



ALLIANCE OIL COMPANY LTD

International Accounting Standard No. 34

**Condensed Consolidated Interim Financial Statements
(unaudited)**

30 September 2021

CONTENT

Statement of management's responsibilities for the preparation and approval of the condensed consolidated interim financial statements for the nine months ended 30 September 2021

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS.....	1
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME.....	2
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION	3
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY.....	4
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS	5
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.....	6
Note 1 Organisation	6
Note 2 Basis of preparation and significant accounting policies	6
Note 3 Adoption of new and revised Standards and Interpretations	6
Note 4 Segment information.....	7
Note 5 Production costs of crude oil and gas.....	9
Note 6 Production costs of oil products.....	9
Note 7 Selling expenses.....	10
Note 8 Property, plant and equipment	10
Note 9 Right-of-use assets and lease liabilities.....	11
Note 10 Other financial assets	11
Note 11 Value added tax recoverable and other taxes receivable.....	11
Note 12 Acquisition of non-controlling interests	11
Note 13 Loans and borrowings.....	12
Note 14 Advances received.....	13
Note 15 Financial instruments fair value	13
Note 16 Related party transactions.....	14
Note 17 Commitments and contingencies	14
Note 18 Operating environment of the Group	15
Note 19 Significant events after the end of the period.....	15

ALLIANCE OIL COMPANY LTD

Statement of management's responsibilities for the preparation and approval of the condensed consolidated interim financial statements for the nine months ended 30 September 2021

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of Alliance Oil Company Ltd and its subsidiaries (the "Group") as at 30 September 2021, and the results of its operations, cash flows and changes in shareholders' equity for the nine months then ended, in compliance with IAS 34, "Interim financial reporting".

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

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

Management is also responsible for:

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

On behalf of management:



Andreas Andreou
Director



V.V. Bondarenko
Chief Financial Officer

6 December 2021

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)

		Quarter ended 30 September 2021	Quarter ended 30 September 2020	Nine months ended 30 September 2021	Nine months ended 30 September 2020
<i>(Expressed in USD thousands)</i>					
Revenue					
Revenue from sales of crude oil and gas		173,081	179,772	532,222	449,219
Revenue from sales of oil products		798,143	570,812	1,961,236	1,565,817
Revenue from other sales		7,969	7,128	24,547	24,065
		979,193	757,712	2,518,005	2,039,101
Cost of sales					
Production costs of crude oil and gas	5	(140,317)	(144,743)	(408,088)	(357,759)
Production costs of oil products	6	(648,881)	(466,636)	(1,536,142)	(1,340,530)
Cost of other sales		(3,109)	(3,766)	(11,579)	(11,511)
Depletion and depreciation of oil and gas production and refining assets		(26,568)	(30,796)	(76,153)	(100,342)
Impairment of oil and gas assets	8	-	-	-	(5,439)
		160,318	111,771	486,043	223,520
Gross profit					
Selling expenses	7	(70,675)	(61,571)	(188,661)	(192,373)
Administrative expenses		(33,048)	(17,487)	(88,747)	(68,710)
Depreciation and amortisation of marketing and other assets		(7,045)	(8,368)	(21,978)	(26,312)
Changes in expected credit losses		(293)	(1,128)	(29,847)	(2,190)
Other operating expenses, net		(1,809)	(3,781)	(5,655)	(7,812)
Foreign currency exchange gain/ (loss) from non-financing activities, net		2,452	(134,335)	(1,757)	(274,409)
		49,900	(114,899)	149,398	(348,286)
Operating income/ (loss)					
Interest income		3,471	16,702	8,569	46,516
Finance costs		(22,554)	(50,546)	(63,241)	(158,634)
Foreign currency exchange loss from financing activities, net		(106)	(6,355)	(4,245)	(3,401)
		30,711	(155,098)	90,481	(463,805)
Profit/ (Loss) before tax					
Income tax (expense)/ benefit		(10,840)	29,344	(33,345)	81,930
		19,871	(125,754)	57,136	(381,875)
Profit/ (Loss) for the period					
Attributable to:					
Owner of the Company		19,490	(135,705)	41,400	(400,980)
Non-controlling interests		381	9,951	15,736	19,105
		19,871	(125,754)	57,136	(381,875)

