ALLIANCE OIL COMPANY LTD

International Accounting Standard No. 34

Condensed Consolidated Interim Financial Statements (unaudited)

31 March 2020

CONTENT

Statement of management's responsibilities for the preparation and approval of the condensed consolidated interim financial statements for the three months ended 31 March 2020

ALLIANCE OIL COMPANY LTD

Statement of management's responsibilities for the preparation and approval of the condensed consolidated interim financial statements for the three months ended 31 March 2020

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 31 March 2020, and the results of its operations, cash flows and changes in shareholders' equity for the three 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

15 May 2020

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)

(Expressed in USD thousands)		**Quarter ended 31 March 2020**	**Quarter ended 31 March 2019**
Revenue			
Revenue from sales of crude oil and gas		165,186	284,789
Revenue from sales of oil products		554,503	641,422
Revenue from other sales		9,467	10,228
		729,156	**936,439**
Cost of sales			
Production costs of crude oil and gas	5	(134,168)	(209,229)
Production costs of oil products	6	(505,690)	(520,605)
Cost of other sales		(4,187)	(4,721)
Depletion and depreciation of oil and gas production and refining assets		(35,164)	(40,247)
Gross profit		**49,947**	**161,637**
Selling expenses	7	(69,881)	(63,522)
Administrative expenses		(26,268)	(18,828)
Depreciation and amortisation of marketing and other assets		(9,420)	(7,390)
Other operating expenses, net		(3,233)	(685)
Foreign currency exchange (loss)/gain from non-financing activities, net		(263,737)	59,904
Operating (loss)/income		**(322,592)**	**131,116**
Interest income		14,665	13,144
Finance costs		(54,806)	(54,004)
Foreign currency exchange gain from financing activities, net		2,119	10,864
(Loss)/Profit before tax		**(360,614)**	**101,120**
Income tax benefit/(expense)		64,885	(19,195)
(Loss)/Profit for the period		**(295,729)**	**81,925**
Attributable to:			
Owner of the Company		(301,448)	68,478
Non-controlling interests		5,719	13,447
		(295,729)	**81,925**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Expressed in USD thousands)	**Quarter ended 31 March 2020**	**Quarter ended 31 March 2019**
(Loss)/Profit for the period	(295,729)	81,925
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Effect of translation to presentation currency	(107,357)	42,788
	(107,357)	**42,788**
Total comprehensive (loss)/income for the period	**(403,086)**	**124,713**
Attributable to:		
Owner of the Company	(382,324)	103,133
Non-controlling interests	(20,762)	21,580
	(403,086)	**124,713**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Expressed in USD thousands)	Note	31 March 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,729,693	2,189,959
Right-of-use assets		70,175	94,910
Goodwill		31,865	40,012
Deferred tax assets		98,811	81,038
Other financial assets	9	533,216	655,777
Other non-current assets		1,321	2,078
		2,465,081	**3,063,774**
Current assets			
Inventories		225,448	251,637
Trade and other accounts receivable		37,686	62,750
Value added tax recoverable and other taxes receivable	10	105,826	148,427
Income tax receivable		15,355	15,766
Advances paid and prepaid expenses		60,791	62,485
Cash and cash equivalents		97,785	157,078
		542,891	**698,143**
TOTAL ASSETS		**3,007,972**	**3,761,917**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		2	2
Additional paid-in capital		1,353,809	1,353,809
Translation reserve		(2,073,514)	(1,992,638)
Retained earnings		470,993	772,441
Equity attributable to owner of the Company		**(248,710)**	**133,614**
Non-controlling interests		106,896	127,658
TOTAL EQUITY		**(141,814)**	**261,272**
Non-current liabilities			
Loans and borrowings	11	590,264	646,565
Lease liabilities		46,814	65,651
Advances received		776,858	813,047
Deferred tax liabilities		89,569	138,943
Provision for decommissioning and site restoration costs		52,379	63,597
Post-employment benefit obligations		5,828	7,087
		1,561,712	**1,734,890**
Current liabilities			
Loans and borrowings	11	837,510	1,021,536
Lease liabilities		26,080	33,457
Trade and other accounts payable	12	114,794	94,603
Advances received and accrued expenses		522,083	477,381
Income tax payable		484	191
Other taxes payable		87,123	138,587
		1,588,074	**1,765,755**
TOTAL LIABILITIES		**3,149,786**	**3,500,645**
TOTAL EQUITY AND LIABILITIES		**3,007,972**	**3,761,917**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to owner of the Company					Non-	
(Expressed in USD thousands)	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Total	controlling interests	Total equity
Balance as at 1 January 2019	**2**	**1,353,807**	**(2,052,640)**	**836,657**	**137,826**	**122,347**	**260,173**
Profit for the period	-	-	-	68,478	**68,478**	13,447	**81,925**
Other comprehensive income, net of income tax	-	-	34,655	-	**34,655**	8,133	**42,788**
Total comprehensive income for the period	**-**	**-**	**34,655**	**68,478**	**103,133**	**21,580**	**124,713**
Balance at 31 March 2019	**2**	**1,353,807**	**(2,017,985)**	**905,135**	**240,959**	**143,927**	**384,886**
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	-	-	-	(301,448)	**(301,448)**	5,719	**(295,729)**
Other comprehensive loss, net of income tax	-	-	(80,876)	-	**(80,876)**	(26,481)	**(107,357)**
Total comprehensive loss for the period	**-**	**-**	**(80,876)**	**(301,448)**	**(382,324)**	**(20,762)**	**(403,086)**
Balance at 31 March 2020	**2**	**1,353,809**	**(2,073,514)**	**470,993**	**(248,710)**	**106,896**	**(141,814)**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

