PJSC “RussNeft”

Consolidated Financial Statements

for the year ended 31 December 2020
with independent auditor’s report

PJSC “RussNeft”

Consolidated Financial Statements

for the year ended 31 December 2020

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827
ОГРН: 1027739707203
ИНН: 7709383532

Independent auditor's report

To the Shareholders of PJSC "RussNeft"

Opinion

We have audited the consolidated financial statements of PJSC "RussNeft" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year 2020 in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty regarding going concern

We draw attention to Note 31 to the consolidated financial statements which indicates that as at 31 December 2020, the Group's short-term liabilities exceeded its current assets by RUB 46,586 million. According to Note 31 to the consolidated financial statements, this condition, along with other disclosed circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. We do not express a modified opinion in respect of this matter.

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. In addition to the matter described in the *Material uncertainty regarding going concern* section, we describe below other matters determined as key audit matters to be included in our report. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Determination of the fair value of derivative financial instruments	
In the course of our audit, we treated this matter as one of the most significant matters due to the significance of the respective transactions for the consolidated financial statements, as well as due to the fact that the fair valuation of derivative financial instruments requires management to make significant judgments with respect to projected oil prices and exchange rates. Information on the fair value of derivative financial instruments is disclosed in Note 29 to the consolidated financial statements.	We performed procedures to assess the competence of the Group's expert engaged to determine the fair value of derivative financial instruments. Our audit procedures also included the review of the methodology and the assessment of the assumptions with respect to projected oil prices and exchange rates used by the expert, including with the engagement of our experts in this area. We also reviewed the respective disclosures in the consolidated financial statements.
Allowance for expected credit losses on loans issued to related parties	
The calculation of the allowance for expected credit losses on loans issued to related parties is an area of judgment for the Group's management. The determination of the expected credit losses represents a process involving the use of assumptions and the analysis of various factors, including the borrower's financial position and expected future cash flows. Due to the significance of loans issued to related parties and the complexity of judgment with regard to measurement of expected credit losses in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), the estimation of allowance for expected credit losses represents one of the key audit matters. Information on loans issued to related parties is disclosed in Note 28 to the consolidated financial statements.	We reviewed the expected credit losses model on loans issued to related parties and analyzed the assumptions used by management of the Group as the basis for determining the amount of the allowance for expected credit losses. We reviewed forecasts of future cash flows and assessment of the borrower's financial position and credit rating. We also considered the relationships between the related parties, to which the loans were issued. During our audit procedures, we analyzed the consistency and reasonableness of judgments used by management of the Group in determining the allowance for expected credit losses on loans issued to related parties. We also reviewed the disclosure of the allowance for expected credit losses in the Group's consolidated financial statements.

Other information included in the 2020 Annual Report of PJSC "RussNeft"

Other information consists of the information included in the 2020 Annual Report of PJSC "RussNeft", other than the consolidated financial statements and our auditor's report thereon. Management is responsible for other information. The 2020 Annual Report of PJSC "RussNeft" is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information, and we willnot express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibility of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the 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 its operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibility 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 skepticism 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 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 audit of the Group. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with it all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Совершенствуя бизнес,
улучшаем мир

From the matters communicated with the Audit Committee, 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 partner in charge of the audit resulting in this independent auditor's report is I.A. Buyan.

I.A. Buyan
Partner
Ernst & Young LLC

25 March 2021

Details of the audited entity

Name: PJSC "RussNeft"
Record made in the State Register of Legal Entities on 17 September 2002; State Registration Number 1027717003467.
Address: Russia 115054, Moscow, Pyatnitskaya street, 69.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

PJSC "RussNeft"

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2020

(in millions of Russian rubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Revenue	10	133,196	187,127
Cost of sales	11	(106,504)	(134,690)
Gross profit		**26,692**	**52,437**
Exploration expenses		(882)	(543)
Selling expenses	12	(10,174)	(10,217)
General and administrative expenses	12	(5,125)	(4,466)
Other operating expenses, net	14	(30,372)	(2,588)
Operating (loss)/profit		**(19,861)**	**34,623**
Finance income	13	4,080	3,366
Finance expense	13	(9,347)	(9,254)
Foreign exchange differences, net		4,830	431
(Loss)/Profit before tax		**(20,298)**	**29,166**
Income tax expense	27	(1,002)	(7,312)
(Loss)/Profit for the period		**(21,300)**	**21,854**
Other comprehensive (loss)/income that may be subsequently reclassified to profit or loss			
Foreign currency translation (loss)/gain		(1,673)	447
Total comprehensive (loss)/income, net of tax		**(22,973)**	**22,301**
(Loss)/Profit attributable to:			
Shareholders of the Parent		(16,955)	24,364
Non-controlling interests		(4,345)	(2,510)
Total comprehensive (loss)/income attributable to:			
Shareholders of the Parent		(21,029)	26,615
Non-controlling interests		(1,944)	(4,314)
Basic and diluted (loss)/earnings per share (RUB)	23	(73)	83
Weighted average number of common shares (millions)		294	294

E.V. Tolochek
President

O.E. Prozorovskaya
Senior Vice President
for Economics and Finance

Authorized for issue on 25 March 2021.

PJSC “RussNeft”

Consolidated Statement of Financial Position

as at 31 December 2020

(in millions of Russian rubles)

	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	15	146,191	150,931
Right-of-use assets	16	689	1,241
Exploration and evaluation assets	18	1,329	1,332
Goodwill	17	11,812	13,468
Other long-term financial assets	19	78,093	65,799
Deferred tax assets	27	10,855	10,633
Other non-current assets		1,256	1,941
Total non-current assets		**250,225**	**245,345**
Current assets			
Inventories	20	5,741	7,214
Trade and other receivables	21	5,572	7,996
Other short-term financial assets	19	1,230	13,453
VAT receivable		569	1,089
Income tax receivable		56	243
Cash and cash equivalents	22	4,231	2,929
Prepayments and other current assets	21	7,671	1,996
Total current assets		**25,070**	**34,920**
Total assets		**275,295**	**280,265**
Equity and liabilities			
Equity attributable to Shareholders of the Parent			
Share capital	23	196	196
Share premium		60,289	60,289
Forward to purchase treasury shares	23	(21,123)	(21,123)
Foreign currency translation reserve		(2,990)	1,084
Retained earnings		16	21,672
Total equity attributable to Shareholders of the Parent		**36,388**	**62,118**
Non-controlling interests	8	12,615	14,451
Total equity		**49,003**	**76,569**
Long-term liabilities			
Long-term loans and borrowings	24	86,897	73,199
Decommissioning liability	25	14,301	15,831
Deferred tax liabilities	27	6,798	7,205
Long-term lease liabilities		272	872
Long-term financial and other liabilities	26	46,368	45,565
Total long-term liabilities		**154,636**	**142,672**
Short-term liabilities			
Short-term loans and borrowings	24	6,906	5,812
Trade and other payables and accrued liabilities	26	10,469	19,362
Taxes and levies payable (excluding income tax)	26	12,419	9,897
Short-term lease liabilities		550	406
Income tax payable		78	47
Advances received and other short-term liabilities	26	41,234	25,500
Total short-term liabilities		**71,656**	**61,024**
Total liabilities and equity		**275,295**	**280,265**

PJSC “RussNeft”

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

(in millions of Russian rubles)

	Notes	Equity attributable to Shareholders of the Parent							
	Notes	Share capital	Share premium	Forward to purchase treasury shares	Foreign currency translation reserve	Retained earnings / (Accumulated loss)	Total equity of PJSC “RussNeft”	Non-controlling interests	Total equity
31 December 2018		**196**	**60,289**	**–**	**(1,167)**	**50**	**59,368**	**18,560**	**77,928**
Profit/(Loss) for the period		–	–	–	–	24,364	24,364	(2,510)	21,854
Foreign currency translation reserve		–	–	–	2,251	–	2,251	(1,804)	447
Total comprehensive income/(loss) for the period		**–**	**–**	**–**	**2,251**	**24,364**	**26,615**	**(4,314)**	**22,301**
Dividends		–	–	–	–	(2,536)	(2,536)	(4)	(2,540)
Non-controlling interests in shareholders’ contribution to subsidiaries’ equity		–	–	–	–	(209)	(209)	209	–
Preference shares		–	–	(21,123)	–	–	(21,123)	–	(21,123)
Other equity transactions		–	–	–	–	3	3	–	3
31 December 2019		**196**	**60,289**	**(21,123)**	**1,084**	**21,672**	**62,118**	**14,451**	**76,569**
Loss for the period		–	–	–	–	(16,955)	(16,955)	(4,345)	(21,300)
Foreign currency translation reserve		–	–	–	(4,074)	–	(4,074)	2,401	(1,673)
Total comprehensive loss for the period		**–**	**–**	**–**	**(4,074)**	**(16,955)**	**(21,029)**	**(1,944)**	**(22,973)**
Dividends	7, 23	–	–	–	–	(4,581)	(4,581)	(4)	(4,585)
Dividends refund		–	–	–	–	–	–	1	1
Non-controlling interests in shareholders’ contribution to subsidiaries’ equity		–	–	–	–	(129)	(129)	129	–
Changes in non-controlling interests in subsidiaries due to purchase of treasury shares by subsidiaries		–	–	–	–	–	–	(7)	(7)
Other equity transactions		–	–	–	–	9	9	(11)	(2)
31 December 2020		**196**	**60,289**	**(21,123)**	**(2,990)**	**16**	**36,388**	**12,615**	**49,003**

PJSC "RussNeft"

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

(in millions of Russian rubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows − operating activities			
(Loss)/Profit before tax		**(20,298)**	**29,166**
Adjustments to reconcile (loss)/profit before income tax to net cash flows			
Depreciation, depletion and amortization	11	14,864	14,544
Loss on disposal of property, plant and equipment	14	55	121
Impairment of financial investments	14	26,246	169
Derivative financial instruments at fair value and exercise of options, net	14	943	640
Financial guarantee		78	179
Consideration related to financial instruments	14	(1,287)	(144)
Impairment of property, plant and equipment	14	3,062	112
Impairment of goodwill		1,659	−
Benefit obligations, allowances for expected credit losses and other provisions		896	136
Disposal of subsidiaries and other securities	14	−	(266)
Derecognition of provisions	14	1	3
Finance income	13	(4,080)	(3,366)
Finance expense	13	9,347	9,254
Foreign exchange differences, net		(4,830)	(431)
Other adjustments		(65)	64
Net operating cash flows before working capital changes		**26,591**	**50,181**
Working capital adjustments			
Decrease in inventories		1,454	556
Increase in trade and other receivables and prepayments		(2,655)	(2,923)
Increase in trade and other payables and advances received		10,607	18,275
Decrease/(Increase) in other current assets		7	(2)
Interest paid		(2,137)	(1,817)
Income tax paid		(1,849)	(4,393)
Net cash − operating activities		**32,018**	**59,877**
Cash flows − investing activities			
Purchase of property, plant and equipment and other non-current assets		(15,667)	(21,921)
Proceeds from disposal of property, plant and equipment		53	49
Acquisition of exploration and evaluation assets		−	(1,288)
Acquisition of subsidiaries		−	(1)
Proceeds from disposal of subsidiaries and other securities		−	112
Loans issued	19	(6,924)	(15,708)
Proceeds from loans issued	19	657	236
Interest received		389	138
Net cash − investing activities		**(21,492)**	**(38,383)**
Cash flows − financing activities			
Acquisition of non-controlling interests and purchase of treasury shares of subsidiaries		(7)	−
Proceeds from loans and borrowings received		−	2,171
Repayment of loans and borrowings received	24	(656)	(11,709)
Repayment of lease liabilities		(571)	(557)
Interest paid	24	(5,345)	(6,116)
Dividends paid to Shareholders of the Parent	23	(4,622)	(2,525)
Dividends paid to non-controlling shareholders	7	(3)	(3)
Exercise of options, net	29	454	(2,357)
Proceeds from derivative financial instruments		1,287	−
Settlements under derivative financial instruments		(761)	−
Net cash − financing activities		**(10,224)**	**(21,096)**
Effect of foreign exchange rate changes on balances of cash and cash equivalents		1,000	(366)
Change in cash and cash equivalents		**1,302**	**32**
Cash and cash equivalents at the beginning of the period		2,929	2,897
Cash and cash equivalents at the end of the period		**4,231**	**2,929**

1. Corporate information

The consolidated financial statements of Public Joint Stock Company “RussNeft” (the “Parent”, the “Company” or “PJSC “RussNeft”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 were authorized for issue in accordance with a resolution of management on 25 March 2021.

The Group comprises joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation. In addition, the Group includes limited liability companies registered in the Republic of Azerbaijan, the United Kingdom of Great Britain and Northern Ireland, the Republic of Cyprus, the Islamic Republic of Mauritania, the British Virgin Islands and the Cayman Islands.

The principal activities of the Group are prospecting, exploration, development, production and marketing of oil, gas and oil products. Principal subsidiaries included in the consolidated financial statements and respective ownership interests of the Company as at 31 December 2020 and 2019 are presented in Note 7.

The Parent was incorporated on 17 September 2002. In November 2016, the Parent made a public placement of common shares on the Moscow Exchange.

As at 31 December 2020, the person who is able to control the actions of the Company is Mikhail Safarbekovich Gutseriev.

The average number of employees of the Group’s companies as at 31 December 2020 was 8,594 people (2019: 9,148 people).

The Parent is located at 69 Pyatnitskaya Street, Moscow, Russian Federation, tel.: +7 (495) 411-63-09, e-mail: russneft@russneft.ru, www.russneft.ru.

2. Basis of preparation

Statement of compliance

The consolidated financial statements of the Group for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Any differences between comparative amounts and amounts recorded in the consolidated financial statements for the year ended 31 December 2020 represent only the result of reclassification for comparative purposes.