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

<i>(Expressed in USD thousands)</i>	Quarter ended 30 September 2021	Quarter ended 30 September 2020	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Profit/ (Loss) for the period	19,871	(125,754)	57,136	(381,875)
Other comprehensive income/ (loss)				
Items that may be reclassified subsequently to profit or loss:				
Effect of translation to presentation currency	(8,690)	(39,997)	25,966	(109,070)
	(8,690)	(39,997)	25,966	(109,070)
Total comprehensive gain/ (loss) for the period	11,181	(165,751)	83,102	(490,945)
Attributable to:				
Owner of the Company	10,880	(160,414)	67,344	(480,197)
Non-controlling interests	301	(5,337)	15,758	(10,748)
	11,181	(165,751)	83,102	(490,945)

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

<i>(Expressed in USD thousands)</i>	Note	30 September 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,691,786	1,716,763
Right-of-use assets	9	26,390	63,061
Goodwill		34,043	33,529
Deferred tax assets		110,099	114,091
Other financial assets		57	139
Other non-current assets		1,254	1,576
		1,863,629	1,929,159
Current assets			
Inventories		300,386	181,608
Trade and other accounts receivable		132,533	41,430
Other financial assets	10	462,736	-
Value added tax recoverable and other taxes receivable	11	153,946	82,722
Income tax receivable		11,370	11,053
Advances paid and prepaid expenses		71,124	56,627
Cash and cash equivalents		203,812	1,104,513
		1,335,907	1,477,953
TOTAL ASSETS		3,199,536	3,407,112
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		2	2
Additional paid-in capital		3,411,677	3,411,654
Translation reserve		(2,048,875)	(2,074,819)
Retained earnings		382,363	381,236
Equity attributable to owner of the Company		1,745,167	1,718,073
Non-controlling interests		29,288	104,883
TOTAL EQUITY		1,774,455	1,822,956
Non-current liabilities			
Loans and borrowings	13	357,781	505,936
Lease liabilities	9	6,297	39,531
Advances received	14	143,490	75
Deferred tax liabilities		92,564	90,561
Provision for decommissioning and site restoration costs		66,273	60,131
Post-employment benefit obligations		7,513	6,743
		673,918	702,977
Current liabilities			
Loans and borrowings	13	363,128	570,433
Lease liabilities	9	20,181	27,136
Trade and other accounts payable		48,185	42,846
Advances received and accrued expenses		188,364	96,891
Income tax payable		1,811	1,826
Other taxes payable		129,494	142,047
		751,163	881,179
TOTAL LIABILITIES		1,425,081	1,584,156
TOTAL EQUITY AND LIABILITIES		3,199,536	3,407,112

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

<i>(Expressed in USD thousands)</i>	Attributable to owner of the Company				Total	Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Translation reserve	Retained earnings			
Balance at 1 January 2020	2	1,353,809	(1,992,638)	772,441	133,614	127,658	261,272
(Loss)/Profit for the period	-	-	-	(400,980)	(400,980)	19,105	(381,875)
Other comprehensive loss, net of income tax	-	-	(79,217)	-	(79,217)	(29,853)	(109,070)
Total comprehensive loss for the period	-	-	(79,217)	(400,980)	(480,197)	(10,748)	(490,945)
Initial modification of loans provided to an entity under common control, net of income tax	-	-	-	(10,632)	(10,632)	-	(10,632)
Changes in ownership of subsidiaries	-	38	-	-	38	(97)	(59)
Dividends	-	-	-	-	-	(711)	(711)
Balance at 30 September 2020	2	1,353,847	(2,071,855)	360,829	(357,177)	116,102	(241,075)
Balance at 1 January 2021	2	3,411,654	(2,074,819)	381,236	1,718,073	104,883	1,822,956
Profit for the period	-	-	-	41,400	41,400	15,736	57,136
Other comprehensive income, net of income tax	-	-	25,944	-	25,944	22	25,966
Total comprehensive income for the period	-	-	25,944	41,400	67,344	15,758	83,102
Acquisition of 49% in AR Oil & Gaz B.V. (Note 12)	-	-	-	(40,897)	(40,897)	(91,103)	(132,000)
Effect of remeasurement of loans received from entity under common control, net of income tax	-	-	-	624	624	-	624
Changes in ownership of subsidiaries	-	23	-	-	23	(11)	12
Dividends	-	-	-	-	-	(239)	(239)
Balance at 30 September 2021	2	3,411,677	(2,048,875)	382,363	1,745,167	29,288	1,774,455

