PJSC “RussNeft”

Consolidated Financial Statements
for the year ended 31 December 2023
and Independent Auditor’s Report

PJSC “RussNeft”

Consolidated Financial Statements

for the year ended 31 December 2023

Contents

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Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of PJSC "RussNeft"

Qualified Opinion

We have audited the consolidated financial statements of PJSC "RussNeft" (the Company) (OGRN 1027717003467) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements for 2023, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The accompanying consolidated financial statements reflect the Group's loan payable within long-term loans and borrowings, which may be claimed by the creditor ahead of schedule in the context of violation of certain restrictive terms (covenants) provided for in the relevant loan agreement. As a result of these circumstances, the line "Long-term loans and borrowings" was overstated and the line "Short-term loans and borrowings" of the consolidated statement of financial position was understated as at 31 December 2023 by RUB 69 514 million.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Independence Rules for Auditors and Audit Organisations and the Code of Professional Ethics for Auditors adopted in the Russian Federation which comply with the International Code of Ethics for Professional Accountants (including International Independence Standards) developed by the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled other responsibilities in accordance with these requirements of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

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

Allowance for expected credit losses on loans issued to related parties

The estimation of the allowance for expected credit losses on loans issued to related parties is an area of judgment for the Group's management. The determination of expected credit losses represents a process involving the use of assumptions and the analysis of various factors, including the borrower's financial position and expected future cash flows. Due to the materiality of loans issued to related parties and the complexity of judgment with regard to the measurement of expected credit losses in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), the estimation of allowance for expected credit losses represents one of the key audit matters.

Information on loans issued to related parties is disclosed in Notes 19 and 28 to the consolidated financial statements.

We reviewed the expected credit losses model for loans issued to related parties and analysed the assumptions used by management of the Group as the basis for determining the amount of the allowance for expected credit losses. We reviewed management's expectations of future cash flows and assessment of the borrower's financial position and credit rating. During our audit procedures, we analysed the consistency and reasonableness of judgments used by management of the Group in determining the allowance for expected credit losses on loans issued to related parties. We also reviewed the disclosure of the allowance for expected credit losses in the Group's consolidated financial statements.

Impairment of non-current assets

At each reporting date the Group assesses whether there is any indication of impairment in the carrying amount of non-current assets (items of property, plant and equipment, construction in progress, goodwill, right-of-use assets and exploration and evaluation assets) and performs appropriate testing. That matter was significant for our audit as testing is a complex process that involves the use of significant judgements by management and is based on assumptions impacted by the projected future market and economic conditions which are essentially uncertain.

The results of impairment testing and main assumptions used are provided in Notes 15, 17 and 18 to the consolidated financial statements.

We reviewed the consistency and validity of management's assumptions and assertions underlying the assessment of whether non-current assets were impaired. We compared the price assumptions for oil and gas used in the recoverable amount calculation with a range of relevant market forecasts. We verified the calculation of discount rates, inflation growth rate projections and other available inputs. We also verified the arithmetic accuracy of impairment models, performed sensitivity analysis and checked the consistency of the models application (formulae and calculations), comparing them with those for prior periods. We reviewed the disclosures made in the consolidated financial statements in respect of non-current assets and related impairment testing.

Other Matter

The consolidated financial statements of PJSC "RussNeft" for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 24 March 2023.

Other Information

The President of the Company (management) is responsible for the other information. The other information comprises the information included in the Annual report and the Issuer's report for the 12 months of 2023, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report and the Issuer's report for the 12 months of 2023 is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report and the Issuer's report for the 12 months of 2023, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Responsibilities of management and the Audit Committee of the Company for the consolidated financial statements

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

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

The Audit Committee of the Company is responsible for overseeing the completeness, accuracy and reliability of the Group's consolidated financial statements.

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

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

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

a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The translation is true and correct.

