



ALLIANCE OIL COMPANY LTD

International Accounting Standard No. 34

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

30 September 2020

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 2020

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 Organisation6
Note 2 Basis of preparation and significant accounting policies6
Note 3 Adoption of new and revised Standards and Interpretations8
Note 4 Segment information.....8
Note 5 Production costs of crude oil and gas.....10
Note 6 Production costs of oil products.....11
Note 7 Selling expenses.....11
Note 8 Property, plant and equipment11
Note 9 Other financial assets12
Note 10 Value added tax recoverable and other taxes receivable12
Note 11 Loans and borrowings.....12
Note 12 Trade and other accounts payable14
Note 13 Other taxes payable.....14
Note 14 Financial instruments fair value14
Note 15 Related party transactions.....15
Note 16 Commitments and contingencies16
Note 17 Operating environment of the Group16
Note 18 Significant events after the end of the period.....17

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 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 30 September 2020, 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

17 November 2020

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)

		Quarter ended 30 September 2020	Quarter ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
<i>(Expressed in USD thousands)</i>					
Revenue					
Revenue from sales of crude oil and gas		179,772	251,797	449,219	832,601
Revenue from sales of oil products		570,812	695,039	1,565,817	1,852,182
Revenue from other sales		7,128	10,393	24,065	31,095
		757,712	957,229	2,039,101	2,715,878
Cost of sales					
Production costs of crude oil and gas	5	(144,743)	(181,651)	(357,759)	(605,176)
Production costs of oil products	6	(466,636)	(554,317)	(1,340,530)	(1,539,965)
Cost of other sales		(3,766)	(6,383)	(11,511)	(15,983)
Depletion and depreciation of oil and gas production and refining assets		(30,796)	(38,844)	(100,342)	(119,507)
Impairment of oil and gas production assets	2, 8	-	-	(5,439)	-
Gross profit		111,771	176,034	223,520	435,247
Selling expenses	7	(61,571)	(66,886)	(192,373)	(191,192)
Administrative expenses		(17,487)	(23,641)	(68,710)	(66,482)
Depreciation and amortisation of marketing and other assets		(8,368)	(7,728)	(26,312)	(22,661)
Other operating expenses, net		(4,909)	(4,578)	(10,002)	(8,129)
Foreign currency exchange (loss)/gain from non-financing activities, net		(134,335)	(14,139)	(274,409)	72,123
Operating (loss)/income		(114,899)	59,062	(348,286)	218,906
Interest income		16,702	14,522	46,516	42,041
Finance costs		(50,546)	(58,755)	(158,634)	(170,445)
Foreign currency exchange (loss)/gain from financing activities, net		(6,355)	(410)	(3,401)	10,157
(Loss)/Profit before tax		(155,098)	14,419	(463,805)	100,659
Income tax benefit/(expense)		29,344	(10,130)	81,930	(31,463)
(Loss)/Profit for the period		(125,754)	4,289	(381,875)	69,196
Attributable to:					
Owner of the Company		(135,705)	(6,614)	(400,980)	30,483
Non-controlling interests		9,951	10,903	19,105	38,713
		(125,754)	4,289	(381,875)	69,196

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

<i>(Expressed in USD thousands)</i>	Quarter ended 30 September 2020	Quarter ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
(Loss)/Profit for the period	(125,754)	4,289	(381,875)	69,196
Other comprehensive income Items that may be reclassified subsequently to profit or loss:				
Effect of translation to presentation currency	(39,997)	(15,851)	(109,070)	44,402
Other comprehensive (loss)/income for the period, net of income tax	(39,997)	(15,851)	(109,070)	44,402
Total comprehensive (loss)/income for the period	(165,751)	(11,562)	(490,945)	113,598
Attributable to:				
Owner of the Company	(160,414)	(20,045)	(480,197)	66,139
Non-controlling interests	(5,337)	8,483	(10,748)	47,459
	(165,751)	(11,562)	(490,945)	113,598