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine months ended 30 September 2021	Nine months ended 30 September 2020
<i>(Expressed in USD thousands)</i>		
Operating activities		
Profit/ (Loss) before tax	90,481	(463,805)
Adjustments for:		
Depreciation, depletion and amortisation	98,131	126,654
Interest income	(8,569)	(46,516)
Finance costs	63,241	158,634
Foreign currency exchange loss from financing activities, net	4,245	3,401
Foreign currency exchange loss from non-financing activities, net	1,757	274,409
Changes in expected credit losses	29,847	2,190
Impairment of oil and gas assets	-	5,439
Other non-cash items	7,353	6,900
Operating cash flows before changes in working capital	286,486	67,306
Movements in working capital and other liabilities		
(Increase)/Decrease in inventories	(112,283)	1,678
(Increase)/ Decrease in accounts receivable, advances paid and prepaid expenses	(176,462)	72,791
Increase in accounts payable, advances received and accrued expenses	224,734	44,192
Cash generated from operations	222,475	185,967
Interest paid	(47,824)	(133,312)
Income tax paid	(27,773)	(14,490)
Total cash generated from operating activities	146,878	38,165
Investing activities		
Investments in oil and gas production assets	(15,911)	(39,421)
Investments in refining assets	(17,063)	(6,302)
Investments in marketing and other assets	(4,252)	(6,274)
Interest capitalised and paid	(3,551)	(3,726)
Proceeds from disposal of assets	316	117
Short-term deposits placed	(23,372)	-
Loans provided	(553,100)	-
Loans repaid	88,243	-
Interest received	3,623	1,798
Total cash used in investing activities	(525,067)	(53,808)
Financing activities		
Proceeds from loans and borrowings	805,519	553,462
Repayment of loans and borrowings	(1,018,706)	(423,077)
Payments of obligations under lease agreements	(18,249)	(22,404)
Eurobonds repayment	(80,000)	(100,000)
Bond refinancing costs	-	(6,064)
RUB bonds repayment	(83,530)	(12,677)
Acquisition of 49% in AR Oil & Gaz B.V. (Note 12)	(132,000)	-
Dividends distributed	(231)	(1,164)
Other financing activities	(8)	(59)
Total cash used in financing activities	(527,205)	(11,983)
Effect of foreign currencies exchange rate changes	4,693	(14,611)
Change in cash and cash equivalents	(900,701)	(42,237)
Cash and cash equivalents at beginning of the period	1,104,513	157,078
Cash and cash equivalents at end of the period	203,812	114,841

ALLIANCE OIL COMPANY LTD
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
in thousands of US Dollars (TUSD) unless indicated otherwise

Note 1 Organisation

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

Alliance Oil Company Ltd was incorporated in Bermuda on 1 September 1998 as an exempted company limited by shares. The Company’s registered office is located at: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Note 2 Basis of preparation and significant accounting policies

These condensed consolidated interim financial statements for the nine months ended 30 September 2021 have been prepared in accordance with IAS 34 «*Interim financial reporting*». These condensed consolidated interim financial statements supplement the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The principal accounting policies and significant judgments and estimates applied therein are consistent with those of the consolidated financial statements for the year ended 31 December 2020, except for the policies which were changed to comply with the new or amended Standards and Interpretations that are in force for the year beginning on 1 January 2021 (Note 3).