The Auditor in Charge of the audit resulting in this independent auditor's report (the Engagement Partner on the audit), principal registration number of the entry in the State Register of Auditors and Audit Organisations 22006037171, acting on behalf of the audit organisation under Power of Attorney No. 2-01/2024-Ю dated 01.01.2024

Andrey B. Balyakin

Audit organisation:
Unicon Joint Stock Company
Suite 50, Office I, 3rd Floor, Section 11, Block 1, Bldg. 125, Warshavskoye Shosse, Moscow, 117587, Russia
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 12006020340

25 March 2024

PJSC "RussNeft"

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2023

(in millions of Russian rubles)

	Notes	Year ended 31 December 2023	Year ended 31 December 2022
Revenue	10	238,725	290,862
Cost of sales	11	(172,205)	(233,189)
Gross profit		**66,520**	**57,673**
Exploration expenses		(769)	(350)
Selling expenses	12	(14,224)	(12,349)
General and administrative expenses	12	(3,840)	(5,038)
Other operating income	14	3,833	7,481
Other operating expenses	14	(27,081)	(13,406)
Operating profit		**24,439**	**34,011**
Finance income	13	7,759	5,018
Finance expense	13	(15,260)	(9,098)
Foreign exchange differences, net		1,426	(3,246)
Profit before tax		**18,364**	**26,685**
Income tax expense	27	(12,517)	(6,548)
Profit for the period		**5,847**	**20,137**
Other comprehensive income that may be subsequently reclassified to profit or loss			
Foreign currency translation gain		1,767	748
Total comprehensive income, net of tax		**7,614**	**20,885**
Profit/(loss) attributable to:			
Shareholders of the Parent		20,441	20,446
Non-controlling interests		(14,594)	(309)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Parent		21,042	21,829
Non-controlling interests		(13,428)	(944)
Basic and diluted earnings per share (RUB)	23	33	54
Weighted average number of common shares (millions)		294	294

E.V. Tolochek
President

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

Authorized for issue on 25 March 2024.

The accompanying notes are an integral part of these consolidated financial statements.

PJSC “RussNeft”

Consolidated Statement of Financial Position

as at 31 December 2023

(in millions of Russian rubles)

	Notes	31 December 2023	31 December 2022
Assets			
Non-current assets			
Property, plant and equipment	15	155,086	153,807
Right-of-use assets	16	721	1,003
Exploration and evaluation assets	18	1	3,647
Goodwill	17	9,944	9,961
Long-term trade and other receivables		4,791	35
Other long-term financial assets	19	96,826	77,611
Deferred tax assets	27	755	819
Other non-current assets	21	1,941	2,818
Total non-current assets		**270,065**	**249,701**
Current assets			
Inventories	20	13,889	8,308
Trade and other receivables	21	7,648	6,143
Other short-term financial assets	19	2	1,215
VAT receivable		1,182	1,035
Income tax receivable		85	79
Cash and cash equivalents	22	9,690	2,120
Other current assets	21	18,167	13,817
Total current assets		**50,663**	**32,717**
Total assets		**320,728**	**282,418**
Equity and liabilities			
Equity attributable to shareholders of the Parent			
Share capital	23	196	196
Share premium		60,289	60,289
Forward to purchase treasury shares	23	(21,123)	(21,123)
Foreign currency translation reserve		(1,152)	(1,753)
Retained earnings		53,553	43,804
Total equity attributable to shareholders of the Parent		**91,763**	**81,413**
Non-controlling interests	8	3,282	12,254
Total equity		**95,045**	**93,667**
Long-term liabilities			
Long-term loans and borrowings	24	71,485	70,683
Decommissioning liability	25	11,606	10,846
Deferred tax liabilities	27	18,084	10,568
Long-term lease liabilities	16	339	721
Other long-term financial liabilities	26	30,646	24,442
Total long-term liabilities		**132,160**	**117,260**
Short-term liabilities			
Short-term loans and borrowings	24	10,493	6,635
Trade and other payables, other short-term financial liabilities	26	32,793	32,591
Taxes and levies payable (excluding income tax)	26	24,709	12,887
Short-term lease liabilities	16	408	336
Income tax payable		260	133
Advances received and other short-term liabilities	26	24,860	18,909
Total short-term liabilities		**93,523**	**71,491**
Total liabilities and equity		**320,728**	**282,418**