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

<i>(Expressed in USD thousands)</i>	Note	30 September 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,633,885	2,189,959
Right-of-use assets		57,805	94,910
Goodwill		31,085	40,012
Deferred tax assets		116,250	81,038
Other financial assets	9	535,190	655,777
Other non-current assets		1,042	2,078
		2,375,257	3,063,774
Current assets			
Inventories		192,363	251,637
Trade and other accounts receivable		42,324	62,750
Value added tax recoverable and other taxes receivable	10	50,321	148,427
Income tax receivable		12,469	15,766
Advances paid and prepaid expenses		44,943	62,485
Cash and cash equivalents		114,841	157,078
		457,261	698,143
TOTAL ASSETS		2,832,518	3,761,917
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		2	2
Additional paid-in capital		1,353,847	1,353,809
Reserve on translation to presentation currency		(2,071,855)	(1,992,638)
Retained earnings		360,829	772,441
Equity attributable to owner of the Company		(357,177)	133,614
Non-controlling interests		116,102	127,658
TOTAL EQUITY		(241,075)	261,272
Non-current liabilities			
Loans and borrowings	11	987,848	646,565
Lease liabilities		35,517	65,651
Advances received		799,263	813,047
Deferred tax liabilities		79,877	138,943
Provision for decommissioning and site restoration costs		55,048	63,597
Post-employment benefit obligations		6,059	7,087
		1,963,612	1,734,890
Current liabilities			
Loans and borrowings	11	449,636	1,021,536
Lease liabilities		25,220	33,457
Trade and other accounts payable	12	64,620	94,603
Advances received and accrued expenses		414,668	477,381
Income tax payable		217	191
Other taxes payable	13	155,620	138,587
		1,109,981	1,765,755
TOTAL LIABILITIES		3,073,593	3,500,645
TOTAL EQUITY AND LIABILITIES		2,832,518	3,761,917

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					Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Reserve on translation to presentation currency	Retained earnings	Total		
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	-	-	-	30,483	30,483	38,713	69,196
Other comprehensive income, net of income tax	-	-	35,656	-	35,656	8,746	44,402
Total comprehensive income for the period	-	-	35,656	30,483	66,139	47,459	113,598
Changes in ownership of subsidiaries	-	2	-	-	2	(7)	5
Dividends	-	-	-	-	-	(44,959)	(44,959)
Balance at 30 September 2019	2	1,353,809	(2,016,984)	867,140	203,967	124,840	328,807
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 (Note 9)	-	-	-	(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)

ALLIANCE OIL COMPANY LTD

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

<i>(Expressed in USD thousands)</i>	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Operating activities		
(Loss)/Profit before tax	(463,805)	100,659
Adjustments for:		
Depreciation, depletion and amortisation	126,654	142,168
Interest income	(46,516)	(42,041)
Finance costs	158,634	170,445
Foreign currency exchange loss/(gain) from financing activities, net	3,401	(10,157)
Foreign currency exchange loss/(gain) from non-financing activities, net	274,409	(72,123)
Impairment of oil and gas production assets	5,439	-
Other non-cash items	9,090	6,469
Operating cash flows before changes in working capital	67,306	295,420
Movements in working capital and other liabilities		
Decrease /(Increase) in inventories	1,678	(40,837)
Decrease /(Increase) in accounts receivable, advances paid and prepaid expenses	72,791	(46,784)
Increase in accounts payable, advances received and accrued expenses	44,192	302,547
Cash generated from operations	185,967	510,346
Interest paid	(133,312)	(153,088)
Income tax paid	(14,490)	(52,057)
Total cash generated from operating activities	38,165	305,201
Investing activities		
Investments in oil and gas production assets	(39,421)	(111,998)
Investments in refining assets	(6,302)	(14,050)
Investments in marketing and other assets	(6,274)	(7,280)
Interest capitalised and paid	(3,726)	(3,338)
Proceeds from disposal of assets	117	72
Interest received	1,798	4,634
Loans provided	-	(48,016)
Total cash used in investing activities	(53,808)	(179,976)
Financing activities		
Proceeds from loans and borrowings	553,462	438,777
Repayment of loans and borrowings	(423,077)	(315,926)
Payments of obligations under lease agreements	(22,404)	(19,890)
Eurobonds repayment	(100,000)	(179,048)
Partial RUB bonds repayment	(12,677)	(8,145)
Proceeds from sale of repurchased RUB-denominated bonds	-	57,537
Bond refinancing costs	(6,064)	-
Dividends distributed	(1,164)	(47,997)
Other financial activities	(59)	(5)
Total cash used in financing activities	(11,983)	(74,697)
Effect of foreign currencies exchange rate changes	(14,611)	3,073
Change in cash and cash equivalents	(42,237)	53,601
Cash and cash equivalents at beginning of the period	157,078	133,233
Cash and cash equivalents at end of the period	114,841	186,834

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 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 nine months ended 30 September 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
Average for the quarter ended 30 June	72.3611	64.5584	0.1728	0.1696
Average for the quarter ended 30 September	73.5598	64.5685	0.1756	0.1673
As at 30 September	79.6845	64.4156	0.1846	0.1661
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.