Foreign currency translation

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

	RUB per 1 USD		RUB per 1 KZT	
	2021	2020	2021	2020
As at 1 January	73.8757	61.9057	0.1755	0.1617
Average for the quarter ended 31 March	74.3414	66.3818	0.1769	0.1693
Average for the quarter ended 30 June	74.2155	72.3611	0.1731	0.1728
Average for the quarter ended 30 September	73.4746	73.5598	0.1723	0.1756
As at 30 September	72.7608	79.6845	0.1709	0.1846
As at 31 December	-	73.8757	-	0.1755

Income taxes

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Seasonality of operations

The Group’s operations are not seasonal. Income and expenses are earned and incurred evenly during the financial year.

Note 3 Adoption of new and revised Standards and Interpretations

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark (IBOR) reform – phase 2 issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021 have no significant effect on condensed consolidated interim financial statements of the Group.

The Group is currently assessing the impact of the amendments on its condensed consolidated interim financial statements, none of these is expected to have a significant effect on the condensed consolidated interim financial statements of the Group:

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 3 Adoption of new and revised Standards and Interpretations (continued)

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 17 «Insurance Contracts» (issued on 18 May 2017 and amended on 25 June 2020, effective for annual reporting periods beginning on or after 1 January 2021 originally, and on or after 1 January 2023 as amended);
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and amended on 15 July 2020, effective for annual periods beginning on or after 1 January 2022 originally, and on or after 1 January 2023 as amended);
- Annual Improvements to IFRSs 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 and narrow scope amendments to IAS 16, IAS 37 and IFRS 3 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023);
- Disclosure of Accounting policies - Amendments to IAS 1 and IFRS Practice Statement 2 (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Definition of Accounting Estimates - Amendments to IAS 8 (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 (issued in March 2021 and effective for annual periods on or after 1 April 2021);
- Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

Note 4 Segment information

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

The Group has identified the following business segments:

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

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

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

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

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 4 Segment information (continued)

Financial information by reportable segments is presented below:

	Quarter ended 30 September 2021						
	Upstream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	201,213	804,571	39	1,005,823	(26,807)	177	979,193
Less inter-segment revenue	(26,799)	-	(8)	(26,807)	26,807	-	-
Revenue from external customers	174,414	804,571	31	979,016	-	177	979,193
Segment-adjusted EBITDA	53,743	52,845	(30,966)	75,622	-	5,710	81,332

	Quarter ended 30 September 2020						
	Upstream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	122,613	649,236	111	771,960	(15,221)	973	757,712
Less inter-segment revenue	(15,213)	-	(8)	(15,221)	15,221	-	-
Revenue from external customers	107,400	649,236	103	756,739	-	973	757,712
Segment-adjusted EBITDA	43,586	28,292	(15,706)	56,172	-	3,474	59,646

	Nine months ended 30 September 2021						
	Upstream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	559,733	2,014,119	191	2,574,043	(56,080)	42	2,518,005
Less inter-segment revenue	(56,058)	-	(22)	(56,080)	56,080	-	-
Revenue from external customers	503,675	2,014,119	169	2,517,963	-	42	2,518,005
Segment-adjusted EBITDA	164,986	184,027	(84,941)	264,072	-	14,914	278,986

	Nine months ended 30 September 2020						
	Upstream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	332,398	1,723,580	335	2,056,313	(20,463)	3,251	2,039,101
Less inter-segment revenue	(20,439)	-	(24)	(20,463)	20,463	-	-
Revenue from external customers	311,959	1,723,580	311	2,035,850	-	3,251	2,039,101
Segment-adjusted EBITDA	89,398	19,210	(69,328)	39,280	-	20,895	60,175

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

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

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

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

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 4 Segment information (continued)

Reconciliation of the segment-adjusted EBITDA to profit before tax is presented below:

	Quarter ended 30 September 2021	Quarter ended 30 September 2020	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Adjusted EBITDA of reportable segments	75,622	56,172	264,072	39,280
Effect of reconciling items	5,710	3,474	14,914	20,895
Adjusted EBITDA	81,332	59,646	278,986	60,175
Depreciation, depletion and amortisation	(33,613)	(39,164)	(98,131)	(126,654)
Interest income	3,471	16,702	8,569	46,516
Finance costs	(22,554)	(50,546)	(63,241)	(158,634)
Foreign currency exchange loss from financing activities, net	(106)	(6,355)	(4,245)	(3,401)
Foreign currency exchange gain/(loss) from non-financing activities, net	2,452	(134,335)	(1,757)	(274,409)
Changes in expected credit losses	(293)	(1,128)	(29,847)	(2,190)
Impairment of oil and gas assets	-	-	-	(5,439)
Other	22	82	147	231
Profit/ (Loss) before tax	30,711	(155,098)	90,481	(463,805)

Note 5 Production costs of crude oil and gas

	Quarter ended 30 September 2021	Quarter ended 30 September 2020	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Mineral extraction tax and additional income tax	113,572	51,167	298,971	150,405
Employee benefits	6,671	6,296	21,045	21,150
Materials and fuel	6,378	2,318	11,415	7,222
Repairs and maintenance	2,901	3,102	11,237	12,313
Taxes other than income tax, mineral extraction tax and additional income tax	2,697	2,678	7,661	9,396
Crude oil purchased for re-sale	691	73,148	37,373	140,201
Other	7,407	6,034	20,386	17,072
	140,317	144,743	408,088	357,759

Note 6 Production costs of oil products

	Quarter ended 30 September 2021	Quarter ended 30 September 2020	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Crude oil purchased for refining	548,145	282,103	1,194,648	827,146
Oil products purchased for re-sale	48,427	26,491	181,983	76,288
Transportation	33,845	36,563	86,540	105,725
Materials	19,444	12,128	42,946	37,431
Employee benefits	6,836	5,329	17,884	18,362
Excise tax, including dempfer	(17,810)	94,116	(20,768)	241,797
Other	9,994	9,906	32,909	33,781
	648,881	466,636	1,536,142	1,340,530

Changes in excise tax, including dempfer were mainly due to reversal in profitability of dempfer part of excise duty due to fluctuation in global crude oil prices in reporting period.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 7 Selling expenses

	Quarter ended 30 September 2021	Quarter ended 30 September 2020	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Transportation	48,731	42,793	127,102	130,355
Employee benefits	14,780	12,660	42,574	41,724
Repairs and maintenance	2,054	576	3,741	1,531
Export related expenses	760	752	2,254	3,212
Other	4,350	4,790	12,990	15,551
	70,675	61,571	188,661	192,373

Note 8 Property, plant and equipment

During the nine months ended 30 September 2021, additions to the construction and acquisition of production and other assets amounted to USD 38.7 million (nine months ended 30 September 2020: USD 43.3 million), including USD 15.4 million related to oil and gas fields (nine months ended 30 September 2020: USD 28.7 million) and USD 18.1 million related to AO NNK-Khabarovsk Oil Refinery (nine months ended 30 September 2020: USD 7.5 million).

Useful economic lives of oil and gas production assets

The Group's oil and gas production assets are depleted over the respective life of the oil and gas fields using the unit-of-production method based on 2P oil and gas reserves and incorporating the anticipated future capital cost for the development of those reserves. Depletion rates for the nine months ended 30 September 2021 were based on an independent reserve engineer report as at 31 December 2020 (nine months ended 30 September 2020: based on the report as at 31 December 2019).

Impairment of assets

As at 30 September 2021, the Group did not identify any indicators of asset impairment, no impairment tests have been performed.

Due to indications of possible impairment as at 30 September 2020 the Group conducted impairment testing for the goodwill and tangible assets.