PJSC “RussNeft”

Consolidated Statement of Changes in Equity

for the year ended 31 December 2023

(in millions of Russian rubles)

		Equity attributable to shareholders of the Parent							
	Notes	**Share capital**	**Share premium**	**Forward to purchase treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total equity of PJSC “RussNeft”**	**Non-controlling interests**	**Total equity**
31 December 2021		**196**	**60,289**	**(21,123)**	**(3,136)**	**27,995**	**64,221**	**13,155**	**77,376**
Profit/(loss) for the period		–	–	–	–	20,446	**20,446**	(309)	**20,137**
Foreign currency translation reserve		–	–	–	1,383	–	**1,383**	(635)	**748**
Total comprehensive income/(loss) for the period		**–**	**–**	**–**	**1,383**	**20,446**	**21,829**	**(944)**	**20,885**
Dividends		–	–	–	–	(4,593)	**(4,593)**	(6)	**(4,599)**
Dividend clawback		–	–	–	–	–	**–**	1	**1**
Non-controlling interests in shareholders’ contribution to subsidiaries’ equity		–	–	–	–	(72)	**(72)**	72	**–**
Change in non-controlling interests in subsidiaries due to cancellation of treasury shares by subsidiaries		–	–	–	–	20	**20**	(20)	**–**
Other transactions		–	–	–	–	8	**8**	(4)	**4**
31 December 2022		**196**	**60,289**	**(21,123)**	**(1,753)**	**43,804**	**81,413**	**12,254**	**93,667**
Profit/(loss) for the period		–	–	–	–	20,441	**20,441**	(14,594)	**5,847**
Foreign currency translation reserve		–	–	–	601	–	**601**	(1,166)	**1,767**
Total comprehensive income/(loss) for the period		**–**	**–**	**–**	**601**	**20,441**	**21,042**	**(13,428)**	**7,614**
Dividends	23, 7	–	–	–	–	(10,628)	**(10,628)**	(5)	**(10,633)**
Dividend clawback		–	–	–	–	–	**–**	1	**1**
Non-controlling interests in shareholders’ contribution to subsidiaries’ equity		–	–	–	–	(56)	**(56)**	56	**–**
Change in non-controlling interests in subsidiaries due to cancellation of treasury shares by subsidiaries		–	–	–	–	69	**69**	(69)	**–**
Disposal of subsidiaries	7	–	–	–	–	–	**–**	4,785	**4,785**
Other transactions		–	–	–	–	(77)	**(77)**	(312)	**(389)**
31 December 2023		**196**	**60,289**	**(21,123)**	**(1,152)**	**53,553**	**91,763**	**3,282**	**95,045**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2023

(in millions of Russian rubles)