Material uncertainty related to going concern

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

The main factor of material uncertainty 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.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

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

In addition to the above due to the COVID-19 outbreak has developed rapidly in 2020 the economic environment and economic conditions in the major segments of the Group's operations retain uncertainty about the pricing of major products produced or refined by the Group, operating and financial results, the availability of free cash flow for repayment or ability to refinance and restructure current liabilities (Note 17).

For the nine months ended 30 September 2020 the Group has incurred loss of USD 381.9 million (nine months ended 30 September 2019: profit of USD 69.2 million), as at 30 September 2020 the Group's current liabilities exceeded its current assets by USD 652.7 million (31 December 2019: by USD 1,067.6 million).

In April 2020, the Group successfully restructured Eurobonds with a face value of USD 500 million and amended the terms and conditions extending debt maturities beyond 12 months, until May 2023 (Note 11). Also management is in the process of and intends to achieve a debt restructuring and extension with its other lenders.

Based on management's plans and actions undertaken as noted herein, management believes that the Group will achieve restructuring with all of its lenders and secure adequate financing to continue in operational existence for at least 12 months after the date of approval of these condensed consolidated interim financial statements.

Impairment of assets

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

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 production assets (Note 8). 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 are follows:

- Brent crude oil price from 41.3 to 69.5 USD per bbl, based on Intercontinental Exchange crude oil price futures data 2020-2024;
- Domestic gas price from 3,316 to 3,732 RUB per cubic metre, based on MED long-term projection data 2020-2024;
- 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.

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

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:

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 3 Adoption of new and revised Standards and Interpretations

- 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);
- Annual Improvements to IFRSs 2018-2020 – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).

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.

Financial information by reportable segments is presented below.

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

Note 4 Segment information (continued)

	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 intersegment 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

	Quarter ended 30 September 2019						
	Upstream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	181,949	773,107	37	955,093	(918)	3,054	957,229
Less intersegment revenue	-	(910)	(8)	(918)	918	-	-
Revenue from external customers	181,949	772,197	29	954,175	-	3,054	957,229
Segment-adjusted EBITDA	56,186	84,403	(24,219)	116,370	(730)	7,016	122,656

	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 intersegment 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

	Nine months ended 30 September 2019						
	Upstream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	568,112	2,146,832	109	2,715,053	(1,776)	2,601	2,715,878
Less intersegment revenue	-	(1,744)	(32)	(1,776)	1,776	-	-
Revenue from external customers	568,112	2,145,088	77	2,713,277	-	2,601	2,715,878
Segment-adjusted EBITDA	196,681	134,840	(62,790)	268,731	-	22,643	291,374

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 4 Segment information (continued)

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 30 September 2020	Quarter ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Adjusted EBITDA of reportable segments	56,172	116,370	39,280	268,731
Inter-segment eliminations	-	(730)	-	-
Effect of reconciling items	3,474	7,016	20,895	22,643
Adjusted EBITDA	59,646	122,656	60,175	291,374
Depreciation, depletion and amortisation	(39,164)	(46,572)	(126,654)	(142,168)
Interest income	16,702	14,522	46,516	42,041
Finance costs	(50,546)	(58,755)	(158,634)	(170,445)
Foreign currency exchange (loss)/gain from financing activities, net	(6,355)	(410)	(3,401)	10,157
Foreign currency exchange (loss)/gain from non-financing activities, net	(134,335)	(14,139)	(274,409)	72,123
Changes in expected credit losses	(1,128)	(2,927)	(2,190)	(2,729)
Impairment of oil and gas production assets	-	-	(5,439)	-
Other	82	44	231	306
(Loss)/Profit before tax	(155,098)	14,419	(463,805)	100,659

Note 5 Production costs of crude oil and gas

	Quarter ended 30 September 2020	Quarter ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Crude oil purchased for re-sale	73,148	72,217	140,201	272,138
Mineral extraction tax	51,167	83,761	150,405	257,345
Employee benefits	6,296	7,479	21,150	21,933
Repairs and maintenance	3,102	4,100	12,313	13,217
Taxes other than income tax and mineral extraction tax	2,678	3,356	9,396	10,353
Materials and fuel	2,318	3,655	7,222	10,726
Other	6,034	7,083	17,072	19,464
	144,743	181,651	357,759	605,176

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 6 Production costs of oil products

	Quarter ended 30 September 2020	Quarter ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Crude oil purchased for refining	282,103	423,344	827,146	1,133,258
Taxes other than income tax	96,343	22,019	248,907	56,032
Transportation	36,563	40,765	105,725	101,068
Oil products purchased for re-sale	26,491	36,721	76,288	157,124
Materials	12,128	14,668	37,431	37,100
Employee benefits	5,329	5,760	18,362	18,326
Other	7,679	11,040	26,671	37,057
	466,636	554,317	1,340,530	1,539,965

Increase in the taxes other than income tax for the nine months ended 30 September 2020 was mainly due to negative profitability of dempfer part of excise duty due to decline in global crude oil prices.