2. Basis of preparation (continued)

Basis of accounting

The Group's companies, incorporated in the Russian Federation, maintain their accounting records in Russian rubles ("RUB") and prepare their financial statements in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation of information in accordance with IFRS. Management believes that these consolidated financial statements reflect all significant adjustments required to present fairly the Group's financial position, performance results, statements of changes in equity and statements of cash flows for the reporting and comparable periods. The principal adjustments relate to the consolidation of subsidiaries, changes in non-controlling interests, goodwill recognition, accounting for jointly controlled transactions and investments in associates, expense and revenue recognition, valuation allowances for unrecoverable assets, depreciation and valuation of property, plant and equipment, use of fair values, impairment of assets, foreign currency translation, financial instruments, deferred tax, right-of-use assets and decommissioning liability.

Basis of measurement

These consolidated financial statements are prepared on a historical cost basis, except as disclosed in Note "Summary of significant accounting policies" below.

The consolidated financial statements are presented in Russian rubles, and all values are rounded to the nearest million ("RUB million"), unless otherwise indicated.

Functional currency and foreign currency translation

The financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The functional currency of the Group's subsidiaries operating in Russia, the Parent and foreign subsidiaries of the Group incorporated due to the extension of the Parent's operations is the Russian ruble. The functional currency of other foreign subsidiaries is the US dollar.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate set by the Central Bank of Russia (the "CBR") at the reporting date. All resulting exchange differences are included in the consolidated statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured at historical cost and denominated in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

2. Basis of preparation (continued)

Functional currency and foreign currency translation (continued)

At the reporting date, assets and liabilities (including related goodwill) of non-RUB functional currency subsidiaries, joint ventures and associates are translated in the consolidated financial statements into the presentation currency of the Group using the rate of exchange effective at the reporting date. The performance results and cash flows of non-RUB functional currency subsidiaries, joint ventures and associates are translated into Russian rubles using the average rates of exchange for the reporting period; in case of significant exchange rate fluctuations, certain significant transactions are translated at the exchange rate ruling at the date of the transaction. The exchange differences arising on such translation are recorded as a separate equity component. On disposal of a company whose functional currency is different from the presentation currency, the deferred cumulative amount of the foreign currency translation reserve recorded within equity and related to that particular company is recognized in the consolidated statement of profit or loss and other comprehensive income.

In the Russian Federation, official exchange rates are set daily by the CBR. As at 31 December 2020 and 31 December 2019, the exchange rates used for the translation of USD-denominated transactions and balances were equal to the official CBR exchange rate of RUB 73.8757 and RUB 61.9057 per one US dollar, respectively. As at 25 March 2021, the official exchange rate was RUB 76.1535 per one US dollar.

Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the sale of assets and the settlement of any liabilities (including contractual) in the normal course of business. This statement was made based on the assessment of Group's ability to continue as a going concern for at least twelve months after the end of the reporting period and management of the Group considers the facts described in Note 31 *Liquidity risk*.

Basis of consolidation

Subsidiaries

Subsidiaries are the companies controlled by the Parent. Control is achieved when the Group 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. The Group has control over the investee when the following conditions are met:

- The Group has the power over the investee;
- The Group is exposed to, or has rights, to variable returns from its involvement with the investee;
- The Group has the ability to use its authority over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All intercompany transactions, balances and unrealized gains on transactions between the Group entities are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2. Basis of preparation (continued)

Basis of consolidation (continued)

A change in the ownership interest without a loss of control is accounted for as an equity transaction.

In case of a loss of control over a subsidiary, the Group:

- Derecognizes the assets and liabilities of the subsidiary, including goodwill;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative foreign currency translation recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes profit or loss due to a loss of control related to the controlling interest of the disposed subsidiary in the consolidated statement of profit or loss and other comprehensive income;
- Reclassifies the Parent’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings in accordance with IFRS requirements.

Non-controlling interests stand for the equity in subsidiaries not attributable, directly or indirectly, to the Parent. Non-controlling interests are presented in the consolidated statement of financial position of the Group within equity, separately from the Parent’s Shareholders’ equity. Profit or loss, as well as every component within comprehensive income, are attributable to Shareholders of the Parent and non-controlling interests even if that results in a deficit balance of non-controlling interests.

Joint arrangements and joint venture

Joint arrangements stand for arrangements jointly controlled by two or more parties under contractual agreements. Joint arrangements can take the form of either a joint operation or a joint venture.

Joint venture is an agreement of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Generally, joint ventures are established in form of a legal entity where the Group and other participants have respective equity interests.

Joint control is contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation implies that the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. According to its interest in a joint operation, the Group recognizes its assets and share in joint obligations as well as in revenue from the sales of goods and expenses, including the share in joint expenses.

Associates

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not to control or jointly control it.

When deciding whether significant influence or joint control exists, the Group considers the same factors used to evidence the existence of control in subsidiaries.

2. Basis of preparation (continued)

Basis of consolidation (continued)

The Group accounts for investments in joint ventures and associates using the equity method. Under the equity method the investments in associates or joint ventures are initially recognized at cost. The carrying amount of investment is adjusted in subsequent periods for the post-acquisition changes in the Group’s share of the net assets of associates or joint ventures. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment; the entire carrying amount is tested for impairment where there is the evidence of impairment of an investment.

The consolidated statement of profit or loss and other comprehensive income reflects the Group’s share in the results of the associate or joint venture. Changes in other comprehensive income of such investees are recognized in other comprehensive income of the Group. Besides, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The Group’s share of profits or losses of the associate and joint venture is shown directly in the consolidated statement of profit or loss and other comprehensive income separately from the operating income of the Group. It is represented by profits or losses after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group’s financial statements. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group’s investment in the associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of an associate or joint venture and its carrying amount and recognizes the amount in the consolidated statement of profit or loss and other comprehensive income in line “Share in income/(loss) of associates and joint ventures”.

If the significant influence on the associate or joint venture is lost, the Group assesses and recognizes the investments retained at fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Changes in accounting policies

The adopted accounting policies are consistent with those of the previous annual reporting period, except for the adoption of new standards and interpretations effective as at 1 January 2020. In case of significant impact on the financial position and performance, the Group separately discloses effect of their adoption. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The amendments to the standards listed below effective from 1 January 2020 had no material effect on these consolidated financial statements of the Group:

- Amendments to IFRS 3: *Definition of a Business* clarify that, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. It also clarified that a business can exist without including all of the inputs and processes needed to create outputs.

- Amendments to IFRS 9, IFRS 7 and IAS 39: *Interest Rate Benchmark Reform* include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to IAS 1 and IAS 8: *Definition of Material* suggest a new definition which states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. Materiality depends on the nature and/or magnitude of information in the context of the financial statements taken as a whole. A misstatement of information is material if it could reasonably be expected to influence decisions made by key users of the financial statements.

- *Conceptual Framework for Financial Reporting* issued on 29 March 2018: the revised *Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The *Conceptual Framework* will affect the entities that develop their accounting policies based on the provisions of the *Conceptual Framework*.

- Amendments to IFRS 16: *COVID-19-Related Rent Concessions* (these amendments were published by IASB on 28 May 2020, and became effective for annual periods beginning on or after 1 June 2020): as a practical expedient, the lessee may elect not to assess whether a rent concession granted by the lessor in relation to the COVID-19 pandemic is a lease modification. A lessee choosing this option is required to account for any change in rent payments arising from rent concessions on the same basis as it would have been accounted for under IFRS 16, had it not been a lease modification. The Group applied the above amendments to some of its leases, and their impact is not significant.

3. Significant accounting judgments, estimates and assumptions

Judgments

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described in the following notes:

Note 9 – Investments in associates and joint ventures;

Note 15 − Property, plant and equipment;

Note 16 − Right-of-use assets and lease liabilities;

Note 17 − Goodwill;

Note 18 − Exploration and evaluation assets;

Note 19 − Other non-current and current financial assets;

Note 20 − Inventories;

Note 21 − Trade and other receivables, prepayments and other current assets;

Note 24 − Loans and borrowings;

Note 25 – Decommissioning liability;

Note 26 − Long-term financial and other liabilities, trade and other payables and accrued liabilities;

Note 27 – Income tax;

Note 29 – Fair value measurement;

Note 30 – Contingencies, commitments and operating risks;

Note 31 − Financial risk management.

In the process of applying the Group’s accounting policies, management has made the following judgments, based on the professional experience, that have the most significant effect on the amounts recognized in the consolidated financial statements.

Reserves base

Oil and gas development and production properties are depreciated on a unit-of-production basis at a rate calculated by reference to total proved or proved developed reserves determined in accordance with the standards set by the Society of Petroleum Engineers (SPE standards for estimating reserves) and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery rates and expected oil prices. Future development costs are estimated using assumptions as to production facilities required to extract commercial reserves and their costs. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying amount of any of the Group’s non-current assets, including goodwill, has been impaired. Revaluation according to new data is possible during the process of field development. The Group’s oil and gas reserves were evaluated by Miller and Lents, Ltd. in accordance with the standards of the Society of Petroleum Engineers as at 31 December 2019 on a fixed price basis (SPE-PRMS standard) using price and cost information provided by the “Exploration and Production” segment’s companies and current Russian tax laws. Reserves were measured both within the term of license agreements and beyond – to the point in time when the threshold of economically viable extraction is achieved. To evaluate oil and gas reserves as at 31 December 2020, the Group used the data presented in the 2019 report of Miller and Lents, Ltd. with additional adjustments to the development period and to the amount of proved developed reserves and total proved reserves.

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Carrying amount of oil and gas properties

Oil and gas properties, excluding wells, are depreciated using the unit-of-production (UOP) method over proved mineral reserves of certain fields and other oil and gas infrastructure facilities. Wells are depreciated over proved developed reserves. The calculation of the unit-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved developed reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved or proved developed reserves;
- The effect on total proved or proved developed reserves of differences between actual commodity prices and commodity price assumptions;
- Unforeseen operational issues.

Impairment indicators

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying amount of goodwill and other non-current assets. The Group monitors internal and external indicators of impairment relating to its financial and non-financial assets.

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities, except for financial instruments traded in major markets, is determined using various valuation techniques. Management applies professional judgment in accepting assumptions at each reporting date. The discounted cash flow analysis is applied in relation to financial assets and liabilities not traded in major markets. The effective interest rate is determined based on the market interest rates of financial instruments available to the Group. When such instruments are unavailable, the effective interest rate is determined based on the market interest rates as adjusted by the Group’s management for the risks inherent to the Group. Fair values and sensitivity analysis of financial assets and liabilities are disclosed in Notes 29 and 31.

Decommissioning liability

Decommissioning costs will be incurred by the Group mainly at the end of the operating life of the fields. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques and/or experience at other production sites. The expected timing and amount of expenditure may also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions recognized which, in turn, would affect future financial results.

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Useful life of other property, plant and equipment

The Group assesses the remaining useful lives of items of other property, plant and equipment at least at each financial year-end. If expectations differ from the previous estimates, the changes are accounted for as a change in the accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the carrying amounts of property, plant and equipment and on depreciation recognized in the consolidated statement of profit or loss and other comprehensive income.

Allowance for expected credit losses

In accordance with IFRS 9, the Group applies the expected credit losses (ECL) model to determine the amount of allowance for financial instruments. A counterparty’s credit risk is assessed at initial recognition of the financial asset using the credit risk assessment matrix as part of its monitoring at each subsequent reporting date. The assessment matrix represents a set of parameters to be individually assessed according to a pre-defined scale, with factors such as settlement terms under agreements, the counterparty’s credit rating, its market reputation and credibility, relationship of parties, collateral under agreements, existing and projected unfavorable events, etc., taken into consideration. The counterparty’s credit risk is assessed by summing up the scores and may fall into one of the three categories (high, medium or low). The ECL allowance for each risk category is estimated based on certain indicators. If the financial condition of the counterparty were to deteriorate, actual write-offs might be higher than expected at the reporting date.

Income tax

The Group recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on projected cash flows from operating activities and the application of existing tax laws in each jurisdiction.

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Contingencies

By their nature, contingencies will be resolved only when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

4. Summary of significant accounting policies

Business combinations and goodwill

Acquisitions by the Company of controlling interests in third parties (or interest in their share capital) are accounted for using the acquisition method. Acquisition date is the date when effective control over the acquiree passes to the Company.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are included in administrative expenses.

Any contingent consideration to be transferred by the acquirer should be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in profit or loss. If the contingent consideration is classified as equity, it will not be remeasured.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets of the subsidiary acquired is in excess of the consideration, the difference is recognized in the consolidated statement of profit or loss and other comprehensive income within other operating income.

Oil and natural gas exploration and evaluation expenditure

License and property acquisition costs

Exploration license and leasehold property acquisition costs are capitalized within exploration and evaluation assets. Each property is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the balance of the license and property acquisition costs is written off. Upon determination of economically recoverable reserves ("proved reserves" or "commercial reserves"), and when development is approved by the Group, the relevant expenditure is transferred to oil and gas properties.

Exploration and evaluation costs

Prior to acquisition of the legal right to explore, all costs are recorded in the consolidated statement of profit or loss and other comprehensive income as incurred. Once such legal right has been acquired, exploration and evaluation costs directly associated with an exploration well are capitalized as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. Other exploration and evaluation costs are expensed as incurred.

If extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially, the costs continue to be carried as an exploration and evaluation asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review for impairment at least once a year to confirm the continued intent of the Group to develop or otherwise extract value from the discovery.

4. Summary of significant accounting policies (continued)

Oil and natural gas exploration and evaluation expenditure (continued)

When this is no longer the case, the costs are written off. When proved reserves of oil are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells is capitalized within oil and gas properties.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of the decommissioning liability, if applicable. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

At each reporting date, the Group management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group’s entities estimates the recoverable amount which is determined as the higher of an asset’s fair value less costs to sell and its 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the consolidated statement of profit or loss and other comprehensive income. Impairment losses related to continuing operations are recognized in the consolidated statement of profit or loss and other comprehensive income in those expense categories that are consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such increase amount is recognized in the consolidated statement of profit or loss and other comprehensive income.

Depreciation

Oil and gas properties, except for wells, but including related future decommissioning costs are depreciated using the unit-of-production method over proved mineral reserves of the license areas and other infrastructural oil and gas properties. Wells are depreciated over proved developed reserves. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

4. Summary of significant accounting policies (continued)

Depreciation (continued)

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives.