In assessing impairment, the recorded value of assets was compared with the estimated value in use of the cash generating units (CGUs). The value in use is determined as the discounted net cash flows based on the forecasts of revenue, production costs and changes in working capital based on confirmed long-term strategic plans of the Group, taking into account the impact of the pandemic and accepted restrictions on the uncertainty in the period of recovery in demand and profitability. The forecasting period for determining the value in use is in line with the management assumptions used for long-term strategy and does not exceed the useful life of assets included in the CGUs.

As a result of impairment tests performed, the Group recognised an impairment loss in the amount of USD 5.4 million related to oil and gas assets for the nine months ended 30 September 2020. An impairment loss is included in the corresponding line of the condensed consolidated interim statement of profit or loss.

Key assumptions applied to the calculation of value in use for the nine months ended 30 September 2020 were as follows:

- Brent crude oil price from 41.3 to 69.5 USD per bbl, based on Intercontinental Exchange crude oil price futures data for five-year period;
- Domestic gas price from 3,316 to 3,732 RUB per cubic metre, based on MED long-term projection data for five-year period;
- Growth rate beyond a five-year period - 2.1%, 2.2%;
- Pre-tax discount rate from 13.5% to 19.5%;
- Long-term RUB inflation rate for 10-year period - 4.5%;
- Exchange rate for 10-year period from 65.5 to 74.9 RUB.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 8 Property, plant and equipment (continued)

A reasonably justified change in key assumptions, taken into account by management for the purpose of preparing models as at the reporting date, does not necessitate the recognition of an additional impairment other than the above.

Note 9 Right-of-use assets and lease liabilities

During the nine months ended 30 September 2021, right-of-use asset in the amount of USD 39.1 million and corresponding lease liability in the amount of USD 42.1 million were derecognised because of the early termination of the corresponding office building lease agreement. Gain on disposal of USD 3.0 million was recognised in profit or loss as other operating income.

During the nine months ended 30 September 2021, the Group recognised right-of-use assets and lease liabilities related to two new office building lease agreements in the total amount of USD 16.7 million.

Note 10 Other financial assets

	<u>30 September 2021</u>	<u>31 December 2020</u>
Other current financial assets		
Loans provided to an intermediate shareholder, including interest accrued (Note 16)	469,866	-
Deposits with maturity more than 3 months	23,365	-
Less: expected credit losses	(30,495)	-
	<u>462,736</u>	<u>-</u>

In February 2021, the Group provided short-term USD-denominated loans to an intermediate shareholder in the amount of USD 465 million at an interest rate of 1.76% per annum.

Bank deposits are placed in RUB at interest rates in the range of 3.95% - 6.80% per annum.

As at 30 September 2021, other financial assets at amortised cost were at Stage 1.

Note 11 Value added tax recoverable and other taxes receivable

	<u>30 September 2021</u>	<u>31 December 2020</u>
VAT recoverable	108,389	75,415
Excise tax	33,337	679
Export and other custom duties	12,050	6,327
Other taxes receivable	170	301
	<u>153,946</u>	<u>82,722</u>

Note 12 Acquisition of non-controlling interests

In 2011, the Group together with Repsol Exploration S.A. established the joint venture AR Oil & Gaz B.V. (AROG) registered in the Netherlands. The Group held a 51% stake in the company. In 2012, the Group contributed 100% of the shares of AO Saneco and 99.54% of the shares of AO Tatnefteotdacha to AROG. The shareholders agreement for AROG stipulated that key policy decisions regarding the entity's relevant activities required unanimous agreement of both participants. However, in case of a deadlock, the Group had option to buy-back the entities, which were contributed to AROG. Based on the definition of control under IFRS 10 «Consolidated Financial Statements», the Group's management considered that it had retained control over AO Saneco and AO Tatnefteotdacha.