(Expressed in USD thousands)	**Quarter ended 31 March 2020**	**Quarter ended 31 March 2019**
Operating activities		
(Loss)/Profit before tax	(360,614)	101,120
Adjustments for:		
Depreciation, depletion and amortisation	44,584	47,637
Interest income	(14,665)	(13,144)
Finance costs	54,806	54,004
Foreign currency exchange gain from financing activities, net	(2,119)	(10,864)
Foreign currency exchange loss/(gain) from non-financing activities, net	263,737	(59,904)
Other non-cash items	4,169	1,499
Operating cash flows before changes in working capital	**(10,102)**	**120,348**
Movements in working capital and other liabilities		
Increase in inventories	(29,314)	(46,142)
Decrease / (Increase) in accounts receivable, advances paid and prepaid expenses	19,890	(70,547)
Increase in accounts payable, advances received and accrued expenses	67,800	289,659
Cash generated from operations	**48,274**	**293,318**
Interest paid	(38,702)	(45,984)
Income tax paid	(7,290)	(12,203)
Total cash generated from operating activities	**2,282**	**235,131**
Investing activities		
Investments in oil and gas production assets	(17,255)	(46,276)
Investments in refining assets	(2,477)	(3,346)
Investments in marketing and other assets	(2,557)	(964)
Interest capitalised and paid	(1,306)	(1,434)
Proceeds from disposal of assets	45	23
Interest received	873	3,026
Total cash used in investing activities	**(22,677)**	**(48,971)**
Financing activities		
Proceeds from loans and borrowings	190,735	107,030
Repayment of loans and borrowings	(209,439)	(17,088)
Payments of obligations under lease agreements	(7,518)	(6,528)
Eurobonds repayment	-	(179,048)
Proceeds from sale of repurchased RUB-denominated bonds	-	57,537
Repurchase of RUB-denominated bonds	-	(8,145)
Other financial activities	(228)	(61)
Total cash used in financing activities	**(26,450)**	**(46,303)**
Effect of foreign currencies exchange rate changes	(12,448)	3,246
Change in cash and cash equivalents	**(59,293)**	**143,103**
Cash and cash equivalents at beginning of the period	157,078	133,233
Cash and cash equivalents at end of the period	**97,785**	**276,336**

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 a tax exempted limited liability private company. 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 three months ended 31 March 2020 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 2019, 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 2020 (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**	
	2020	**2019**	**2020**	**2019**
As at 1 January	61.9057	69.4706	0.1617	0.1806
Average for the quarter ended 31 March	66.3818	66.1271	0.1693	0.1746
As at 31 March	77.7325	64.7347	0.1743	0.1705
As at 31 December	-	61.9057	-	0.1622

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.

Going concern

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

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

For the quarter ended 31 March 2020 the Group has incurred loss of USD 295.7 million (Q1 2019: profit of USD 81.9 million), as at 31 March 2020 the Group's current liabilities exceeded its current assets by USD 1,045.2 million (31 December 2019: by USD 1,067.6 million).