The depreciation periods that represent the estimated remaining useful economic lives of the respective assets are as follows:

	Years
Buildings	10-60
Plant and machinery	1-30
Equipment and motor vehicles	3-15
Office and other equipment	3-10

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and inspection costs.

Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

Construction in progress

Construction in progress includes all expenses related to acquisition and construction of property, plant and equipment, including respective variable overheads directly attributable to the construction. Accrual of depreciation and amortization of these assets commences when they are actually put into operation. The Group measures the carrying amount of the construction in progress on a regular basis to identify any indication of impairment of construction in progress and to accrue a respective allowance.

Goodwill and other intangible assets

Goodwill and other intangible assets are carried at the initial cost less any accumulated amortization and any accumulated impairment losses. The initial cost of intangible assets is the aggregate amount paid or the fair value of any other consideration given at the moment of their acquisition or establishment. The cost of intangible assets acquired in a business combination is initially recognized at fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives (except goodwill) and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is reflected in the consolidated statement of profit or loss and other comprehensive income in the reporting period in which the expenditure is incurred.

4. Summary of significant accounting policies (continued)

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered mainly through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which qualifies for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of profit or loss and other comprehensive income for the reporting period, and the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported in the consolidated statement of profit or loss and other comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Impairment of non-financial assets

Impairment of intangible assets other than goodwill is determined in a way consistent with that of property, plant and equipment.

The Group conducts reviews of values of goodwill and indefinite life intangible assets annually at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

The loss recognized in the reporting period on goodwill impairment is not reversible in the next reporting period.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party to the contract.

Under IFRS 9, the Group classifies financial assets at initial recognition as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The Group classifies its financial assets on the basis of a business model used to manage the assets and contractual cash flow characteristics.

The Group classifies most of its financial assets as subsequently measured at amortized cost, as both recognition criteria are satisfied (as part of the SPPI test): the assets are held under a business model to collect contractual cash flows on specified dates and solely through payments of principal and interest on the principal amount outstanding. Loans issued, trade and other receivables, cash and cash equivalents are measured at amortized cost. Certain loans issued and other financial assets may be measured at fair value through profit or loss.

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets at amortized cost are subsequently measured using the effective interest rate method and subject to the impairment requirements. Gains or losses are recognized in profit or loss when such assets are derecognized, modified or impaired.

The Group derecognizes a financial asset only when its contractual rights to the cash flows from the asset expire, or it transfers its contractual rights to receive cash flows from such financial asset to another party, which obtains substantially all the risks and rewards of ownership of the financial asset. The rights and liabilities created or retained upon the transfer may be recognized separately as an asset or a liability.

At each reporting date, the Group recognizes an allowance for expected credit losses (ECL) on all financial assets measured at amortized cost. The allowance represents the difference between the contractual cash flows and the cash flows that the Group expects to receive, discounted at the original effective interest rate or its approximate value. The impairment allowance is estimated based on either 12-month ECL, representing ECL arising from defaults by the counterparty within 12 months after the reporting date, or lifetime ECL, provided the credit risk has significantly increased since the initial recognition of the asset. Allowances for impairment of trade receivables are assessed using a simplified approach in the amount equal to lifetime ECL. A financial asset is written off if the Group does not have any reasonable expectations regarding the recoverability of contractual cash flows.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date (Level 1 of fair value hierarchy). Inputs which are not quoted prices included within Level 1 and which are observable for the asset or liability, either directly or indirectly, represent Level 2 of fair value hierarchy. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models taking into account the possible adjustments to Level 2 inputs (Level 3 of fair value hierarchy). Generally, they include unobservable inputs for the asset or liability. Management of the Group uses its own judgment in allocating financial assets to a particular level of the fair value hierarchy. In view of significant adjustments to Level 2 and other inputs, management measures fair value of its financial instruments within Level 3 of fair value hierarchy.

Derivative financial instruments

Derivative financial instruments are recognized in the consolidated statement of financial position at fair value as financial assets when their fair value is positive or financial liabilities when their fair value is negative. Realized and unrealized gains and losses are shown in financial statements on a net basis in profit or loss, except for those financial instruments to which hedge accounting applies.

The fair value of derivative financial instruments is determined on the basis of mathematical models, using publicly available market information, forecast values and other valuation methods.

4. Summary of significant accounting policies (continued)

Loans and borrowings and accounts payable

The Group recognizes a financial liability in its consolidated statement of financial position when, and only when, it becomes party to the contractual provisions of such a financial instrument. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings, derivative financial instruments and financial guarantees.

Loans and borrowings, trade and other payables are the most significant of the Group’s financial liabilities. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest rate (EIR) method. Gains and losses related to such financial liabilities are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process.

A financial liability is derecognized when it is discharged or canceled (forgiven) or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, such an exchange is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

The Group’s financial liabilities classified at initial recognition as at fair value through profit or loss comprise, in particular, derivative financial instruments and financial guarantees.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings.

Cash and cash equivalents

Cash and cash equivalents recorded in the statement of financial position comprise cash at banks and on hand, short-term deposits and other short-term highly liquid financial assets with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Restricted cash is disclosed separately in the consolidated statement of financial position or related notes.

Inventories

Finished goods are recorded at the lower of cost and net realizable value. Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Raw materials are valued at cost using the weighted average cost method or net realizable value, whichever is the lower. Goods and finished products are accounted for in physical and in monetary terms using the batch-based method. Goods and finished products sold or otherwise disposed are measured at unit cost. In quantitative terms, oil, gas condensate and liquefied petroleum fractions are accounted for in tones, while associated petroleum gas and flammable natural gas are accounted for in cubic meters.

4. Summary of significant accounting policies (continued)

Leases

Right-of-use assets

The Group recognizes right-of-use assets at the commencement of the lease (i.e., the date at which the underlying asset becomes available for use). The Group applies the historical cost model in which the 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 recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, including by exercising the option to purchase, the recognized other right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term (considering the potential renewal options). The Group’s oil and gas right-of-use assets are depreciated using the unit-of-production (UOP) method based on proved mineral reserves of its license areas and other infrastructural oil and gas properties. Right-of-use assets are subject to impairment testing; where there is evidence of impairment, the related losses are recognized in the reporting period.

Lease liabilities

At the commencement of the lease, the Group recognizes lease liabilities measured at the present value of future lease payments over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group, and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses the lessee’s incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the Group remeasures the carrying amount of lease liabilities if there is a modification of contractual terms, including a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

Provisions

General

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

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance expense.

4. Summary of significant accounting policies (continued)

Provisions (continued)

Decommissioning liability

Decommissioning liability is recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. In accordance with license agreements, the Group has to liquidate wells, oil and gas pipelines and to restore the surface. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value.

Changes in the estimated timing of property, plant and equipment items decommissioning or abandonment cost estimates are dealt with prospectively by recording an adjustment to the provision, and corresponding adjustments to the carrying amount of property, plant and equipment. The unwinding of the discount on the decommissioning provision is accounted for as finance expense.

The Group does not recognize the deferred tax asset regarding the temporary difference on the decommissioning liability and the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

Taxes

Income tax for the reporting period includes the amount of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in each of the countries where the Group operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Equity

Share capital issued and outstanding

Common shares issued are classified as equity.

Non-controlling interests

Non-controlling interest is the interest in a subsidiary not held by the Group. Non-controlling interest as at the reporting date is the equity in a subsidiary not attributable, directly or indirectly, to the Parent and the non-controlling shareholders’ portion of movements in equity since the date of the business combination. Non-controlling interest is presented within equity, separately from the Parent shareholders’ equity.

4. Summary of significant accounting policies (continued)

Revenue and income recognition

Revenue from contracts with customers on the sale of oil, oil products and other products, as well as work or services, is recognized when control of the goods, work or services is transferred to the customer in the amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods, work or services. When determining whether control is transferred, the Group assesses whether there are criteria supporting such transfer of control over goods, work and services.

Revenue represents income that arises in the course of the Group’s ordinary activities. The Group recognizes revenue in the amount of consideration it is entitled to in exchange of provided goods and services. A five-step model is applied to test compliance with revenue recognition criteria: contract identification, identification of performance obligations, determination of the transaction price, allocation of the transaction price to performance obligation, revenue recognition when/as performance obligations are fulfilled.

Revenue from oil production, where the Group cooperates with other participants, is recognized based on the Group’s share and under respective production-sharing agreements.

As for advances received from customers in respect of goods to be dispatched, the Group accrues interest for early payments (financing component), except for advances for goods to be delivered and/or services to be provided within one year. For these advances, the Group assesses the effect of a financing component as insignificant.

Interest income is accrued on a regular basis by reference to the outstanding principal amount and the applicable effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Dividend income is recognized where the shareholder’s right to receive a dividend payment is established. The amount of retained earnings distributable to the shareholders is usually determined on the basis of the financial statements of the subsidiaries prepared in accordance with Russian accounting principles and the financial statements of the foreign subsidiaries of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Contract assets

A contract asset represents an entity’s right for consideration in exchange for goods or services that will be transferred to a customer. If the Group delivers goods or services to a customer before the customer pays the consideration or the consideration becomes payable, a contract asset is recognized in respect of the contingent consideration received.

Contract liabilities

A contract liability is the Group’s obligation to transfer goods or services to a customer, for which the Group has received consideration (or consideration is due) from the customer. If the consideration is paid before the Group delivers goods or services to the customer, the Group recognizes a contract liability when the payment is made or becomes due, whichever comes first. Contract liabilities are recognized as revenue when the Group fulfills its contractual obligations. The Group records its contract liabilities as advances received.

4. Summary of significant accounting policies (continued)

Employee benefits

The Group pays wages and salaries to its employees, quarterly bonuses for achieving key performance indicators (“KPI”) by the Group companies, including annual bonuses after the year-end closing period. Vacations and sick leaves are paid in accordance with the existing collective labor agreements of the Group.

The Group makes contributions to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage from gross salary expense and are expensed as accrued.

The Group provides its employees with various defined retirement benefits in accordance with the collective labor agreements. The Group uses defined contribution plans. Costs of providing such benefits are recognized in the consolidated statement of profit or loss and other comprehensive income. The Company concludes non-state pension insurance agreements and recognizes them as defined contribution pension plans in the consolidated financial statements.

5. Future changes in accounting policies

New standards and interpretations issued but not yet effective

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date of initial application of IFRS 17.

This standard is not expected to have a material impact on the Group.

5. Future changes in accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments may have on the current classification of liabilities and whether existing loan agreements may require renegotiation.

Amendments to IFRS 3 Reference to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework.* The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018, without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 16 Property, Plant and Equipment − Proceeds before Intended Use

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments.

5. Future changes in accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

The amendments are not expected to have a material impact on the Group.

Amendments to IAS 37 Onerous Contracts − Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Amendment to IFRS 9 Financial Instruments − Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which it first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with early adoption permitted.

The amendment is not expected to have a material impact on the Group.

6. Segment information

Operations of the Group are represented by the exploration and production segment comprising the Parent, production subsidiaries and subsidiaries providing operator and other services relating to oil and gas exploration, development, production and transportation. Operating results of other subsidiaries are generally insignificant and management of the Group does not use them for the purpose of taking financial and operational decisions.

Revenue from external customers broken down by key products and services and geographical areas, as well as information about major customers are disclosed in Note 10 *Revenue.* Geographical distribution of the Group’s non-current assets, except for financial instruments, deferred tax assets and other assets, is disclosed in Note 15 *Property, plant and equipment.*

7. Subsidiaries of the Group

Company	Principal activity	Country of incorporation	Effective ownership 31 December 2020	Effective ownership 31 December 2019
Russneft (UK) Limited	Marketing of crude oil and petroleum products	United Kingdom	100%	100%
Russneft Cyprus Limited[1]	Other	Republic of Cyprus	20%	20%
Russneft (BVI) Limited[1]	Other	BVI	20%	20%
Edmarnton Limited[1]	Other	BVI	20%	20%
International Petroleum Grouping S.A.[1]	Evaluation and exploration of oil and gas	Islamic Republic of Mauritania	11%	11%
LLC Alatau-6	Evaluation and exploration of oil and gas	Russian Federation	100%	100%
LLC Torgovy Dom Russneft	Other	Russian Federation	100%	100%
LLC M-Trade	Other	Russian Federation	100%	100%
JSC Belkam-Trade	Other	Russian Federation	100%	100%
LLC VaryeganInvest (dissolution)	Other	Russian Federation	–	100%
LLC Rustrade	Other	Russian Federation	100%	100%
PJSC Saratovneftegaz	Services relating to oil and gas production	Russian Federation	96%	96%
JSC Saratov-Burenie	Property management and leasing	Russian Federation	96%	96%
LLC SO Agro (dissolution)	Other	Russian Federation	–	96%
LLC Neftebytservis	Other	Russian Federation	96%	96%
JSC Geofizservis	Other	Russian Federation	97%	97%
LLC Saratovenergoneft	Other	Russian Federation	96%	96%
LLC Zavolzhskoe Upravlenie Technologicheskogo Transporta	Transportation services	Russian Federation	96%	96%
LLC RedOil	Property management and leasing	Russian Federation	96%	96%
PI DOC Rovesnik	Other	Russian Federation	96%	96%
OJSC MPK Aganneftegazgeologiya	Services relating to oil and gas production	Russian Federation	98%	98%

[1] Companies in which the Group holds interest directly and/or indirectly through its subsidiary, Russneft Cyprus Limited. The Parent holds a 100% voting share in Russneft Cyprus Limited.