Note 7 Selling expenses

	Quarter ended 30 September 2020	Quarter ended 30 September 2019	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Transportation	42,793	43,448	130,355	121,996
Employee benefits	12,660	14,424	41,724	42,703
Export related expenses	752	1,480	3,212	4,409
Energy and utilities	587	740	2,936	3,614
Other	4,779	6,794	14,146	18,470
	61,571	66,886	192,373	191,192

Note 8 Property, plant and equipment

During the nine months ended 30 September 2020, additions to the construction and acquisition of production and other assets amounted to USD 43.3 million (nine months ended 30 September 2019: USD 116.0 million), including USD 28.7 million related to oil and gas fields (nine months ended 30 September 2019: USD 93.5 million) and USD 7.5 million related to AO NNK-Khabarovsk Oil Refinery (nine months ended 30 September 2019: USD 13.3 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 2020 were based on an independent reserve engineer report as at 31 December 2019 (nine months ended 30 September 2019: based on the report as at 31 December 2018).

Impairment of oil and gas production assets

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 production assets of OOO Gusikhinskoe and OOO Vostochnaya Transnationalnaya Kompaniya.

The recoverable amount valuations are sensitive to changes in key assumptions used by the Group in determining the value in use of CGU (Note 2) which are subject to a high level of estimation uncertainty.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 9 Other financial assets

	<u>30 September 2020</u>	<u>31 December 2019</u>
Loans provided to an entity under common control, including interest accrued (Note 15)	575,155	704,691
Less: expected credit losses	(40,146)	(49,187)
Other	181	273
	<u>535,190</u>	<u>655,777</u>

In January 2020, the long-term USD-denominated loan provided to an entity under common control was converted in RUB-denominated loan. In May 2020, interest rates and maturities under a number of loan agreements had been changed. As at 30 September 2020, loans provided include long-term loans denominated in RUB, bearing interest in the range of 13.27%-14.5% per annum and maturing not earlier than 31 December 2022.

As a result of loan modifications, the Group recognised directly in equity total modification loss in the amount of USD 10.6 million, net of income tax. Management considers that loan modifications are a consequence of transactions with an owner, therefore the effect of modification should be recognised in equity.

As at 30 September 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

	<u>30 September 2020</u>	<u>31 December 2019</u>
VAT recoverable	41,750	120,381
Export and other custom duties	5,204	6,360
Mineral extraction tax	2,986	51
Excise tax	63	21,198
Other taxes receivable	318	437
	<u>50,321</u>	<u>148,427</u>

Note 11 Loans and borrowings

	<u>30 September 2020</u>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Bank loans denominated in RUB	RUB	7.25%-10.85%	807,445	1,514	808,959
Non-convertible interest-bearing Eurobonds	USD	7.5%	399,255	12,167	411,422
Borrowing	USD	7.8%	123,660	4,067	127,727
Non-convertible interest-bearing bonds	RUB	8.5%	86,936	2,440	89,376
Total loans and borrowings			<u>1,417,296</u>	<u>20,188</u>	<u>1,437,484</u>
Short-term and current portion of long-term loans and borrowings					449,636
Long-term loans and borrowings					<u>987,848</u>
	<u>31 December 2019</u>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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			<u>1,659,258</u>	<u>8,843</u>	<u>1,668,101</u>
Short-term and current portion of long-term loans and borrowings					1,021,536
Long-term loans and borrowings					<u>646,565</u>

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 11 Loans and borrowings (continued)

During the nine months ended 30 September 2020, subsidiaries of the Group partially repaid RUB-denominated bank loans in the amount of RUB 5,421.6 million (USD 79.2 million as of the transaction dates).

In July and August 2020, the Group obtained several tranches of a new long-term credit line in the total amount of RUB 6,000 million (USD 82.5 million as of the transaction dates). The credit line has a fixed interest rate of 10.8% and will be repaid in installments until July 2022.

In June 2020, non-convertible interest-bearing RUB-denominated bonds were partially redeemed in the amount of RUB 878.2 million (USD 12.6 million as of the transaction dates).

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 with the 20% amortisation from face value at each coupon date starting from 4 May 2021;
- coupon increase from 7% to 7.5%-9% (depending on the period);
- 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.