Note 2 Basis of preparation and significant accounting policies (continued)

In April 2020, the Group requested consents from holders of Eurobonds to amend the terms and conditions of its existing debt to extend debt maturities beyond 12 months, and successfully restructured Eurobonds and amended the terms and conditions (Note 17). Also management is in the process of and intends to achieve a debt restructuring with its other lenders.

After reviewing the Group's forecasts and projections, management concluded that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of authorisation of these condensed consolidated interim financial statements. Thus, it was appropriate to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

Note 3 Adoption of new and revised Standards and Interpretations

A number of new Standards and amendments to Standards and Interpretations are effective for annual periods beginning from 1 January 2020, none of these has a significant effect on condensed consolidated interim financial statements of the Group:

- Sale or *Contribution* of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 *«Consolidated Financial Statements»* and IAS 28 (issued on 11 September 2014, the effective date of the amendments has yet to be set by the IASB);
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018);
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018);
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018);
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019)

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:

- IFRS 17 *«Insurance Contracts»* (issued on 18 May 2017 and is effective for annual reporting periods beginning on or after 1 January 2021);
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

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.

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 4 Segment information (continued)

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

Financial information by reportable segments is presented below:

	Quarter ended 31 March 2020						
	Upstream	**Down-stream**	**Management and other companies**	**Total reportable segments**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	131,234	596,190	112	727,536	(8)	1,628	729,156
Less inter-segment revenue	-	-	(8)	(8)	8	-	-
Revenue from external customers	131,234	596,190	104	727,528	-	1,628	729,156
Segment-adjusted EBITDA	**24,284**	**(17,383)**	**(27,676)**	**(20,775)**	**-**	**7,429**	**(13,346)**

	Quarter ended 31 March 2019						
	Upstream	**Down-stream**	**Management and other companies**	**Total reportable segments**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	185,232	737,188	36	922,456	(233)	14,216	936,439
Less inter-segment revenue	-	(217)	(16)	(233)	233	-	-
Revenue from external customers	185,232	736,971	20	922,223	-	14,216	936,439
Segment-adjusted EBITDA	**67,778**	**47,513**	**(19,092)**	**96,199**	**-**	**22,789**	**118,988**

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.

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

	Quarter ended 31 March 2020	**Quarter ended 31 March 2019**
Adjusted EBITDA of reportable segments	(20,775)	96,199
Effect of reconciling items	7,429	22,789
Adjusted EBITDA	**(13,346)**	**118,988**
Depreciation, depletion and amortisation	(44,584)	(47,637)
Interest income	14,665	13,144
Finance costs	(54,806)	(54,004)
Foreign currency exchange gain from financing activities, net	2,119	10,864
Foreign currency exchange (loss)/gain from non-financing activities, net	(263,737)	59,904
Expected credit losses	(967)	(256)
Other	42	117
(Loss)/Profit before tax	**(360,614)**	**101,120**

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 5 Production costs of crude oil and gas

	Quarter ended 31 March 2020	Quarter ended 31 March 2019
Mineral extraction tax	72,333	79,096
Crude oil purchased for re-sale	34,817	105,888
Employee benefits	8,154	6,946
Repairs and maintenance	6,395	4,595
Materials and fuel	3,512	3,624
Taxes other than income tax and mineral extraction tax	3,310	3,279
Other	5,647	5,801
	134,168	**209,229**

Note 6 Production costs of oil products

	Quarter ended 31 March 2020	Quarter ended 31 March 2019
Crude oil purchased for refining	355,561	371,627
Taxes other than income tax	66,705	23,494
Transportation	34,986	33,782
Oil products purchased for re-sale	21,081	61,857
Materials	12,480	13,173
Employee benefits	5,996	5,705
Other	8,881	10,967
	505,690	**520,605**

Note 7 Selling expenses

	Quarter ended 31 March 2020	Quarter ended 31 March 2019
Transportation	46,247	40,991
Employee benefits	15,956	14,279
Energy and utilities	1,663	1,763
Export related expenses	982	1,627
Other	5,033	4,862
	69,881	**63,522**

Note 8 Property, plant and equipment

During the quarter ended 31 March 2020, additions to the construction and acquisition of production and other assets amounted to USD 23.1 million (Q1 2019: USD 40.3 million), including USD 16.4 million related to oil and gas fields (Q1 2019: USD 35.8 million) and USD 2.7 million related to AO NNK-Khabarovsk Oil Refinery (Q1 2019: USD 2.5 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 quarter ended 31 March 2020 were based on an independent reserve engineer report as at 31 December 2019 (Q1 2019: based on the report as at 31 December 2018).

