to the risk of changes in exchange rates primarily relates to the Group's advances received denominated in USD.

³ Net debt represents total debt less cash and cash equivalents

⁴ Reconciliation of adjusted EBITDA is represented in Note 6

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33. RISK MANAGEMENT (CONTINUED)

The outstanding balances of the Group's monetary assets and liabilities denominated in USD at the end of the reporting period were as follows:

	31 December 2019	31 December 2018
Assets		
Other financial assets	144,576	136,623
Trade and other accounts receivable	35,431	52,565
Cash and cash equivalents	40,480	62,848
	220,487	252,036
Liabilities		
Loans and borrowings	155,436	197,267
Trade and other accounts payable	6,071	48,811
Advances received and accrued expenses	998,024	799,569
	1,159,531	1,045,647
Total net position	(939,044)	(793,611)

The following table details the Group's sensitivity of the consolidated profit or loss to a 10% increase and decrease in the RUB against USD. The 10% rate represents management's assessment of a reasonably possible change in foreign exchange rates during the 12 months after the year's end. The positive number below indicates an increase in profit or equity, whereby the RUB strengthens by 10% against USD. For a 10% weakening of the RUB against USD, there would be a comparable impact on the profit or loss and equity. Thus, the balances below would be negative.

	2019	2018
Profit or loss/Equity	93,904	79,361

The Group has certain subsidiaries with the functional currency different from the RUB. Thus, foreign currency risk arises on inter-company loans denominated in RUB. These are not considered to give rise to any material currency risk.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, thus leading to financial losses. The Group's credit risk arises from cash and cash equivalents, trade and other accounts receivables and other financial assets.

The maximum exposure to credit risk equals to the carrying value of these instruments in the amount of USD 875.6 million as at 31 December 2019 (2018: USD 718.6 million). The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. The Group takes into account all available quantitative and qualitative information and its own trading records in order to mitigate the risk of financial loss from defaults.

A summary of risk management policies relating to trade and other receivables are described in the Note 18.

Credit risk on cash, cash equivalents and investments in deposits is limited, as the counterparties are highly rated banks or banks approved by the Group's management (Note 21), deposits in which are placed only within approved limits.

The Group is exposed to credit risk in relation to its investments in loans (Note 20). The Group issues loans to counterparties approved by management within the established limits or to companies under common control, thus ensuring loans recoverability. A counterparties' business activities, financial resources and business risk management processes are taken into account when assessing a credit risk.

The Group applies a three-stage credit-risk assessment approach for loans provided at each reporting date:

- Stage 1 - Credit risk has not increased significantly since initial recognition;
- Stage 2 - Credit risk has increased significantly since initial recognition; and
- Stage 3 - Financial asset is credit impaired.

33. RISK MANAGEMENT (CONTINUED)

As at 31 December 2019, the Group provided significant loans to an entity under common control engaged in oil and gas exploration and production business. The Group considers the entity to have a positive financial outlook based on expected future cash inflows from realisation of the project. This expectation is based on estimates of oil and gas resources estimated with involvement of an internationally recognised reserve engineer firm, DeGolyer and MacNaughton.

As at 31 December 2019 loans provided to an entity under common control were at Stage 2 (2018: Stage 1). Increase in expected credit losses for loans issued recognised in the period is impacted by transfers between Stage 1 and 2 due to balances experiencing significant increases of credit risk in the period, and the consequent «step up» between 12-month and lifetime ECL.

There were no guarantees given to secure financing of third parties as at 31 December 2019 and 2018.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed.

The Group's net cash flow position is monitored on a daily basis by its central treasury function with weekly cash movements and cash balances being reported to management. A significant portion of crude oil and oil products sales contracts is executed on an advanced basis. The Group also employs a strict policy for collecting doubtful debts and monitoring trade debtors. Furthermore, the Group prepares detailed budgets and forecasts and reviews the global and domestic oil price environment on a monthly basis in order to optimise crude oil sales, supply routes, oil product mix and refinery volumes. Management is now focused on matching the maturity profiles of financial assets and liabilities, as well as reducing short-term debt through repayment of existing short-term loans.

As at 31 December 2019, the Group's current liabilities exceeded its current assets by USD 1067.6 million (2018: by USD 410.6 million). Management believes that it is taking all necessary actions to allow the Group to meet its current obligations as they fall due.

The Group's ability to refinance its short-term loans and borrowings depends on a number of factors both within and outside of management's control. Management recognises that the uncertainty regarding successful refinancing of the Group's short-term loans and borrowings represent a material uncertainty which may cast significant doubt upon the Group's ability to continue as a going concern and therefore the Group may be unable to continue to realise assets and discharge liabilities in the normal course of business (Note 2).

As the Group has a positive credit history, does not miss loan payment dates, and works with large credit organisations, including those controlled by the government, and considering uncertainties described above, management has a reasonable expectation that the Group will have adequate financial resources to continue operational existence for the foreseeable future and therefore, continue to adopt the going concern basis of accounting. The Group has introduced a control system over the signing contracts using standard financial procedures, including standards on payment structures, payment days, ratios between advances and last payments. Also monitoring of current assets and current liabilities is performed on a regularly basis.