7. Subsidiaries of the Group (continued)

Company	Principal activity	Country of incorporation	Effective ownership 31 December 2020	Effective ownership 31 December 2019
OJSC Ulyanovskneft	Property management and leasing	Russian Federation	100%	100%
LLC KOLOS	Other	Russian Federation	100%	100%
JSC Nefterazvedka (dissolution)	Services relating to oil production	Russian Federation	–	100%
JSC Mohtikneft	Property management and leasing	Russian Federation	100%	100%
PJSC Varyeganneft	Extraction and marketing of crude oil and gas	Russian Federation	95%	95%
LLC Valyuninskoe	Property management and leasing	Russian Federation	95%	95%
LLC Novo-Aganskoe	Property management and leasing	Russian Federation	95%	95%
LLC Upravlenie Avtomatizatsii i Energetiki Neftyanogo Proizvodstva (under dissolution)	Other	Russian Federation	95%	95%
LLC Upravlenie po Remontu i Obsluzhivaniyu Neftepromyslovogo Oborudovaniya (under dissolution)	Other	Russian Federation	95%	95%
LLC Proizvodstvenno-Bytovoe Upravlenie (under dissolution)	Other	Russian Federation	95%	95%
ST JSC Goloil	Property management and leasing	Russian Federation	100%	100%
LLC Belye Nochi	Property management and leasing	Russian Federation	100%	100%
OJSC NAK Aki-Otyr	Property management and leasing	Russian Federation	100%	100%
JSC Nazymskaya Neftegazorazvedochnaya Ekspeditsiya	Property management and leasing	Russian Federation	100%	100%
JSC Khanty-Mansiyskaya Neftyanaya Kompaniya	Property management and leasing	Russian Federation	100%	100%
JSC Chernogorskoe	Property management and leasing	Russian Federation	100%	100%
LLC Tomskaya Neft	Services relating to oil production	Russian Federation	100%	100%
LLC NK Russneft-Bryansk	Transportation services	Russian Federation	51%	51%
Global Energy Cyprus Limited[1]	Other	Republic of Cyprus	20%	20%
GEA Holdings Limited[1]	Other	BVI	20%	20%
Kura Valley Holding Company[1]	Other	Cayman Islands	20%	20%
Karasu Petroleum Company[1]	Other	Cayman Islands	20%	20%
Karasu Development Company[1, 2]	Extraction and marketing of crude oil under PSA	Cayman Islands	20%	20%

At the annual shareholders meetings, PJSC Varyeganneft and PJSC Saratovneftegaz decided to pay dividends to preference shareholders for 2019 within the legal time limit, and these shares ceased to be voting at the reporting date. The dividends accrued on preference shares to non-controlling shareholders are recognized in the consolidated statement of changes in equity.

[2] Jointly with Karasu Operating Company recognized in these consolidated financial statements as a joint operation under a production sharing agreement.

7. Subsidiaries of the Group (continued)

The summarized financial information on assets, liabilities, profit or loss and cash flows of subsidiaries with material non-controlling interests is provided below:

31 December 2020	PJSC Varyeganneft and its subsidiaries	PJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Non-current assets	24,581	23,918	82,433
Current assets	13,118	2,729	10,021
Total assets	**37,699**	**26,647**	**92,454**
Long-term liabilities	(4,453)	(4,949)	(65,956)
Short-term liabilities	(5,482)	(2,079)	(11,566)
Total liabilities	**(9,935)**	**(7,028)**	**(77,522)**
Net assets	**27,764**	**19,619**	**14,932**
Equity attributable to shareholders of the Parent	26,294	18,940	3,748
Equity attributable to non-controlling interests	1,470	679	11,184
For the year ended 31 December 2020			
Revenue	**30,725**	**2,185**	**1,275**
Profit/(Loss) for the period	**373**	**(322)**	**(5,330)**
Profit/(Loss) attributable to shareholders of the Parent	354	(310)	(1,053)
Profit/(Loss) attributable to non-controlling interests	19	(12)	(4,277)

For the year ended 31 December 2020	PJSC Varyeganneft and its subsidiaries	PJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Operating activities	401	(240)	(121)
Investing activities	(389)	250	757
Financing activities	(12)	–	(679)
Total change in cash for the period	**–**	**10**	**(43)**

7. Subsidiaries of the Group (continued)

31 December 2019	PJSC Varyeganneft and its subsidiaries	PJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	**RUB million**	**RUB million**
Non-current assets	27,048	10,370	78,379
Current assets	17,120	18,129	1,950
Total assets	**44,168**	**28,499**	**80,329**
Long-term liabilities	(5,388)	(5,456)	(60,049)
Short-term liabilities	(11,348)	(2,829)	(3,333)
Total liabilities	**(16,736)**	**(8,285)**	**(63,382)**
Net assets	**27,432**	**20,214**	**16,947**
Equity attributable to shareholders of the Parent	25,978	19,511	4,016
Equity attributable to non-controlling interests	1,454	703	12,931
For the year ended 31 December 2019			
Revenue	**41,318**	**5,905**	**2,108**
Profit/(Loss) for the period	**2,866**	**(218)**	**(2,761)**
Profit/(Loss) attributable to shareholders of the Parent	2,736	(206)	(147)
Profit/(Loss) attributable to non-controlling interests	130	(12)	(2,614)

For the year ended 31 December 2019	PJSC Varyeganneft and its subsidiaries	PJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	**RUB million**	**RUB million**
Operating activities	340	496	(71)
Investing activities	(24)	(490)	216
Financing activities	(311)	(5)	(239)
Total change in cash for the period	**5**	**1**	**(94)**

8. Non-controlling interests

Non-controlling interests include:

	31 December 2020		2020	31 December 2019		2019
	Non-controlling interests (%)	Non-controlling interests in net assets	Non-controlling interests in profit/ (loss)	Non-controlling interests (%)	Non-controlling interests in net assets	Non-controlling interests in profit/ (loss)
		RUB million	RUB million		RUB million	RUB million
Russneft Cyprus Limited and its subsidiaries and joint ventures	80%, 89%	11,184	(4,277)	80%, 84%, 89%	12,931	(2,614)
PJSC Varyeganneft and its subsidiaries	5%	1,470	19	5%	1,454	130
PJSC Saratovneftegaz and its subsidiaries	4%	679	(12)	4%	703	(12)
Other	0.4%-49%	(718)	(75)	1%-49%	(637)	(14)
Non-controlling interests at the end of the period		**12,615**	**(4,345)**		**14,451**	**(2,510)**

As at 31 December 2020 and 31 December 2019, non-controlling voting interests in PJSC Varyeganneft comprise 1.47%, in OJSC MPK Aganneftegazgeologiya – 2.19% and 2.20%, in PJSC Saratovneftegaz – 0.81% and 0.82%, and in OJSC Ulyanovskneft – 0.40% and 0.45%, respectively. In 2020, the above companies of the Group purchased common treasury shares from minority shareholders, and the net effect of these transactions was recorded in the consolidated statement of changes in equity.

The voting interest of PJSC “RussNeft” in Russneft Cyprus Limited was 100%.

9. Investments in associates and joint ventures

GEA Holdings Limited Group

The Group recognizes its participation in the production sharing agreements (the “PSA”) in the consolidated financial statements as joint operations involving subsidiaries and joint ventures of GEA Holdings Limited Group (“GEA group”). GEA Holdings Limited through its subsidiaries and joint ventures participates in exploration and extraction projects in the Republic of Azerbaijan under the scheme of PSA with the State Oil Company of Republic of Azerbaijan (SOCAR) and SOCAR Oil Affiliate (SOA). Assets and liabilities, revenue and expenses of the operating companies in which the Group participates as a contractor under the PSA are recorded in accordance with the interests of the Group. Joint operations are structured through incorporation of separate legal entities (operating companies). Where the control is acquired or exercised jointly, the companies within GEA group are accounted for as subsidiaries of the Group (Note 7) or under the equity method.

9. Investments in associates and joint ventures (continued)

GEA Holdings Limited Group (continued)

Joint ventures and joint operations of GEA group are as follows:

Company	Principal activity	Country of incorporation	Share in equity 31 December 2020[3]	Share in equity 31 December 2019[3]	Consolidation method
Global Energy Azerbaijan Limited	Other	BVI	50%	50%	Equity method
Global Energy Azerbaijan Management Limited	Other	BVI	50%	50%	Equity method
Neftechala Petroleum Limited	Other	BVI	50%	50%	Equity method
Neftechala Investments Limited	Extraction and sales of crude oil under PSA	BVI	50%	50%	Equity method
Neftechala Operating Company	Extraction and sales of crude oil under PSA	BVI	40%	40%	Assets, liabilities, revenue and expenses related to the Group’s interest
Absheron Petroleum Limited	Other	BVI	50%	50%	Equity method
Apsheron Investments Limited	Extraction and sales of crude oil under PSA	BVI	50%	50%	Equity method
Absheron Operating Company Limited	Extraction and sales of crude oil under PSA	BVI	38%	38%	Assets, liabilities, revenue and expenses related to the Group’s interest
Shirvan Petroleum Limited	Other	BVI	50%	50%	Equity method
Shirvan Investments Limited	Extraction and sales of crude oil under PSA	BVI	50%	50%	Equity method
Shirvan Operating Company Limited	Extraction and sales of crude oil under PSA	BVI	40%	40%	Assets, liabilities, revenue and expenses related to the Group’s interest
Repleton Enterprises Limited	Other	Republic of Cyprus	50%	50%	Equity method
AZEN OIL COMPANY B.V.	Extraction and sales of crude oil under PSA	Kingdom of the Netherlands	50%	50%	Equity method
Binagadi Oil Company	Extraction and sales of crude oil under PSA	Cayman Islands	38%	38%	Assets, liabilities, revenue and expenses related to the Group’s interest
Global Energy Caspian Limited	Other	BVI	50%	50%	Equity method

Summarized financial information of the joint ventures of GEA group and carrying amounts of investments in joint ventures is provided below.

The statement of financial position as at 31 December 2020 and 31 December 2019:

	31 December 2020 RUB million	31 December 2019 RUB million
Non-current assets	46,644	40,555
Current assets	2,293	2,873
including cash	*34*	*116*
Long-term liabilities	(72,441)	(59,052)
including long-term financial liabilities	*(70,615)*	*(57,756)*
Short-term liabilities	(3,139)	(1,966)
including short-term loans and borrowings	*(86)*	–
Total equity	**(26,643)**	**(17,590)**

[3] Excluding the interest of PJSC “RussNeft” in the parent company of GEA group, Russneft Cyprus Limited (Note 7).

9. Investments in associates and joint ventures (continued)

GEA Holdings Limited Group (continued)

The statement of profit or loss and other comprehensive income for 2020 and 2019:

	2020 **RUB million**	**2019** **RUB million**
Revenue	4,131	7,534
Cost of sales	(5,590)	(5,340)
including depreciation, depletion and amortization	*(2,519)*	*(1,982)*
Other operating expenses	(1,137)	(648)
Operating (loss)/profit	**(2,596)**	**1,546**
Finance income	60	311
Finance expense	(2,275)	(3,253)
Loss before income tax	**(4,811)**	**(1,396)**
Income tax expense	(189)	(208)
Loss for the period	**(5,000)**	**(1,604)**
Group's share in loss for the period	**(2,500)**	**(802)**
Unrecognized share in loss for the period	2,500	802
Share in loss of associates and joint ventures	**–**	**–**
Unrecognized share in loss for the period	(2,760)	(1,449)
including in other movements in equity	*(260)*	*(647)*
Foreign currency translation reserve for the period	(1,766)	968
Total unrecognized share in loss at the end of the period	**(13,321)**	**(8,795)**

As at 31 December 2020 and 31 December 2019, the carrying amount of investments in associates and joint ventures equaled to zero.

10. Revenue

Revenue from external customers broken down by geographical segments is presented based on the location of customers.

The Group operates in three principal geographical areas: Europe, the Commonwealth of Independent States (the "CIS") and the Russian Federation (Russia). The Group's non-current non-financial assets are located primarily in the Russian Federation except for those disclosed in Note 9.

10. Revenue (continued)

The information on revenue is presented in the table below:

	Europe and other export		CIS (other than Russia)		Russian Federation		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
Revenue from external customers								
Crude oil sales	41,954	49,484	12,207	2,015	75,827	131,622	129,988	183,121
Petroleum product sales	–	–	–	–	170	225	170	225
Gas sales	–	–	–	–	2,529	2,591	2,529	2,591
Other sales	–	–	–	–	509	1,190	509	1,190
Total revenue	**41,954**	**49,484**	**12,207**	**2,015**	**79,035**	**135,628**	**133,196**	**187,127**

Revenue includes revenue from two customers for the reporting period (revenue from each customer exceeds 10% of the total revenue in the respective reporting period), net of export duty:

		Geographical location	2020	2019
			RUB million	RUB million
Major customer 1	Crude oil sales	Europe and other export	18,403	47,353
Major customer 2	Crude oil sales	Russian Federation	16,127	31,185
Total revenue from sales to major customers			**34,530**	**78,538**

11. Cost of sales

	2020	2019
	RUB million	RUB million
Mineral extraction tax	43,955	72,381
Cost of crude oil and petroleum products sold	23,536	20,310
Depreciation, depletion and amortization	14,289	14,042
Payroll and related taxes	7,761	7,433
Utilities	5,222	6,351
Production services	2,614	2,742
Raw materials and supplies used in production	1,790	2,092
Equipment repair, operation and maintenance	1,188	2,322
Transportation expenses	1,175	1,334
Depreciation, depletion and amortization of right-of-use assets	575	502
Other expenses	4,399	5,181
Total cost of sales	**106,504**	**134,690**

12. Selling, general and administrative expenses

Selling expenses comprise:

	2020 RUB million	2019 RUB million
Pipeline tariffs and transportation expenses	10,138	10,171
Excise	–	9
Other selling expenses	36	37
Total selling expenses	**10,174**	**10,217**

General and administrative expenses comprise the following:

	2020 RUB million	2019 RUB million
Payroll and related taxes	2,450	3,215
Allowance for expected credit losses	1,191	(54)
Consulting, management and other services	371	401
Software	298	262
Entertainment and business travel	163	314
Bank services	163	77
Allowance for inventory obsolescence	95	(69)
Repair and maintenance	68	73
Operating leases	31	25
Other expenses	295	222
Total general and administrative expenses	**5,125**	**4,466**

13. Finance income and expense

Finance income comprises the following:

	2020 RUB million	2019 RUB million
Interest income on loans	4,029	3,139
Interest income for early payments	51	–
Other finance income	–	227
Total finance income	**4,080**	**3,366**

Finance expense comprises the following:

	2020 RUB million	2019 RUB million
Interest expense on loans and borrowings, for early payments	7,527	8,156
Accretion expense (Note 25)	1,046	732
Interest expense on lease liabilities (Note 16)	93	117
Other finance expense	681	249
Total finance expense	**9,347**	**9,254**

14. Other operating income and expenses

	2020 RUB million	2019 RUB million
Impairment of financial investments	26,246	169
Change in fair value: swaps (Note 29)	3,924	1,721
Impairment of property, plant and equipment (Note 15)	3,062	112
Impairment of goodwill (Note 17)	1,659	–
Charity and other gratuitous expenses	127	1,536
Financial guarantee at fair value	78	179
Loss on disposal of property, plant and equipment	55	121
Loss from inventories sale	49	218
Other expenses	297	378
Change in fair value: options (Note 29)	(2,281)	(3,619)
Consideration related to financial instruments	(1,287)	(144)
Exercise of options (Note 29)	(700)	2,538
Fines and penalties for contractual breaches	(143)	(24)
Disposal of subsidiaries and other securities	–	(266)
Other income	(714)	(331)
Total other operating expenses, net	**30,372**	**2,588**

15. Property, plant and equipment

1 January 2019	**Oil and gas properties**	**Other property, plant and equipment**	**Construction in progress**	**Total**
Cost	233,858	3,106	–	236,964
Accumulated depreciation and impairment	(98,840)	(2,659)	–	(101,499)
Net book value as at 1 January 2019	**135,018**	**447**	**–**	**135,465**
Additions	25,841	6	80	25,927
Decommissioning liability	6,818	–	–	6,818
Transfer from construction in progress	–	68	(68)	–
Depreciation	(14,016)	(26)	–	(14,042)
Impairment	(615)	(22)	–	(637)
Reversal of impairment	525	–	–	525
Disposals, net	(1,468)	(1)	(12)	(1,481)
Foreign currency translation, net	(1,644)	–	–	(1,644)
31 December 2019				
Cost	260,630	3,129	–	263,759
Accumulated depreciation and impairment	(110,171)	(2,657)	–	(112,828)
Net book value as at 31 December 2019	**150,459**	**472**	**–**	**150,931**
Additions	13,236	66	8	13,310
Decommissioning liability	(2,633)	–	–	(2,633)
Transfer from construction in progress	–	8	(8)	–
Depreciation	(14,262)	(27)	–	(14,289)
Impairment	(3,328)	(3)	–	(3,331)
Reversal of impairment	269	–	–	269
Disposals, net	(672)	(2)	–	(674)
Foreign currency translation, net	2,608	–	–	2,608
31 December 2020				
Cost	272,937	3,189	–	276,126
Accumulated depreciation and impairment	(127,260)	(2,675)	–	(129,935)
Net book value as at 31 December 2020	**145,677**	**514**	**–**	**146,191**

15. Property, plant and equipment (continued)

The Group’s non-current assets are located primarily in the Russian Federation, except for assets located in the Republic of Azerbaijan in accordance with the Group’s participation in PSA (Note 9).

On 30 July 2020, the Company signed an agreement for the pledge of immovable properties for the total amount of monetary liabilities of RUB 8,170 million with Russian FTS Interregional Inspectorate for Major Taxpayers No. 2. The total value of the pledged property is RUB 12,252 million. At the same time, PJSC Varyeganneft signed a similar agreement for the pledge of immovable properties for the total amount of liabilities of RUB 1,002 million with a total collateral value of RUB 1,632 million. Both the agreements were signed as part of the decision to grant an MET payment installment plan to PJSC “RussNeft” and PJSC Varyeganneft. The term of these agreements until pledgers perform their obligations in full is in June 2021. As at 31 December 2019, the Group has no significant pledges of property, plant and equipment.

Impairment losses

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Based on the assessment, in 2020, the Group recorded an allowance in the amount of RUB 3,331 million and simultaneously recovered previously recognized allowance of RUB 269 million. The allowance as at 31 December 2020 and 31 December 2019 amounts to RUB 7,936 million and RUB 4,871 million, respectively.

Given the specifics of the Group’s activities, in general, the information on assets’ fair value is difficult to obtain, unless there are negotiations with potential buyers. As a result, recoverable amount used for the purposes of assessment of impairment accrued is also determined based on discounted cash flow model the main indicators of which are disclosed in Note 17.

16. Right-of-use assets and lease liabilities

Right-of-use assets	Oil and gas right-of-use assets	Other right-of-use assets	Total right-of-use assets
	RUB million	RUB million	RUB million
1 January 2019			
Cost	268	1,239	1,507
Accumulated depreciation and impairment	–	–	–
Net book value as at 1 January 2019	**268**	**1,239**	**1,507**
Additions	14	44	58
Depreciation	(94)	(408)	(502)
Modification and revaluation	90	97	187
Foreign currency translation, net	(2)	(7)	(9)
31 December 2019			
Cost	370	1,359	1,729
Accumulated depreciation and impairment	(94)	(394)	(488)
Net book value as at 31 December 2019	**276**	**965**	**1,241**
Additions	91	10	101
Disposals, net	(44)	(27)	(71)
Depreciation	(168)	(407)	(575)
Modification and revaluation	(15)	(1)	(16)
Foreign currency translation, net	1	8	9
31 December 2020			
Cost	398	1,333	1,731
Accumulated depreciation and impairment	(257)	(785)	(1,042)
Net book value as at 31 December 2020	**141**	**548**	**689**

16. Right-of-use assets and lease liabilities (continued)

Lease liabilities	31 December 2020	31 December 2019
	RUB million	RUB million
At the beginning of the period	**1,278**	**1,485**
including short-term lease liabilities	*406*	*452*
Recognition of lease liabilities	102	53
Disposals, net	(70)	–
Modification and revaluation	(17)	173
Interest on lease liability	93	117
Payments on lease liability	(571)	(557)
Foreign currency translation, net	7	7
At the end of the period	**822**	**1,278**
including short-term lease liabilities	*550*	*406*

	31 December 2020	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Lease liabilities	**822**	550	59	67	146

	31 December 2019	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Lease liabilities	**1,278**	406	591	44	237

17. Goodwill

	RUB million
1 January 2019	**13,480**
Disposal of subsidiaries	(10)
Foreign currency translation	(2)
31 December 2019	**13,468**
Impairment	(1,659)
Foreign currency translation	3
31 December 2020	**11,812**

Impairment testing of goodwill

The Group conducts its goodwill impairment test as at 31 December of each reporting annual period or more often if there is evidence of its possible impairment. Due to the significant changes in macroeconomic indicators used in the impairment assessment model, the indicators of possible impairment were analyzed. As a result, as at 30 June 2020, goodwill impairment was recognized with respect to one cash-generating unit (CGU) in the amount of RUB 1,659 million (Note 14).

17. Goodwill (continued)

Impairment testing of goodwill (continued)

Based on the test as at 31 December 2020, no signs of goodwill impairment were identified in excess of the impairment recognized as at 30 June 2020.

The main assumptions used are represented by estimates made by the Company’s management with regard to the future development trends in oil and gas sector, and are based on the external and internal data sources. Future cash flows are based on the reports on oil and gas reserves prepared by Miller and Lents, Ltd within the range of 20 years. For goodwill impairment test purposes, the Group uses the discounted cash flow model as a recoverable amount that is in line with their value in use. To evaluate oil and gas reserves as at 31 December 2020, the Group used the data presented in the 2019 report of Miller and Lents, Ltd. with valuation adjustments to the term and the amount of proved developed reserves and total proved reserves for the amount of actual oil and gas production for the period from the date of the last valuation.

The Company uses the following assumptions, sensitivity to which may significantly affect the valuation results:

- Discount rate: determines the current estimates of time value of money and risks. It is equal to weighted average cost of capital in Russian rubles (WACC) for the Russian peer companies:
  - As at 30 June 2020 − 10.00%;
  - As at 31 December 2020 − 10.70%.
- Forecast oil price – price basis for Brent oil, which is adjusted with regard to the spread between Brent and Urals oil prices, transportation expenses and changes in mineral extraction tax (MET):
  - As at 30 June 2020 − in the range of USD 39-64 per barrel;
  - As at 31 December 2020 − in the range of USD 48-56 per barrel.
- Sales structure by markets (export, CIS, domestic market) remains the same during the valuation period.
- Difference in the netback (net price) existing in the markets (export, CIS, domestic market) remains unchanged.

Change in discount rate	Effect on profit before tax 2020	Effect on profit before tax 2019
%	RUB million	RUB million
1%	−	(227)
-1%	1,659	−

Change in forecast oil price	Effect on profit before tax 2020	Effect on profit before tax 2019
USD/bbl	RUB million	RUB million
-10	(4,773)	(4,157)
+10	1,659	−

17. Goodwill (continued)

Impairment testing of goodwill (continued)

The carrying amount of goodwill is allocated to each of the cash-generating units as follows:

		31 December 2020	31 December 2019
		RUB million	**RUB million**
PJSC Saratovneftegaz	Exploration and production	9,024	9,024
OJSC MPK Aganneftegazgeologiya	Exploration and production	1,459	3,118
PJSC Varyeganneft	Exploration and production	614	614
OJSC Ulyanovskneft	Exploration and production	228	228
OJSC NAK Aki-Otyr	Exploration and production	95	95
Other		392	389
		11,812	**13,468**

18. Exploration and evaluation assets

The Group’s exploration and evaluation assets include an exploration license at the cost of RUB 1,288 million, for which no indication of impairment was identified as at the reporting date.

19. Other long-term and short-term financial assets

	Currency	31 December 2020	31 December 2019
		RUB million	**RUB million**
Long-term loans issued to related parties	USD	83,995	64,270
Long-term loans issued to related parties	EUR	18,568	–
Long-term loans issued to related parties	RUB	1,839	1,593
Long-term loans issued to other companies	RUB	2,348	2,547
Allowances for expected credit losses from long-term loans issued		(28,657)	(2,611)
		78,093	**65,799**
Short-term loans issued to related parties	USD	1,231	–
Short-term loans issued to other companies	RUB	284	–
Short-term loans issued to other companies	EUR	–	13,457
Allowances for expected credit losses from short-term loans issued		(285)	(4)
		1,230	**13,453**

Loans issued and repaid are recorded within investing activities in the consolidated statement of cash flows and within other non-current and current financial assets in the consolidated statement of financial position. The loans issued are recognized in these consolidated financial statements at amortized cost. The Group assesses loans issued using IFRS 9, including the expected credit loss model.

19. Other long-term and short-term financial assets (continued)

The Parent records loans issued to related parties of GEA group companies under the equity method as non-current financial assets in these consolidated financial statements (Note 9). As at 31 December 2020 and 31 December 2019, the loans receivable (including accumulated interest and allowance for expected credit losses) were USD 593 million and USD 827 million (RUB 43,800 million and RUB 51,178 million at the exchange rate as at the respective reporting dates), respectively.

As at 31 December 2020 and 31 December 2019, outstanding balances related to long-term and short-term financial investments (including accumulated interest and allowance for expected credit losses) comprise the outstanding balances of loans issued to related parties by GEA Group companies in the amount of USD 104 million and USD 105 million (RUB 7,674 million and RUB 6,477 million), respectively.

During the reporting period, certain loans were extended, and this modification had no significant effect on the financial statements, however, it affected the determination of the allowance for expected credit losses.

20. Inventories

	31 December 2020	31 December 2019
	RUB million	RUB million
Raw materials and components	3,204	3,782
Crude oil	2,848	3,619
Petroleum products	106	108
Allowance for inventory obsolescence	(417)	(295)
Total inventories	**5,741**	**7,214**

21. Trade and other receivables, prepayments and other current assets

	31 December 2020	31 December 2019
	RUB million	RUB million
Trade receivables	5,261	7,406
Other receivables	2,137	1,381
Allowance for expected credit losses	(1,826)	(791)
Total trade and other receivables	**5,572**	**7,996**

	31 December 2020	31 December 2019
	RUB million	RUB million
Prepayments	7,940	2,199
Other current assets	4	10
Allowance for prepayments	(273)	(213)
Total prepayments and other current assets	**7,671**	**1,996**

21. Trade and other receivables, prepayments and other current assets (continued)

Analysis of movements in allowance for expected credit losses from trade and other receivables, allowance for prepayments is as follows:

	31 December 2020 RUB million	31 December 2019 RUB million
As at 1 January	**(1,004)**	**(1,152)**
(Charge)/Reversal	(1,191)	54
Allowance used	15	8
Disposal/Dissolution of subsidiaries	–	4
Foreign currency translation	81	82
As at 31 December	**(2,099)**	**(1,004)**

22. Cash and cash equivalents

	31 December 2020 RUB million	31 December 2019 RUB million
Foreign currency-denominated cash at bank and on hand	3,551	2,819
RUB-denominated cash at bank and on hand	678	102
Deposits and other cash equivalents	2	8
Total cash and cash equivalents	**4,231**	**2,929**

23. Share capital

	31 December 2020 Thousands of shares	31 December 2020 RUB million	31 December 2019 Thousands of shares	31 December 2019 RUB million
Common shares (issued and paid) with a nominal value of RUB 0.5 each	294,120	147	294,120	147
Non-cumulative preference shares with a nominal value of RUB 0.5 each	98,032	49	98,032	49
Total share capital	**392,152**	**196**	**392,152**	**196**

As at the reporting date, the Company may place 105,880,000 additional common shares and 98,032,000 additional non-cumulative preference shares with the same nominal value of RUB 0.5 each.

23. Share capital (continued)

Interests in the share capital of the Parent as at the reporting date are presented below (shareholders owning at least 5 percent of share capital or at least 5 percent of common shares):

Name	Percentage of share capital, %	Percentage of common shares, %
RAMBERO HOLDING AG	23.46	31.28
PJSC TRUST Bank	19.23	3.61
BRADINAR HOLDINGS LIMITED	12.05	16.07
PJSC VTB Bank	8.48	–
CJSC Mlada	7.70	10.27
OJSC IC Nadezhnost	4.95	6.60
Other shareholders, holding less than 5%	24.13	32.17

In the reporting period, Russneft Cyprus Limited (a subsidiary) acts as a party of a forward contract with LLC Business-Finance to purchase 33,240,827 preference shares of the Parent in 2026. Estimated fair value of the forward in the amount of RUB 21,123 million is recorded in equity of the consolidated statement of financial position as Forward to purchase treasury shares. The change in the assessment of the forward which is measured in the Group’s liabilities at amortized cost using the effective interest rate method is recorded in Other long-term liabilities in the amount of RUB 19,074 million and in Trade and other payables and accrued liabilities in the amount of RUB 1,305 million (Note 26). Simultaneously, Russneft Cyprus Limited acts as a party of a currency interest rate swap contract during the term of the forward contract.