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 9 Other financial assets

	31 March 2020	31 December 2019
Loans provided to an entity under common control, including interest accrued (Note 14)	573,037	704,691
Less: expected credit losses	(39,998)	(49,187)
Other	177	273
	533,216	**655,777**

In January 2020, the long-term USD-denominated loan provided to an entity under common control was converted in RUB-denominated loan at interest rate of 10.5% per annum. As at 31 March 2020, loans provided include long term loans denominated in RUB, bearing interest in the range of 6.7%-14.5% per annum. The decrease in loans receivable resulted from the weakening of the RUB against the USD as at 31 March 2020 compared to 31 December 2019.

As at 31 March 2020 and 31 December 2019 other financial assets at amortised cost were at Stage 2.

Note 10 Value added tax recoverable and other taxes receivable

	31 March 2020	31 December 2019
VAT recoverable	96,137	120,381
Export and other custom duties	6,823	6,360
Excise tax	2	21,198
Other taxes receivable	2,864	488
	105,826	**148,427**

Note 11 Loans and borrowings

					31 March 2020
	Currency	Interest rate	Principal	Interest	Total
Bank loans denominated in RUB	RUB	8.25%-10.85%	809,474	1,897	811,371
Non-convertible interest-bearing Eurobonds	USD	7.0%	499,822	14,194	514,016
Non-convertible interest-bearing bonds	RUB	8.75%	99,587	2,800	102,387
Total loans and borrowings			**1,408,883**	**18,891**	**1,427,774**
Short-term and current portion of long-term loans and borrowings					837,510
Long-term loans and borrowings					**590,264**

					31 December 2019
	Currency	Interest rate	Principal	Interest	Total
Bank loans denominated in RUB	RUB	7.8%-10.85%	1,035,490	2,585	1,038,075
Non-convertible interest-bearing Eurobonds	USD	7.0%	499,344	5,444	504,788
Non-convertible interest-bearing bonds	RUB	8.75%	124,424	814	125,238
Total loans and borrowings			**1,659,258**	**8,843**	**1,668,101**
Short-term and current portion of long-term loans and borrowings					1,021,536
Long-term loans and borrowings					**646,565**

During the quarter ended 31 March 2020, subsidiaries of the Group partially repaid RUB-denominated bank loans in the amount of RUB 1,180.7 million (USD 18.7 million as of the transaction dates).

As at 31 March 2020 and 31 December 2019, the Group had borrowings with fixed rate or linked Central Bank of Russia key rate.

Total borrowings include collateralised liabilities of USD 24.1 million (31 December 2019: USD 33.3 million).

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 11 Loans and borrowings (continued)

As at 31 March 2020, loans and borrowings were collateralised by:

- 100% of the Group's holding in OOO SN-Gazdobycha (31 December 2019: 100%);
- Proceeds from sale of gas in the amount of USD 3.7 million (31 December 2019: USD 4.0 million);
- Property, plant and equipment with a carrying value of USD 41.9 million (31 December 2019: USD 53.7 million).

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

			31 March 2020
	Principal	**Interest**	**Total**
Within one year	820,505	92,097	912,602
Within second year	165,372	51,704	217,076
Within years three and four	425,825	54,385	480,210
	1,411,702	**198,186**	**1,609,888**

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

The interest payments were based on the interest rate effective at 31 March 2020 and 31 December 2019, respectively. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 31 March 2020 and 31 December 2019, respectively.

The Group is subject to external requirements imposed on Eurobonds and loans provided by certain banks based on following ratios: total debt to adjusted EBITDA, net debt to adjusted EBITDA and adjusted EBITDA to interest expense. As at 31 March 2020 and 31 December 2019, the Group was restricted from obtaining additional loans and borrowings, except for refinancing of the existing borrowings, owing to the increase in the statutory ratios. This restriction does not create breach or event of default for the Eurobonds and other loans.