In April 2021, the Group signed the agreement to acquire 49% stake in AROG from Repsol Exploration S.A. for a cash consideration of USD 132.0 million. In May 2021, the Group fulfilled its obligations under the share purchase agreement and acquired the control over AROG as well as 49% non-controlling interests in AO Saneco and 48.7893% in AO Tatnefteotdacha.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 12 Acquisition of non-controlling interests (continued)

As a result, the Group recognised a decrease in non-controlling interests of USD 91.1 million and a decrease in equity attributable to the owner of USD 40.9 million within retained earnings. The effect on equity attributable to the owner is summarised as follows:

Carrying amount of non-controlling interests acquired:	
49% in AO Saneco	23,851
48,7893% in AO Tatnefteotdacha	67,252
	91,103
Consideration paid	(132,000)
Excess of consideration paid recognised in equity	(40,897)

Note 13 Loans and borrowings

	Currency	Interest rate	30 September 2021		
			Principal	Interest	Total
Bank loans denominated in RUB	RUB	7,3%-11,75%	386,639	-	386,639
Non-convertible interest-bearing Eurobonds	USD	8.00%	320,792	10,382	331,174
Borrowings	RUB	5.06%	2,961	135	3,096
Total loans and borrowings			710,392	10,517	720,909
Short-term and current portion of long-term loans and borrowings					363,128
Long-term loans and borrowings					357,781

	Currency	Interest rate	31 December 2020		
			Principal	Interest	Total
Bank loans denominated in RUB	RUB	7.3%-8.0%	587,932	959	588,891
Non-convertible interest-bearing Eurobonds	USD	7.5%	399,870	4,667	404,537
Non-convertible interest-bearing bonds	RUB	8.5%	82,387	554	82,941
Total loans and borrowings			1,070,189	6,180	1,076,369
Short-term and current portion of long-term loans and borrowings					570,433
Long-term loans and borrowings					505,936

During the nine months ended 30 September 2021, the Group obtained several short-term tranches of a new long-term revolving RUB-denominated credit line in the total amount of RUB 49,440 million (USD 667.2 million as of the transaction dates) and partially repaid RUB 39,440 million (USD 537.2 million). The credit line is available until February 2024. As at 30 September 2021, interest rate of the tranches received was 8.25% per annum.

In June 2021, non-convertible interest-bearing RUB-denominated bonds issued by AO Nezavisimaya Neftegazovaya Company, a subsidiary of the Group, were fully repaid in the amount of RUB 6,143 million (USD 83.5 million as of the transaction dates).

In June 2021, the Group obtained and fully repaid loans from related parties in the amount of RUB 2,750 million (USD 37.9 million).

In May 2021, the Company amortised 20% of the par value of Eurobonds in the amount of USD 80 million.

In May 2021, the Group received RUB 7,345 million (USD 99.1 million as of the transaction date) under new long-term RUB-denominated bank loan to finance the acquisition of non-controlling interests (Note 12). In June 2021, the loan was partially repaid in the amount of RUB 271 million (USD 3.7 million). Loan facility matures till December 2027, interest rate is equal to Central Bank of Russia key rate increased by 5 percentage points.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 13 Loans and borrowings (continued)

In January - February 2021, RUB-denominated bank loans obtained by AO NNK-Khabarovsk Oil Refinery, a subsidiary of the Group, were fully repaid in the amount of RUB 32,535 million (USD 439.8 million as of the transaction dates).

As at 30 September 2021 and 31 December 2020, the Group had borrowings with fixed rate or linked to Central Bank of Russia key rate.

As at 30 September 2021 and 31 December 2020, the Group has no collateralised liabilities.

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

	30 September 2021		
	Principal	Interest	Total
Within one year	352,411	55,707	408,118
Within second year	283,092	25,340	308,432
Within years three and four	31,156	13,630	44,786
Within five year and more	42,822	6,364	49,186
	709,481	101,041	810,522

	31 December 2020		
	Principal	Interest	Total
Within one year	566,548	63,237	629,785
Within second year	247,341	38,167	285,508
Within years three and four	258,827	9,840	268,667
	1,072,716	111,244	1,183,960

The interest payments were based on the interest rate effective at 30 September 2021 and 31 December 2020, respectively. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 30 September 2021 and 31 December 2020, respectively.