The annual general shareholders meeting of PJSC “RussNeft” held in September 2020 made a decision to allocate USD 60 million (at the exchange rate established by the CBR at the date of actual payment of dividends) to pay dividends to preference shareholders of PJSC “RussNeft” (USD 0.612045 per one preference share of the Company or RUB 4,581 million at the exchange rate as at the payment date). As at the reporting date, the declared dividends were fully paid, with the payment amounting to RUB 4,622 million as at the payment date. No dividends were declared or paid on the Parent’s common shares.

Pursuant to the Russian legislation, basis for the dividend distribution is net profit calculated in accordance with the Russian Accounting Standards (“RAS”).

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to common equity holders of the Parent, as adjusted, by the weighted average number of common shares outstanding during the year. As the decision to pay dividends for 2020 under the preference non-cumulative shares was not announced at the reporting date, no adjustment for the forecast amount of these dividends for 2020 was made in the reporting period.

23. Share capital (continued)

Earnings per share (continued)

The average weighted number of the Company's outstanding common shares did not change in the reporting period. The Group did not place securities, which may have a potential diluting effect, therefore basic and diluted earnings per share are the same.

		2020	2019
(Loss)/Profit attributable to shareholders of the Parent	RUB million	(16,955)	24,364
Dividends on non-cumulative preference shares for 2019	RUB million	(4,581)	–[4]
(Loss)/Profit attributable to shareholders of the Parent, as adjusted	RUB million	**(21,536)**	**24,364**
Weighted average number of common shares outstanding	million	294	294
Effect of dilution		–	–
Basic and diluted (loss)/earnings per share	RUB per share	(73)	83

24. Loans and borrowings

	Currency	Weighted average interest rate by type of liability as at 31 December 2020	31 December 2020
		%	RUB million
Long-term loans and borrowings			
Bank loans	USD	5.74%	79,854
Loans received	USD	6.63%	7,043
Total long-term loans and borrowings			**86,897**
Short-term loans and borrowings			
Bank loans	USD	5.74%	6,859
Loans received	RUB	6.53%	47
Total short-term loans and borrowings			**6,906**

[4] In 2019, no adjustment for the amount of dividends payable to preference shareholders was made as the preference shares were reclassified to non-cumulative. The specified adjustment for the amount of dividends based on the preliminary assessment for cumulative shares (before 2019) was included in the calculation of earnings per share in 2018.

24. Loans and borrowings (continued)

	Currency	Weighted average interest rate by type of liability as at 31 December 2019	31 December 2019
		%	RUB million
Long-term loans and borrowings			
Bank loans	USD	7.41%	66,916
Loans received	USD	6.50%	6,283
Total long-term loans and borrowings			**73,199**
Short-term loans and borrowings			
Bank loans	USD	7.41%	5,763
Loans received	RUB	6.53%	49
Total short-term loans and borrowings			**5,812**

In the reporting period, the Company's loan was transferred from PJSC VTB Bank to the new creditor, CQUR Bank LLC (Qatar), whereof the Company was notified by PJSC VTB Bank in March 2020. However, the key terms and conditions of the loan agreement remained unchanged: the interest rate is 3m LIBOR + margin 5.5% p.a., with stage-by-stage repayment of principal maturing in March 2026. PJSC "RussNeft" signed an additional agreement with the creditor, whereby it settled the issue of overdue payments for 2020. As at 31 December 2020, the Company has no overdue payments of the principal.

The Company repays accrued interest on a quarterly basis, in accordance with the schedule and the interest rate set for the date of payment. In the reporting period, the Company paid the total interest under this loan agreement in the amount of RUB 5,231 million at the exchange rate as at the date of payment (USD 70 million). The principal was not repaid in the reporting period as in September 2020, the Company and the creditor signed an agreement granting a grace period to repay the principal in 2020.

Outstanding principal payable to CQUR Bank LLC amounts to RUB 86,591 million or USD 1,172 million at the exchange rate as at the reporting date, including the current portion payable in the amount of USD 91 million or RUB 6,737 million. Current interest payable amounts to RUB 122 million (USD 1.7 million at the exchange rate as at the reporting date).

The loan from CQUR Bank LLC was secured by pledge of the common shares of the Parent and the equity interests that the Parent holds in certain subsidiaries. At the same time, certain subsidiaries of the Group and other related parties are joint guarantors to the creditor with regard to the Parent's liabilities.

The loan agreement contains a number of financial and operational covenants that the Company shall comply with during the term of the agreement. Non-fulfillment of some of the agreed covenants makes the creditor entitled to claim early repayment of principal amount and accrued interest, including interest penalties.

24. Loans and borrowings (continued)

Interest accrued is primarily repaid simultaneously with the principal amount, unless otherwise specified in loan agreements, and presented as long-term loans and borrowings.

Reconciliation of movements in financing activities from the consolidated statement of cash flows with long-term and short-term loans and borrowings from the consolidated statement of financial position is as follows.

	2020			2019		
	Long-term and short-term loans and borrowings	Other financial liabilities	Total	Long-term and short-term loans and borrowings	Other financial liabilities	Total
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
At the beginning of the period	**79,011**	**–**	**79,011**	**98,823**	**–**	**98,823**
Cash flow – financing activities	(5,997)	–	(5,997)	(15,654)	–	(15,654)
Interest accrued	5,390	–	5,390	6,587	–	6,587
Discounting of financial liabilities	60	–	60	(227)	–	(227)
Foreign exchange difference	14,136	–	14,136	(9,533)	–	(9,533)
Foreign currency translation	1,203	–	1,203	(985)	–	(985)
At the end of the period	**93,803**	**–**	**93,803**	**79,011**	**–**	**79,011**
Other cash flows – financing activities, including:	–	(4,227)	(4,227)	–	(5,442)	(5,442)
Dividends paid	–	(4,625)	(4,625)	–	(2,528)	(2,528)
Exercise of derivative financial instruments	–	980	980	–	(2,357)	(2,357)
including options	–	*454*	*454*	–	*(2,357)*	*(2,357)*
Repayment of lease liabilities	–	(571)	(571)	–	(557)	(557)
Other movements	–	(11)	(11)	–	–	–
Net cash − financing activities	**(5,997)**	**(4,227)**	**(10,224)**	**(15,654)**	**(5,442)**	**(21,096)**

25. Decommissioning liability

	2020		2019	
	Decommissioning liability	Land restoration liability	Decommissioning liability	Land restoration liability
	RUB million	RUB million	RUB million	RUB million
At the beginning of the period	**12,069**	**3,762**	**6,396**	**1,919**
Acquisitions	110	231	128	547
Disposals	(59)	(120)	(66)	(390)
Change in estimate	(2,168)	(627)	5,083	1,516
Accretion expense	798	248	562	170
Foreign currency translation	57	–	(34)	–
At the end of the period	**10,807**	**3,494**	**12,069**	**3,762**

25. Decommissioning liability (continued)

The Group makes provision for the future cost of decommissioning oil production facilities and restoring disturbed land on a discounted basis as the facilities are put into operation or sites are damaged. The Group estimated the provision subject to existing oil extraction technologies and current estimates of decommissioning costs (adjusted for inflation projections) and discounted the provision at the rate of 6.96% (2019: 6.60%).

The decommissioning liability represents the present value of decommissioning costs relating to oil and gas properties which are expected to be incurred up to 2094 depending on the recovery period of proved reserves for each group of oil and gas fields. Management makes assumptions based on the current economic environment and believes that they are a reasonable basis upon which the future liability is estimated. These estimates are reviewed regularly to take into account any material changes in the assumptions. Actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning work which will reflect specific market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in its turn, will depend on future oil and gas prices, which are inherently uncertain.

26. Long-term financial and other liabilities, trade and other payables and accrued liabilities

Long-term financial and other liabilities	31 December 2020	31 December 2019
	RUB million	RUB million
Long-term advances received	19,569	23,038
Derivative financial instruments (Note 29)	25,146	21,493
Finance guarantee (Note 30)	257	179
Long-term trade payables	791	854
Other long-term payables and accrued liabilities	605	1
Total financial and other long-term liabilities	**46,368**	**45,565**

Trade and other payables and accrued liabilities	31 December 2020	31 December 2019
	RUB million	RUB million
Trade payables	6,431	12,413
Other short-term payables and accrued liabilities	2,733	3,317
Derivative financial instruments (Note 29)	1,305	3,632
Total trade and other payables and accrued liabilities	**10,469**	**19,362**

Taxes and levies payable (excluding income tax)	31 December 2020	31 December 2019
	RUB million	RUB million
Mineral extraction tax	9,591	5,425
Value added tax	2,157	3,648
Property tax	338	389
Other taxes and levies (excluding income tax)	333	435
Total taxes and levies payable (excluding income tax)	**12,419**	**9,897**

26. Long-term financial and other liabilities, trade and other payables and accrued liabilities (continued)

Advances received and other short-term liabilities	31 December 2020	31 December 2019
	RUB million	RUB million
Advances received	39,060	24,806
Other short-term liabilities	2,174	694
Total advances received and other short-term liabilities	**41,234**	**25,500**

27. Income tax

The major components of income tax benefit and income tax expense are:

	2020	2019
	RUB million	RUB million
Current income tax		
Current income tax expense	1,630	3,041
Income tax relating to previous years	1	1
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,710)	4,130
Change in deferred income tax relating to previous periods	1,081	140
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**1,002**	**7,312**

Reconciliation between tax benefit / tax expense and accounting profit multiplied by the Group’s country of origin official tax rate is as follows:

	2020	2019
	RUB million	RUB million
Accounting (loss)/profit before tax	**(20,298)**	**29,166**
Income tax at applicable tax rate (20%)	**(4,060)**	**5,833**
Tax effect of non-deductible expense and non-taxable income	3,607	832
Tax effect of rates other than 20%	295	477
Change in unrecognized deferred tax assets	78	28
Change in deferred income tax relating to previous periods	1,081	140
Income tax relating to previous years	1	1
Other	–	1
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**1,002**	**7,312**

Generally, the subsidiaries of the Group incorporated in the Russian Federation used 20% tax rate in 2020 and 2019. The subsidiaries incorporated outside the Russian Federation applied rates and exemptions stipulated by local tax legislation.

27. Income tax (continued)

Deferred income tax

Deferred tax assets and liabilities as at 31 December 2020 by the lines of the consolidated statement of financial position as well as their movements in 2020 are presented below:

	Consolidated statement of financial position 31 December 2019	Consolidated statement of profit or loss and other comprehensive income 2020	Disposal of subsidiaries	Consolidated statement of financial position 31 December 2020
	RUB million	RUB million	RUB million	RUB million
Deferred tax liabilities				
Oil and gas properties	(11,432)	(491)	–	(11,923)
Inventories	(531)	232	–	(299)
Other	(461)	(2,879)	–	(3,340)
Deferred tax assets				
Tax loss carry forward	17,095	(1,780)	–	15,315
Oil and gas properties	63	(13)	(26)	24
Inventories	2	(1)	–	1
Trade and other receivables	30	2	–	32
Other	1,858	5,637	–	7,495
Unrecognized tax assets	(3,196)	(78)	26	(3,248)
Total deferred tax liabilities and tax assets	**3,428**	**629**	**–**	**4,057**
Deferred income tax benefit	**–**	**(629)**	**–**	**–**
Consolidated statement of financial position				
Deferred tax assets	10,633	–	–	10,855
Deferred tax liabilities	(7,205)	–	–	(6,798)

Deferred tax assets and liabilities as at 31 December 2019 by the lines of the consolidated statement of financial position as well as their movements in 2019 are presented below:

	Consolidated statement of financial position 31 December 2018	Consolidated statement of profit or loss and other comprehensive income 2019	Disposal of subsidiaries	Consolidated statement of financial position 31 December 2019
	RUB million	RUB million	RUB million	RUB million
Deferred tax liabilities				
Oil and gas properties	(10,095)	(1,337)	–	(11,432)
Inventories	(558)	27	–	(531)
Other	(203)	(258)	–	(461)
Deferred tax assets				
Tax loss carry forward	19,288	(2,188)	(5)	17,095
Oil and gas properties	105	(42)	–	63
Inventories	22	(20)	–	2
Trade and other receivables	26	6	(2)	30
Other	2,281	(423)	–	1,858
Unrecognized tax assets	(3,168)	(28)	–	(3,196)
Total deferred tax liabilities and tax assets	**7,698**	**(4,263)**	**(7)**	**3,428**
Deferred income tax expense	**–**	**4,263**	**7**	**–**
Consolidated statement of financial position				
Deferred tax assets	14,715	–	–	10,633
Deferred tax liabilities	(7,017)	–	–	(7,205)

27. Income tax (continued)

Deferred income tax (continued)

Deferred tax liabilities in respect of the retained earnings of the subsidiaries are not recognized because the Group has the power to control future distributions among investors and has no intention to do so in the foreseeable future.

28. Transactions with related parties

The Group's transactions with its subsidiaries that are related parties are excluded from the consolidated financial statements and are not disclosed in this Note. Transactions with joint ventures before consolidation adjustments are fully disclosed herein.

The nature of the related party relations for those related parties with whom the Group entered into significant transactions in 2020 and 2019 or had significant balances outstanding as at 31 December 2020 and 2019 are detailed below.