Note 12 Trade and other accounts payable

	31 March 2020	**31 December 2019**
Trade accounts payable	79,208	48,588
Accounts payable for property, plant and equipment	28,411	37,590
Other payables	7,189	8,425
	114,808	**94,603**

Note 13 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).

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 13 Financial instruments fair value (continued)

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 8.5% to 10.89% p.a. (31 December 2019: from 7.99% to 10.32% p.a.) depending on the length and currency of the liability. The fair values of loans and borrowings bearing a fixed interest rate as at 31 March 2020 exceeded their carrying values by USD 30.9 million (31 December 2019: USD 50.8 million).

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 14 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:

	31 March 2020	31 December 2019
Entities under common control		
Long-term loans provided including interest accrued	573,037	704,691
Less: expected credit losses	(39,998)	(49,187)
Trade and other accounts receivable	1,843	2,128
Other related parties		
Trade and other accounts receivable	8,236	4,051

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:

	Quarter ended 31 March 2020	Quarter ended 31 March 2019
Entities under common control		
Interest income	13,847	11,670
Other related parties		
Revenue	19,030	16,400
Joint venture		
Purchase of services	1,407	1,306

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.

As at 31 March 2020 and 31 December 2019, 100% of the Company's shares were pledged under the loan provided to the parent company.

At 31 March 2020 and 31 December 2019, the principal beneficial shareholder and the ultimate controlling party of the Group was Mr. Eduard Y. Khudaynatov.

Note 15 Commitments and contingencies

The Group’s contractual capital commitments, including value added tax, at 31 March 2020 and 31 December 2019 amounted to USD 74.5 million and USD 74.4 million, respectively.

Note 16 Operating environment of the Group

Russian economy

The Group's business operations are primarily located in the Russian Federation and are thus exposed to risks and uncertainties of the economic environments and financial markets of the Russian Federation.

The Russian Federation continues to display some characteristics of an emerging market. The Russian economy is particularly sensitive to world oil and gas prices, therefore, significant prolonged declines in world oil prices have a negative impact on the Russian economy. The tax, currency and customs legislation is subject to varying interpretations, frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation.

This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Delisting from the Specially Designated Nationals and Blocked Persons list

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

Coronavirus pandemic

Since the end of 2019, the spread of a new coronavirus (COVID-19), which can cause serious consequences leading to human death, has begun. On 13 March 2020, WHO announced a pandemic due to the rapid spread of COVID-19 in Europe and other regions. The measures taken around the world to combat the spread of COVID-19 result in limitation of business activity globally, which affects the demand for energy resources and other products of the Group, as well as the need for protective measures aimed at preventing the spread of infection both by the Group and its clients. In addition, in March 2020, no agreement was reached on the OPEC+ limitation of crude oil production. Against the backdrop of these events, there has been a significant drop in stock markets, commodity prices fell, in particular, crude oil prices declined significantly, the RUB weakened against the USD and the EUR, and the lending rates for many companies in the emerging markets increased.

While this is still an evolving situation at the time of issuing these condensed consolidated interim financial statements, it appears that the impact on the global economy and uncertainty regarding further economic growth may negatively affect the financial position and financial results of the Group in the future.

Management is closely monitoring the situation and implements measures to reduce the negative impact of these events on the Group, while the excess of supply over demand and the associated decrease in world oil and oil products prices directly affect the revenues of the Group and other financial results.

Note 17 Significant events after the end of the period

Eurobonds restructuring

In April 2020, the Group successfully negotiated with the holders of Group's Eurobonds to amend the terms and conditions on the following key terms:

- extension of the maturity by 3 years until 4 May 2023;
- coupon increase from 7% to 7.5%-9% (depending on the period);

Note 17 Significant events after the end of the period (continued)

- buyback of the 20% (USD 100 million) of Eurobonds (at the face value) of the entire issue from the owners who voted in favour of the restructuring on a pro rata basis;
- Eurobonds will be redeemed in instalments on 4 May 2021, 4 November 2021, 4 May 2022, 4 November 2022 and 4 May 2023 (20% amortisation from face value on each date).

On 6 May 2020 the Group performed the buyback of the 20% (USD 100 million) of Eurobonds.

OPEC arrangements

In April 2020, OPEC+ countries reached an agreement on limitation of crude oil production starting on 1 May 2020. Therefore the Group expects crude oil prices stabilization in international markets.