The Group is subject to external requirements imposed on Eurobonds and loans provided by certain banks, including net debt to adjusted EBITDA ratio. The Group complied with the covenants as at 30 September 2021 and 31 December 2020.

Note 14 Advances received

As at 30 September 2021, long-term advances received in the amount of USD 143.5 million represented contract liabilities for crude oil delivery.

Note 15 Financial instruments fair value

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The estimated fair values of loans and borrowings bearing fixed interest rate (Level 3 in the fair value measurement hierarchy) with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The discount rates used ranged from 5.36% to 12.11% p.a. (31 December 2020: from 6.51% to 8.22% p.a.) depending on the length and currency of the liability. The fair values of loans and borrowings bearing a fixed interest rate as at 30 September 2021 exceeded their carrying values by USD 9.6 million (31 December 2020: USD 38.0 million).

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 15 Financial instruments fair value (continued)

Management believes that the fair values of the trade and other accounts receivable, other financial assets, cash, cash equivalents and restricted cash, trade and other accounts payable approximate their carrying amount (Level 3 in the fair value measurement hierarchy).

Note 16 Related party transactions

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

Significant balances with related parties:

	30 September 2021	31 December 2020
Shareholders		
Short-term loans provided including interest accrued	469,866	-
Less: expected credit losses	(30,495)	-
Entities under common control		
Long-term loans payable	3,096	-
Other related parties¹		
Trade and other accounts receivable	5,336	1,875

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

Significant transactions with related parties:

	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Shareholders		
Loans provided	553,055	-
Loans repaid	88,243	-
Interest income	5,290	-
Proceeds from loans and borrowings	-	123,660
Interest expense	-	4,547
Entities under common control		
Proceeds from loans and borrowings	39,234	-
Repayment of loans and borrowings	38,002	-
Interest income	-	44,067
Purchase of materials	3,822	-
Other related parties¹		
Revenue	54,142	33,109
Joint venture		
Purchase of services	1,172	4,363

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

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

At 30 September 2021 and 31 December 2020, the principal beneficial shareholder and the ultimate controlling party of the Group was Mr. Eduard Y. Khudaynatov.

Note 17 Commitments and contingencies

The Group's contractual capital commitments, including value added tax, at 30 September 2021 and 31 December 2020 amounted to USD 61.1 million and USD 57.0 million, respectively.

¹ Joint venture of intermediate shareholder

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars unless indicated otherwise

Note 18 Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Russian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some of the above measures were subsequently relaxed, however, the global infection levels remain high, vaccination rate is relatively low, and there is a risk that the Russian authorities would impose additional restrictions in subsequent periods, including due to emerging new variants of the virus.

In 2021, the Russian economy demonstrates positive dynamics in recovery from the pandemic. This trend is also supported by the global economic recovery and higher prices on global commodity markets. However, higher prices on certain markets in Russia and globally also contribute to the inflation in Russia.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

Note 19 Significant events after the end of the period

In October and November 2021, the USD-denominated loans issued by the Group to the intermediate shareholder were fully repaid in the amount of USD 465 million.

In October and November 2021, the Group obtained a long-term RUB-denominated loan from an entity under common control in the amount of RUB 18,686 million (USD 264.8 million as of the transaction dates) maturing in December 2025. The interest rate is equal to Central Bank of Russia key rate increased by 2.09 percentage points.

In October and November 2021, subsidiaries of the Group fully repaid RUB-denominated bank loans in the amount of RUB 28,074 million (USD 397.1 million as of the transaction dates).

In November 2021, the Company amortised 20% of the par value of Eurobonds in the amount of USD 80 million. Additionally the Company repurchased and cancelled 282,400 bonds ahead of schedule. As a result of these operations, the outstanding principal amount of Eurobond issue was reduced to USD 70.6 million less amortised par value.

On 23 November 2021, the Company announced an offer to repurchase and cancel the residual Eurobonds including principal amount at purchase price and related accrued interest.