Transactions with related parties in 2020 and 2019:

2020	**Sales**	**Other transactions**	**Acquisitions**	**Finance income**	**Finance expense**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Entities/Individuals with significant influence on the Group	–	–	–	–	779
Associates and joint ventures	–	18,573	99	2,221	60
Other related parties	23,581	7,066	9,474	1,824	67
Total	**23,581**	**25,639**	**9,573**	**4,045**	**906**

2019	**Sales**	**Other transactions**	**Acquisitions**	**Finance income**	**Finance expense**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Entities/Individuals with significant influence on the Group	23[5]	–	–	–	1,111
Associates and joint ventures	–	(34)	62	2,514	378
Other related parties	58,836	263	1,209	523	330
Total	**58,859**	**229**	**1,271**	**3,037**	**1,819**

[5] Excluding export duty.

28. Transactions with related parties (continued)

As at 31 December 2020 and 31 December 2019, amounts due to and due from related parties are as follows:

31 December 2020	Receivables	Loans issued	Payables	Loans received	Guarantees issued	Guarantees issued to secure liabilities
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
Entities/Individuals with significant influence on the Group	–	–	19,197	–	21,659	–
Associates and joint ventures	212	51,473	130	1,063	–	–
Other related parties	7,057	27,850	780	–	59	51,759
Total	**7,269**	**79,323**	**20,107**	**1,063**	**21,718**	**51,759**

31 December 2019	Receivables	Loans issued	Payables	Loans received	Guarantees issued	Guarantees issued to secure liabilities
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
Entities/Individuals with significant influence on the Group	28	–	19,324	–	18,503	–
Associates and joint ventures	194	57,656	240	839	–	–
Other related parties	6,177	8,157	923	–	59	41,524
Total	**6,399**	**65,813**	**20,487**	**839**	**18,562**	**41,524**

Pricing policy

The Group determines prices for related party transactions within the range of market prices. In addition, the Group’s management performs control envisaged by the regulation governing transactions between related parties.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly, including directors (executive and other directors) of the Group. There were no significant transactions carried out during the reporting year with directors and key management personnel.

In 2020, key management personnel compensation expense, consisting of salaries and payroll taxes, totaled RUB 1,028 million (2019: RUB 1,299 million).

28. Transactions with related parties (continued)

Key management personnel (continued)

In 2020, the Company adopted another three-year long-term motivation program for senior and medium management for the period of 2020-2022. The program recognizes the phantom shares to be paid off in cash as a liability expensed to bonuses during the period of rendering services. Planned payments are calculated upon reaching the target program criteria in each reporting period. At the end of 2020, the Company accrued RUB 48 million (including insurance contributions) for the first year of the adopted program based on the preliminary estimate of planned performance progress.

At the end of 2019, the Company accrued RUB 461 million (including insurance contributions) for the third year of the long-term motivation program for 2017-2019 based on the preliminary estimate of planned performance progress; in 2020, the actual year-end payment for 2019 amounted to RUB 433 million.

29. Fair value measurement

All financial instruments are measured at fair value using a valuation model based on Level 3 non-market observable inputs that require additional evaluations and corrections. There have been no transfers between the levels of the fair value hierarchy during the reporting period.

Management believes that the fair value of the Group's cash, current financial assets, short-term trade payables and short-term loans and borrowings is equal to their carrying amount. The fair value of long-term loans and borrowings received by the Group, long-term trade payables and receivables and loans issued is determined using a discounted cash flow model based on the discount rates that are equal to the market rates effective at the reporting date. As at 31 December 2020, management classified the risk of default as insignificant.

The accounting classification of each category of financial instruments, their carrying amounts and fair values are as follows below. The fair value of lease liabilities as well as other financial liabilities at fair value through profit or loss approximates their carrying amount, these items are not included in the disclosure below as the information on their fair value is presented in Notes 16 and 30.

	31 December 2020		31 December 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	RUB million		**RUB million**	
Financial assets				
Loans issued	79,323	77,541	79,252	73,051
Trade and other receivables	5,550	5,394	7,937	7,929
Cash and cash equivalents	4,231	4,231	2,929	2,929
Financial liabilities measured at amortized cost				
Trade and other payables	8,096	8,007	14,202	14,114
Loans and borrowings	93,803	88,468	79,011	82,852

The sensitivity of fair value of long-term financial instruments to a fluctuation in the discount rate by 1% is disclosed below. This analysis has been based on the assumption that the change in foreign exchange rates had occurred at the reporting date and had been applied to the foreign currency balances, while all other variables, in particular payment schedules, remain constant.

29. Fair value measurement (continued)

	Change in the discount rate	Effect on profit before tax for 2020	Effect on profit before tax for 2019
		RUB million	RUB million
Long-term loans issued	1%	(3,160)	(3,014)
Long-term loans issued	-1%	3,335	3,222
Long-term trade and other receivables	1%	(1)	(1)
Long-term trade and other receivables	-1%	1	1
Long-term loans and borrowings received	1%	3,272	3,386
Long-term loans and borrowings received	-1%	(3,048)	(3,182)
Long-term trade and other payables	1%	11	13
Long-term trade and other payables	-1%	(11)	(14)

In 2017, the Company entered into a number of three-year agreements to hedge future cash flows with banks, including non-deliverable put options (in foreign currency) and call options (in Russian rubles). Fair values of derivative financial instruments (options) were measured using designated mathematical models at the reporting date; the revaluation effect (gain) of RUB 2,281 million was recognized in the "Change in fair value: options" within other operating income and expenses in the consolidated statement of profit or loss and other comprehensive income jointly with effect of exercise of options (gains, net) in the amount of RUB 700 million (Note 14). Given the specific structure of the instruments (the combination of the foreign currency and RUB components in the option structure), the Group did not account for hedges on the options through other comprehensive income. In the reporting period, the Company made payments to exercise call options of RUB 340 million and received cash to exercise put options of RUB 794 million (net cash flows are disclosed in Note 24). As at 31 December 2020, the above hedging agreements were fully completed by the Company and there were no new agreements.

In December 2019, the Group acted as a party of the derivative contracts measured at fair value (currency interest rate swap) or at amortized cost through profit or loss (forward to purchase preference shares of the Parent) (Note 23). The measurement of the Group's derivative financial instruments broken down by fair value or amortized cost is presented in the following table.

Derivative financial instruments	31 December 2020	31 December 2019
	RUB million	RUB million
Short-term derivative financial assets: options	−	77
Short-term derivative financial liabilities − options	−	(2,358)
Long-term derivative financial liabilities − swaps	(6,072)	(1,721)
Long-term derivative financial liabilities − forward	(19,074)	(19,772)
Short-term derivative financial liabilities − forward	(1,305)	(1,351)
Total[6]	**(26,451)**	**(25,125)**

6 The fair value of derivative instruments is measured on a net basis and recorded in other long-term liabilities and payables (Note 26).

29. Fair value measurement (continued)

	31 December 2020 RUB million	31 December 2019 RUB million
Change in fair value, net: options	(2,281)	(3,619)
Exercise of options, net	(700)	2,538
Change in fair value: swaps	3,924	1,721
Consideration under derivative financial instruments	(1,287)	–
(Profit)/Loss (net) from derivative financial instruments and exercise of options (Note 14)	**(344)**	**640**

30. Contingencies, commitments and operating risks

Operating environment of the Group

The Group’s principal activities are performed in the Russian Federation. Russian economy is characterized by significant vulnerability to the world price for crude oil, fluctuations of commodity and financial markets, and economic slowdowns elsewhere in the world that became evident during the 2020 global crisis. The pertaining sanctions imposed against the Russian Federation induce reduced capital availability, higher costs of capital and uncertainty regarding economic growth, thus giving rise to the risk of an adverse effect on the Group’s financial position, performance and business prospects. The above trends can persist for an indefinite period of time.

Due to the rapid spread of the COVID-19 pandemic in 2020, many countries, including Russia, have imposed quarantine measures that have had a major impact on the level and scope of business activity of global and domestic market players. The current economic situation reflects the consequences of the pandemic as well as measures aimed at mitigating its impact on the business of companies from various industries and geographical regions. Moreover, the possibility of recurring cyclic waves of coronavirus or other virus with similar effects still remains. The Group’s management takes all measures to ensure the security and health protection of employees and their families, employees of organizations engaged under joint contracts in all the regions where the Group is present.

Since March 2020, equity, currency and commodity markets have shown extreme volatility, as well as a sharp drop in oil prices in the first half of 2020 and depreciation of the Russian ruble against foreign currencies. Among the most heavily affected industries of the Russian economy, oil production and oil refinery businesses stand apart due to the additional negative impact from the commitment on oil production cuts as part of the OPEC+ deal and overall demand reduction in the economy. After several months of significant turbulence, the markets begin to recover to a relative extent.

The consolidated financial statements reflect management assessment of the impact of the Russian business environment on the financial position and performance of the Group. The future business environment may differ from the current management assessment. The Company’s management regularly monitors the potential risks, including the analysis of country risks. Should any risk occur, the Company will develop measures to minimize potential adverse effects on the Group.

30. Contingencies, commitments and operating risks (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretation and changes. Management interpretation of such legislation as applied to the transactions and activity of the Group’s entities may be challenged by the relevant regional and federal authorities. The tax authorities can take a more assertive position in their interpretation of the legislation and tax assessments. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As such, additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

For taxes where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits which will be required to settle these liabilities.

Russian transfer pricing legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price. The list of controlled transactions with related parties resident in Russia was considerably shortened in 2019 following certain legislative changes. A transaction will be deemed controlled if it yields annual income of over RUB 1 billion subject to certain conditions related to the application of exemptions or special tax regimes, for example, where parties to a transaction apply different income tax rates, or at least one party pays tax on additional income from hydrocarbon extraction (AIT) and includes income (expenses) from the transaction in the AIT base. Controlled transactions will also include transactions with related non-Russian residents and transactions involving the external trade of goods as part of global exchange trading, and transaction in which one of the parties is an entity or individual with a place of registration, address or tax residency in a country or a territory, which the Russian Ministry of Finance included in the offshore list, provided that income from those transactions exceeds RUB 60 million. In case a domestic transaction results in an accrual of additional income tax liabilities for one party, the other party may correspondingly adjust its income tax liabilities.

There are control procedures applied to all types of controlled transactions of the Company to ensure consistency between the prices used in the controlled transactions and the level of market prices for the purposes of taxation, which are updated on an annual basis taking into account current legal requirements. When the Company concludes transactions with related parties, it applies control procedures to ensure consistency between the prices used in the controlled transactions and the level of market prices for the purposes of taxation, while establishing the transaction price. The activities performed focus on minimizing tax risks of the Group.

Starting 1 January 2019, the Company is subject to tax on additional income from extraction of hydrocarbons in two license areas. In October 2020, amendments to the Russian Tax Code were adopted, whereby from 1 January 2021 tax incentives for fields with a high depletion rate were abolished, however, these fields may be transferred to the AIT regime (payment of tax on additional income from hydrocarbon extraction). The Company notified the tax authority of the exercise of the right to perform the taxpayer’s obligations to pay the tax on additional income from hydrocarbon extraction with respect to 34 license areas.

30. Contingencies, commitments and operating risks (continued)

Taxation (continued)

The Company is the Parent of a multinational corporation (MNC). In 2019 and 2020, the Parent submitted a notification of its participation in the MNC and Country-by-Country (CbC) reports for the stated periods to the tax authorities within a time frame established by regulation.

To ensure compliance with the legislation governing taxation of controlled foreign companies and to mitigate related tax risks, the Group’s management developed a set of internal routine procedures. The legislation governing taxation of controlled foreign companies requires that the Company’s income tax calculation for 2020 should include financial results of individual controlled foreign companies of the Group, whose income is subject to taxation as part of income of the Parent.

On 30 June 2020, PJSC Varyeganneft and PJSC “RussNeft” filed applications with the Russian Federal Tax Service for an installment plan pursuant to article 64 of the Russian Tax Code. In August 2020, the Russian Federal Tax Service made decisions to grant the MET payment installment plan to PJSC Varyeganneft for RUB 1,002 million, and according to the revised decision made in September 2020, to PJSC “RussNeft” for RUB 7,970 million for the period through 25 June 2021, with the repayment of the outstanding amount under the schedule established by these decisions and interest at the rate of 1/2 of the refinancing rate of the CBR. As at 31 December 2020, PJSC Varyeganneft repaid the amount of RUB 455 million under the schedule; the remaining amount under the MET payment installment plan is RUB 547 million; for PJSC “RussNeft” – RUB 3,513 million and RUB 4,457 million, respectively.

The Group takes measures to reduce its tax risks on a regular basis. Management believes that the Group has complied with all regulations, and paid and accrued all taxes that are applicable.

Compliance with the terms and conditions for subsoil use

Licenses for subsoil use are issued by the Russian Federal Subsoil Use Agency. Management believes that under current legislation, the Group is entitled to renew the licenses for all available fields after expiry of the initially stated periods.

Authorized state agencies regularly review the Group’s activity for compliance with the terms and conditions for subsoil use. Failure to meet the terms and conditions for subsoil use may result in penalty accruals and sanctions, including license suspension or revocation. Management takes appropriate measures to comply with the terms and conditions for subsoil use, including rectification of all shortcomings identified in reviews and instructions from the authorized state agencies within the established timeframes.

Liabilities concerning environmental and safety matters

The Russian environmental and safety legislation meets general requirements and international law enforcement practice in this field.

Management of the Group understands its responsibilities concerning environmental and safety matters and undertakes to comply with the requirements of federal, regional and industry regulations concerning environmental protection, rational use of mineral resources and safety, including international environmental and labor safety management standards. The Group implements the corporate policy concerning environmental protection and safety matters in accordance with the requirements of the Russian legislation and international standards related to environmental and safety matters. Management believes that, considering existing controls and current legislation, the Group is not imposed to significant risks and liabilities except for those that are recognized in these consolidated financial statements and relate to ordinary business operations.

30. Contingencies, commitments and operating risks (continued)

Insurance

The Group does not have full coverage for its plant facilities, business interruption, or third-party liability in respect of property or environmental damage arising from accidents at the Group’s facilities or relating to the Group’s operations.