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

In April 2020, the Company obtained a USD-denominated loan from an intermediate shareholder in the amount of USD 123.7 million for Eurobonds refinancing. The loan has a fixed interest rate of 7.8% and matures in May 2023 (Note 15).

Amendments to loan agreements signed in March and July 2020 resulted in non-substantial modification gain in the amount of USD 4.6 million recognised in profit or loss.

As at 30 September 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 21.1 million (31 December 2019: USD 33.3 million).

As at 30 September 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 3.1 million (31 December 2019: USD 4.0 million);
- Property, plant and equipment with a carrying value of USD 40.3 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:

	30 September 2020		
	Principal	Interest	Total
Within one year	457,762	90,634	548,396
Within second year	320,046	66,625	386,671
Within years three and four	646,231	71,906	718,137
	1,424,039	229,165	1,653,204

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 11 Loans and borrowings (continued)

	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 30 September 2020 and 31 December 2019, respectively. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 30 September 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 30 September 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

	30 September 2020	31 December 2019
Trade accounts payable	45,213	48,588
Accounts payable for property, plant and equipment	12,191	37,590
Other payables	7,216	8,425
	64,620	94,603

Note 13 Other taxes payable

	30 September 2020	31 December 2019
Excise tax	103,505	25,542
VAT payable	25,876	42,140
Mineral extraction tax	17,875	60,564
Other taxes	8,364	10,341
	155,620	138,587

Note 14 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 6.88% to 10.96% 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 30 September 2020 exceeded their carrying values by USD 35.4 million (31 December 2019: USD 50.8 million).

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 14 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 15 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 2020	31 December 2019
Intermediate shareholder		
Loans and borrowings	127,727	-
Advances received and accrued expenses	15,121	-
Entities under common control		
Long-term loans provided including interest accrued	575,155	704,691
Less: expected credit losses	(40,146)	(49,187)
Trade and other accounts receivable	1,687	2,128
Other related parties*		
Trade and other accounts receivable	1,393	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:

	Nine months ended 30 September 2020	Nine months ended 30 September 2019
Intermediate shareholder		
Proceeds from loans and borrowings	123,660	-
Interest expense	4,547	-
Entities under common control		
Interest income	44,067	37,354
Loans provided	-	48,016
Other related parties*		
Revenue	33,109	54,802
Joint venture		
Purchase of services	4,363	3,603

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

At 30 September 2020 and 31 December 2019, the principal beneficial shareholder and the ultimate controlling party of the Group was Mr. Eduard Y. Khudaynatov.

* Joint venture of intermediate shareholder

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 16 Commitments and contingencies

The Group's contractual capital commitments, including value added tax, at 30 September 2020 and 31 December 2019 amounted to USD 59.6 million and USD 74.4 million, respectively.

Note 17 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 Nezhavisimaya Neftegazovaya Kompaniya (currently named AO NNK-Oil) 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 the above subsidiaries 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. At the end of 2019, the World Health Organization reported a limited number of cases of COVID-19 infection, but on 31 January 2020 declared a public health emergency of international concern, and on 13 March 2020, announced a pandemic due to the rapid spread of COVID-19 in Europe and other regions. The measures taken around the world to combat the spread of COVID-19 result in limitation of business activity globally, which affects the demand for energy resources and other products of the Group, as well as the need for protective measures aimed at preventing the spread of infection both by the Group and its clients. In addition, in March 2020, no agreement was reached on the OPEC+ limitation of crude oil production.

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.

As a result, Group's revenue as well as Group EBITDA decreased mainly due to crude oil and petroleum products price decline on the international and domestic markets in the reporting period (Note 4).

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.

ALLIANCE OIL COMPANY LTD

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 17 Operating environment of the Group (continued)

Management is closely monitoring the situation and implements measures to reduce the negative impact of these events on the Group, taking necessary precautions to protect the safety and well-being of employees, contractors and their families against the infectious spread of COVID-19.

Despite all the measures taken, the financial results of the Group in future periods will continue to depend on the pace of recovery of oil and oil products prices. At this stage, management cannot reliably estimate the future pace of recovery, and therefore considers various development scenarios to quickly adapt to changing needs and believes that the measures taken will enable the Group to fulfill its financial liabilities. Moreover, given the unpredictability of the duration and magnitude of the COVID-19 pandemic in the world, its actual impact on the Group's future profitability, financial position and cash flows may differ from current estimates and assumptions of management.

Note 18 Significant events after the end of the period

In November 2020, the Group obtained a long-term prepayment for oil products delivery in the amount of EUR 100.0 million.