Maturity analysis for loans and borrowings and lease liabilities is disclosed in Note 24 and Note 25, respectively. All other financial liabilities will be settled during 2020.

Fair value of financial instruments

Fair value is the amount at which a financial instrument may be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values for financial instruments have been determined by the Group using available market information, wherever it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data in order to determine the estimated fair value. Management has used all available market information in estimating the fair value of the Group's financial instruments.

The different levels in fair value have been defined as follows:

33. RISK MANAGEMENT (CONTINUED)

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial assets carried at amortised cost

The carrying amounts of trade and other receivables approximate their fair values. Their fair values are within Level 3 of the fair value hierarchy.

The carrying amounts of cash and cash equivalents and bank deposits approximate their fair value.

Liabilities carried at amortised cost

The estimated fair values of loans and borrowings bearing a fixed interest rate (Level 3 in the fair value measurement hierarchy) with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The discount rates used ranged from 7.99% p.a. to 10.32% p.a. (2018: 6.22% p.a. to 12.83% p.a.) depending on the length and currency of the liability. The fair values of loans and borrowings bearing a fixed interest rate as at 31 December 2019 exceeded their carrying values by USD 50.8 million (2018: by USD 27.4 million).

The carrying amounts of trade and other payables approximate their fair value. Their fair values are within Level 3 of the fair value hierarchy.

34. SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Delisting from the Specially Designated Nationals and Blocked Persons list

On 2 March 2020 the US Treasury Department's Office of Foreign Assets Control (OFAC) excluded AO Nezavisimaya Neftegazovaya Kompaniya and AO NNK-Primornefteproduct, subsidiaries of the Group, from the list of Specially Designated Nationals and Blocked Persons (the SDN list). Earlier, on 1 June 2017 AO Nezavisimaya Neftegazovaya Kompaniya and AO NNK-Primornefteproduct were included in the SDN list under Executive Order 13722 of 16 March 2016 by President of the United States Blocking Property of the Government of North Korea and the Workers' Party of Korea, and Prohibiting Certain Transactions With Respect to North Korea. In its decision, OFAC recognised the effectiveness of actions taken by the companies to ensure their non-participation in activities that may violate the restrictions, prohibitions and sanctions against North Korea.

Coronavirus pandemic

Since the end of 2019, the spread of a new coronavirus, called COVID-19, which can cause serious consequences leading to human death, has begun. At the end of 2019, the World Health Organization reported a limited number of cases of COVID-19 infection, but on January 31, 2020 declared a public health emergency of international concern, and on March 13, 2020, announced a pandemic due to the rapid spread of COVID-19 in Europe and other regions. The measures taken around the world to combat the spread of COVID-19 result in limitation of business activity globally, which affects the demand for energy resources and other products of the Group, as well as the need for protective measures aimed at preventing the spread of infection both by the Group and its clients. In addition, in March 2020, no agreement was reached on the OPEC+ limitation of crude oil production and the existing arrangement expires on April 1, 2020. Until a new agreement is reached, there is a possibility of an increase in the supply of crude oil and refined products in the market from producing countries. Against the backdrop of these events, there has been a significant drop in stock markets, commodity prices fell, in particular, crude oil prices declined significantly, the RUB weakened against the USD and the EUR, and the lending rates for many companies in the emerging markets increased. While this is still an evolving situation at the time of issuing these consolidated financial statements, it appears that the impact on the global economy and uncertainty regarding further economic growth may negatively affect the financial position and financial results of the Group in the future.

34. SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD (CONTINUED)

At same time, the Group expects that negative dynamics in oil prices will be partially off-set by RUB depreciation, as export sales are primarily linked to international benchmark prices quoted in USD or EUR, while operating expenses are largely denominated in RUB. Beside a decrease in the oil price leads to a decrease in production costs of oil products as expenses relating to purchase of crude oil for refining are the largest cost item. At the same times oil products prices will also decrease both on local and export markets putting the Group's revenues under pressure.

Management is closely monitoring the situation and implements measures to reduce the negative impact of these events on the Group, while the excess of supply over demand and the associated decrease in world oil and oil products prices will directly affect the revenues of the Group and other financial results if prices do not recover within the near term which depends on the ability of world economies to recover. Management considers the reduction in oil demand due to the outbreak of COVID-19 coronavirus infection to be a non-adjusting event after the reporting period.

Eurobonds restructuring

In April 2020, the Group requested consents from holders of Eurobonds for restructuring on the following key terms:

- extension of the maturity by 3 years until 4 May 2023;
- coupon increase from 7% to 7.5%-9% (depending on the period);
- buyback of the 20% of Eurobonds (at the face value) of the entire issue from the owners who voted in favour of the restructuring on a pro rata basis;
- Eurobonds will be redeemed in instalments on 4 May 2021, 4 November 2021, 4 May 2022, 4 November 2022 and 4 May 2023 (20% amortisation from face value on each date).

The results are to be determined and announced on or about 4 May 2020.