The Group applies the Insurance Policy, which describes the Company’s key insurance principles and procedures. In accordance with the applied Insurance Policy, the Group insures its major oil and gas extraction facilities. The Group’s subsidiaries and the Parent insure especially hazardous facilities pursuant to Federal Law No. 225-FZ *On Compulsory Insurance of Civil Liability of the Owner of a Hazardous Facility for Damages Caused by an Accident at a Hazardous Facility* dated 27 July 2010. The Group also provides selective car insurance for vehicles. In addition, the Group purchases mandatory car liability insurance policies for all automobiles, special purpose equipment, trailers and other vehicles.

Retirement and post-retirement benefit obligations

The Group makes contributions to the Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage from gross salary expense and are expensed as accrued. The Group adheres to its Regulation on Non-state Pension Benefits for the Group’s Employees. The Group’s subsidiaries act as a party of pension insurance agreements with JSC Non-state Pension Fund Otkrytiye.

Litigations

Management believes that there are no current claims outstanding which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees issued

The Group’s subsidiaries are joint guarantors to CQUR Bank LLC (Qatar) with regard to the Parent’s liabilities under the loan agreement with an outstanding balance (including interest) of RUB 86,713 million, or USD 1,174 million at the exchange rate as at the date of the consolidated financial statements (Note 24).

The Parent is a guarantor for its subsidiary’s liabilities to a related party in the amount of RUB 21,659 million or USD 293 million at the exchange rate at the reporting date.

The Parent issued a financial guarantee for a related party to PJSC VTB Bank in the total amount of EUR 267 million or RUB 24,225 million at the exchange rate as at the reporting date (the underlying liability is to be repaid by 2027). This financial guarantee is recorded in these consolidated financial statements in Other long-term liabilities in the amount of RUB 257 million (Note 26).

The Parent together with several subsidiaries issued a RUB 72,000 million guarantee for Russneft Cyprus Limited (a subsidiary) to JSC VTB Capital under the forward contract to purchase preference shares of PJSC “RussNeft” in 2026. Simultaneously, the Parent issued a guarantee to LLC Business-Finance to pay, upon its request, RUB 23,000 million (within a guarantee limit) for a related party.

In the reporting period, the Parent issued additional guarantee to secure the obligations of a related party for advances received under oil supply contracts for the total amount of RUB 4,534 million.

31. Financial risk management

The Group uses principal financial instruments such as bank loans and borrowings received, and accounts payable to raise finance for its operations. The Group has various financial assets and liabilities, such as trade receivables and trade payables, loans issued and cash and cash equivalents, which arise directly from its operations.

In September 2017, the Company entered into a number of agreements to hedge future cash flows, which were fully completed in December 2020 (Note 29). During the year, the Group did not undertake trading in financial instruments.

The main risks that could adversely affect the Group’s financial assets, liabilities and future cash flows are market risk (including foreign currency risk, interest rate risk, and commodity and service price risk), credit risk and liquidity risk. The Group applies the Risk Management Policy, which includes procedures (performed on a regular basis) to identify and measure risks inherent in the key activities and to assess the possible impact of the identified risks. Based on the annual risk assessment results, the Group’s management can revise its approach to managing each type of risk. The Group’s most significant financial risks are disclosed below.

Market risk

Market risk is the risk that the fair value of financial instruments or cash flows will fluctuate as a result of changes in market prices. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

Commodity price risk

Commodity price risk is the risk of changes in prices for hydrocarbons and refining products and their potential influence on the Group’s financial and performance indicators. Reduction in prices may result in decrease in profit and cash flows. If the prices for hydrocarbons remain low during a lengthy period, it may result in reduction of capital spending on exploration, development of fields and subsequent reduction in hydrocarbon production and, thus, negatively affect the Group’s ability to fulfill its contractual obligations. However, stable oil prices and their potential growth will enable the Group to successfully pursue its strategy aimed at increasing production output in the coming years.

The Group’s management calculates budgets by scenario depending on projected oil prices, exchange rates and other indicators in order to assess a potential effect of the risk of changes in the price of main commodities on the Group’s management reports. The Group enters into standard agreements on sale of oil and oil products with customers. As at 31 December 2020, the Group had no derivative financial instruments in relation to commodity price risk and foreign currency risk on future cash flows (Note 29).

Foreign currency risk

The Group is exposed to transaction foreign currency risks. Foreign currency risk exposure arises from sales, purchases and borrowing in currencies other than the respective functional currency of the Group’s companies. The Group limits foreign currency risk by monitoring changes in exchange rates of the currencies in which its cash and loans and borrowings are denominated. Meanwhile, the Group is a party to contracts on export oil sales denominated in foreign currency.

31. Financial risk management (continued)

Foreign currency risk (continued)

As at 31 December 2020 and 2019, the carrying amount of the Group’s financial assets and liabilities denominated in the currency used by the Group’s companies is as follows:

Financial assets	31 December 2020	RUB	USD	EUR	Other currencies
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other receivables	5,550	3,458	1,911	181	–
Loans issued	79,323	1,837	64,489	12,997	–
Cash and cash equivalents	4,231	681	3,190	348	12

Financial liabilities	31 December 2020	RUB	USD	EUR
	RUB million	RUB million	RUB million	RUB million
Loans and borrowings received	(93,803)	(47)	(93,756)	–
Trade and other payables	(8,096)	(5,883)	(1,897)	(316)
Derivative financial instruments[7]	(26,451)	(20,379)	(6,072)	–

Financial assets	31 December 2019	RUB	USD	EUR	Other currencies
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other receivables	7,937	5,723	2,075	139	–
Loans issued	79,252	1,592	64,207	13,453	–
Cash and cash equivalents	2,929	110	2,734	64	21
Derivative financial instruments at fair value[7]	77	–	77	–	–

Financial liabilities	31 December 2019	RUB	USD	EUR
	RUB million	RUB million	RUB million	RUB million
Loans and borrowings received	(79,011)	(49)	(78,962)	–
Trade and other payables	(14,202)	(12,289)	(1,699)	(214)
Derivative financial instruments at fair value[7]	(25,202)	(23,481)	(1,721)	–

[7] Recorded net within derivative financial liabilities in the consolidated statement of financial position.

31. Financial risk management (continued)

Foreign currency risk (continued)

A (-16.00% and -11.00%) strengthening or (16.00% and 13.00%) weakening of RUB against USD and EUR as at 31 December 2020 and 31 December 2019, respectively, with all other variables held constant, would have changed profit before tax by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the reporting date and had been applied to the foreign currency balances to which the Group has significant exposure, and that all other variables, in particular interest rates, remain constant.

Relative weakening/(strengthening) of RUB against USD	**Effect on profit before tax for 2020**	**Effect on profit before tax for 2019**
	RUB million	**RUB million**
+16.00%	(4,414)	–
-16.00%	4,414	–
+13.00%	–	(1,551)
-11.00%	–	1,312

Relative weakening/(strengthening) of RUB against EUR	**Effect on profit before tax for 2020**	**Effect on profit before tax for 2019**
	RUB million	**RUB million**
+16.00%	2,101	–
-16.00%	(2,101)	–
+13.00%		1,244
-11.00%		(1,052)

The sensitivity of the Group’s derivative financial instruments is analyzed on the net basis.

	Currency		**Effect on profit before tax for 2020**	**Effect on profit before tax for 2019**
			RUB million	**RUB million**
Options	USD	+13.00%	–	10
	USD	-11.00%	–	(9)
Forward	RUB	+16.00%	2,745	–
Forward	RUB	-16.00%	(3,791)	–
Forward	RUB	+11.00%	–	2,189
Forward	RUB	-13.00%	–	(3,301)

The Group’s exposure to foreign currency risk for other currencies is not material.

31. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group assesses the interest rate risk as related to long-term financial liabilities with a floating interest rate.

In 2020, the interest rates (including for foreign currencies) continued to decline. The Group’s management analyzes risks related to a possible increase of interest rates which are assessed as significant, as the Parent’s borrowings are mostly represented by a foreign currency denominated loan with a floating interest rate pegged to the 3M LIBOR. As for the financial assets, the Group measures its interest rate risk (1Y LIBOR) for loans issued.

Financial instruments		**Effect on profit before tax for 2020**	**Effect on profit before tax for 2019**
		RUB million	**RUB million**
Loans and borrowings received	+1.00%	(846)	–
	-0.25%	211	–
	+0.35%	–	(266)
	-0.35%	–	266
Loans issued	+1.00%	377	–
	-0.25%	(94)	–
	+0.45%	–	152
	-0.45%	–	(152)

As at 31 December 2020, the Group did not enter into any transactions aimed to reduce its interest rate risk exposure, in particular, any interest rate swaps (except for currency interest rate swap under the forward contract, Note 23).

The Group controls this risk by ongoing monitoring of market expectations in respect of interest rates and adjusting budget as well as expected cash flow to allocate sufficient financial resources for interest repayment.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet their obligation under financial assets causing financial loss to the Group. The Group’s credit risk principally arises from cash and cash equivalents, and from financial stability of its customers and loans provided to third parties.

The Group has not used any hedging instruments as a tool for credit risk management in this period.

The Group maintains accounts only with high quality banks and financial institutions and believes that it therefore does not have a material credit risk in relation to its cash or cash equivalents.

The Group trades only with recognized, creditworthy third parties. The individual risk of a counterparty is managed through the assessment of its creditworthiness.

31. Financial risk management (continued)

Credit risk (continued)

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has a policy to negotiate advance payment terms where excessive concentration of credit risk exists. In addition, trade receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant. Although collection of receivables is exposed to economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for expected credit losses. The details of the allowance for expected credit losses are disclosed in Notes 19 and 21. The information on the major types of financial assets and their maturity is presented below:

Financial assets	31 December 2020	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Loans issued	79,323	1,230	–	20,108	57,985
Trade and other receivables	5,550	5,362	–	–	188

Financial assets	31 December 2019	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Loans issued	79,252	13,453	6,639	2,095	57,065
Trade and other receivables	7,937	7,895	–	–	42
Derivative financial instruments at fair value	77	77	–	–	–

As at 31 December 2020, the Group believes that its maximum exposure to credit risk is the carrying amount of its financial assets recognized in the consolidated statement of financial position.

The Group did not receive any collateral held as security for any financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's operating cash flow is subject to fluctuations resulting from high volatility of oil prices as well as changes in exchange rates and the amounts of taxes and duties paid. The above-mentioned factors can affect the amount of the Group's cash flow and, thus, its liquidity. In order to manage liquidity risk, the Group monitors and projects liquidity requirements on a regular basis. The Group's management ensures that sufficient funds are available to meet any commitments as they arise, prepares detailed budgets and plan-to-fact analyses on an annual, quarterly and monthly basis. The Group's liquidity risk management procedures are centralized. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and borrowings, including loans from related parties, bank guarantees and advances received for the future oil deliveries, deferral of payments under the current agreements and payments to the budget.

As at 31 December 2020, the Group's short-term liabilities exceeded its current assets by RUB 46,586 million (31 December 2019: RUB 26,104 million).

The Group's management performed current analysis with regard to liquidity risk based on operating cash flows from ordinary activities, existing arrangements with major creditors and possible deferred settlement of payables to the Group's shareholders.

31. Financial risk management (continued)

Liquidity risk (continued)

The Group’s management considers the current situation on the energy and financial markets, assessing the relatively stable prices for hydrocarbons at the end of 2020 after the sharp decline in prices in the spring of 2020 as a key factor of implementing the program of capital investment scheduled by the Company for 2021.

There is still much uncertainty about the recovery of the global demand for oil in the following years as there is no expectation of a significant growth of economic activity in the associated industries. If such adverse circumstances persist, those factors adversely affect the Group’s ability to discharge its liabilities and cause a significant uncertainty, which may cast significant doubt in the Group’s ability to continue as a going concern.

The Company examines the budget scenarios within different price ranges to assess business risks. Under these circumstances, the Company’s management takes regular measures to stabilize the situation, such as:

- Revising the capital investment program (if necessary);
- Raising long-term advances received to cover cash shortages;
- Negotiating with the major creditor and customers to restructure the debt.

In 2020, the Russian Government made the decision to call a moratorium on the bankruptcy of PJSC “RussNeft” as a systemically important enterprise.

The Group has good credit reputation and focuses on maintaining it. Its debt portfolio mainly contains long-term liabilities. The Group ensures short-term liquidity through raising long-term advances for oil supplies. The above measures of the Group’s management are aimed at ensuring the Group’s ability to continue as a going concern.

The Company has the Insurance Policy and the Risk Management Policy. The application of these policies is aimed to reduce operating cash flow volatility and is intended to have a positive effect on both long-term solvency and short-term liquidity.

The Group’s management controls on a regular basis the interest coverage ratio (EBITDA / interest expense) and the debt to EBITDA ratio, as well as the amount of crude oil production and movements in EBITDA in the reporting periods. Meanwhile, the algorithm for calculating EBITDA applied by the Group as required by the creditors can differ from that used by other companies.

The following table shows undiscounted contractual cash flows for financial liabilities, including estimated interest liability, as at 31 December 2020 and 2019.

Financial liabilities	**31 December 2020**	**Within one year**	**1 to 2 years**	**2 to 4 years**	**Over 4 years**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Trade and other payables	8,096	7,049	224	447	376
Loans and borrowings received	116,081	11,863	11,404	24,401	68,413
Derivative financial instruments[8]	26,451	1,305	816	895	23,435

[8] Recorded net within derivative financial assets and liabilities in the consolidated statement of financial position.

31. Financial risk management (continued)

Liquidity risk (continued)

Financial liabilities	31 December 2019	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other payables	14,202	13,168	188	376	470
Loans and borrowings received	106,076	11,158	10,690	22,078	62,150
Derivative financial instruments at fair value[8]	25,202	3,709	422	1,973	19,098

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to maintain an optimal capital structure to reduce cost of capital and to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

International financial ratings

As at the reporting date, Moody's rating agency assigned the Caa2 rating with a projected probability of default of Caa3-PD/LD to the Company, while Fitch rating agency assigned the CC rating with no outlook. The revision of the ratings was driven by the analysis of financial results and cash flows for the reporting period and the Group's current operating profile and the market environment.

32. Subsequent events

As at the date of the consolidated financial statements, there are no significant subsequent events to be disclosed in this note.