	Notes	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows − operating activities			
Profit before tax		**18,364**	**26,685**
Adjustments to reconcile profit before income tax to net cash flows			
Depreciation, depletion and amortization	11	16,071	15,100
Result from disposal of property, plant and equipment and right-of-use assets, net	14	1,065	362
Impairment of financial assets, net	14	9,209	1,026
Derivative financial instruments at fair value and exercise of options, net	14	4,542	1,253
Financial guarantee		(41)	(41)
Gain on derivative financial instruments	14	(2,766)	(1,615)
Impairment of property, plant and equipment and exploration assets	14	6,064	3,138
Impairment of goodwill	14	20	1,834
Benefit obligations, allowances for expected credit losses and other provisions	14	1,762	1,726
Disposal and dissolution of subsidiaries, net	14	4,890	–
Derecognition of provisions		(42)	–
Finance income	13	(7,759)	(5,018)
Finance expense	13	15,260	9,098
Foreign exchange differences, net		1,426	3,246
Other adjustments		(202)	262
Net operating cash flows before working capital changes		**65,011**	**57,056**
Working capital adjustments			
(Increase)/decrease in inventories		(5,395)	111
Increase in trade and other receivables and prepayments		(7,476)	(5,389)
Increase/(decrease) in trade and other payables, advances received		14,438	(6,885)
Decrease/(increase) in other current assets		23	(194)
Interest paid for early payments		(1,147)	–
Income tax paid		(4,844)	(2,633)
Net cash − operating activities		**60,610**	**42,066**
Cash flows − investing activities			
Purchase of property, plant and equipment and other non-current assets, net of returns		(19,287)	(23,773)
Proceeds from disposal of property, plant and equipment		25	150
Acquisition of subsidiaries and exploration and evaluation assets		(2,727)	(3,371)
Proceeds from sale of subsidiaries		85	19
Loans issued		(95)	(144)
Proceeds from loans issued		–	114
Interest received		116	532
Net cash − investing activities		**(21,883)**	**(26,473)**
Cash flows − financing activities			
Proceeds from loans and borrowings received		497	1,390
Repayment of loans and borrowings received	24	(11,988)	(6,674)
Payments of lease liabilities	16	(477)	(462)
Interest paid	24	(9,052)	(5,692)
Dividends paid to shareholders of the Parent	23	(10,418)	(4,914)
Dividends paid to non-controlling shareholders		(3)	(3)
Exercise of options		–	(6,158)
Proceeds from other derivative financial instruments		121	82
Net cash − financing activities		**(31,320)**	**(22,431)**
Effect of foreign exchange rate changes on balances of cash and cash equivalents		163	(41)
Change in cash and cash equivalents		**7,570**	**(6,879)**
Cash and cash equivalents at the beginning of the period		2,120	8,999
Cash and cash equivalents at the end of the period		**9,690**	**2,120**

1. Corporate information

The consolidated financial statements of Public Joint Stock Company “RussNeft” (the “Parent”, the “Company” or “PJSC “RussNeft”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2023 were authorized for issue in accordance with a resolution of management on 25 March 2024.

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

The principal activities of the Group are prospecting, exploration, development, production and marketing of oil, gas and oil products. Principal subsidiaries included in the consolidated financial statements and respective ownership interests of the Company as at 31 December 2023 and 2022 are presented in Note 7.

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

The average number of employees in the Group’s companies as at 31 December 2023 was 7,118 (2022: 7,733).

2. Basis of preparation

Statement of compliance with IFRS

The Group's consolidated financial statements for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards and Interpretations thereto (“IFRS”) and in compliance with Federal Law No. 208-FZ of 27 July 2010 “On the Consolidated Financial Statements." Any differences of comparative amounts recorded in the consolidated financial statements for the year ended 31 December 2023 represent only the result of reclassification for comparative purposes.

Basis of accounting

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

2. Basis of preparation (continued)

Basis of measurement

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

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

Functional currency and foreign currency translation

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

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

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

In the Russian Federation, official exchange rates are set daily by the CBR. The exchange rates used for the USD-denominated transactions and balances were equal to the official CBR exchange rate presented in the table below:

Currency	31 December 2022	31 December 2023	25 March 2024
	RUB/Currency	RUB/Currency	RUB/Currency
USD	70.3375	89.6883	92.6118

2. Basis of preparation (continued)

Going concern

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

Basis of consolidation

Subsidiaries

Subsidiaries are the companies controlled by the Parent. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group has control over the investee when the following conditions are met:

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

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

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

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

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

2. Basis of preparation (continued)

Basis of consolidation (continued)

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

Joint arrangements and joint venture

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

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

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

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

Associates

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

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

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

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

2. Basis of preparation (continued)

Basis of consolidation (continued)

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

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

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

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

Changes in accounting policies

The adopted accounting policies are consistent with those of the previous annual reporting period, except for the adoption of new standards and interpretations mandatory for annual periods beginning on or after 1 January 2023. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

The amendments to the standards listed below effective for the annual periods beginning on or after 1 January 2023 had no material impact on the consolidated financial statements of the Group:

- *IFRS 17 Insurance Contracts* - a new financial reporting standard for insurance contracts that addresses recognition and measurement, presentation and disclosure issues. *IFRS 17* applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The core of *IFRS 17* is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach);
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

- *Definition of Accounting Estimates* - amendments to IAS 8, in which it introduces a definition of “accounting estimates.” The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. In addition, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* - amendments to IAS 12. The amendments narrow the scope of the initial recognition exception in IAS 12 so that it applies only to the extent that the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) gives rise to unequal taxable and deductible temporary differences. An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. At the beginning of the earliest comparative period presented, an entity should also recognize a deferred tax asset (to the extent it is probable that sufficient taxable profit will be available) and a deferred tax liability for all deductible and taxable temporary differences associated with lease and decommissioning liabilities.

- *Disclosure of Accounting Policies* - amendments to IAS 1 and IFRS Practice Statement 2. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies and adding guidance on how entities should apply the concept of materiality in making decisions about accounting policy disclosures.

- *International Tax Reform — Pillar Two Model Rules* (Amendment to IAS 12). In December 2021, the Organisation for Economic Co-operation and Development (OECD) released the Model Rules on the Pillar Two Global Minimum Tax, which are expected to be used by certain jurisdictions. The purpose of the system is to reduce the movement of profits from one jurisdiction to another in order to reduce the global tax liability in corporate structures. In March 2022, the OECD released detailed technical guidance on the Pillar Two Model Rules. Stakeholders informed the IASB of their concerns about the implications for income tax, and, especially, deferred tax accounting arising from the Pillar Two Model Rules. To address the stakeholder concerns, the International Accounting Standards Board (IASB) issued final amendments to *International Tax Reform — Pillar Two Model Rules* on 23 May 2023. The amendments introduce a mandatory exception for entities from recognition and disclosure of deferred tax assets and liabilities associated with the *Pillar Two Model Rules*. The amendments also introduce additional disclosure requirements regarding an entity's exposure to income taxes arising from the *Pillar Two Model*.

3. Significant accounting judgments, estimates and assumptions

Judgments

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

Note 9 − Investments in associates and joint ventures;

Note 15 − Property, plant and equipment;

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

Note 17 − Goodwill;

Note 18 − Exploration and evaluation assets;

Note 19 − Other long-term and short-term financial assets;

Note 20 − Inventories;

Note 21 − Other non-current assets, trade and other receivables;

Note 24 − Loans and borrowings;

Note 25 − Decommissioning liability;

Note 26 − Long-term and short-term financial and other liabilities;

Note 27 − Income tax;

Note 29 − Fair value measurement;

Note 30 − Contingencies, commitments and operating risks;

Note 31 − Financial risk management.

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

Reserves base

Oil and gas development and production properties are depreciated on a unit-of-production basis at a rate calculated by reference to total proved or proved developed reserves determined in accordance with the standards set by the Society of Petroleum Engineers (SPE standards for estimating reserves) and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery rates and expected oil prices. Future development costs are estimated using assumptions as to production facilities required to extract commercial reserves and their costs. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying amount of any of the Group's non-current assets, including goodwill, has been impaired. Revaluation according to new data is possible during the process of field development. The Group's oil and gas reserves were evaluated by Miller and Lents, Ltd. in accordance with the standards of the Society of Petroleum Engineers as at 31 December 2021 on a fixed price basis (SPE-PRMS standard) using price and cost information provided by the "Exploration, production and related service" segment's companies and current Russian tax laws. Reserves were measured both within the term of license agreements and beyond − to the point in time when the threshold of economically viable extraction is achieved. To evaluate oil and gas reserves as at 31 December 2023, the Group used the data presented in the report of Miller and Lents, Ltd. for 2021, with additional adjustments related to period of reserves development and amount of proved developed and total proved reserves, as well as taking into account the updating of costs by the cumulative inflation factor for the period from the date of reserves estimation at 31 December 2021 to the date of these consolidated financial statements.

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

Carrying amount of oil and gas properties

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

These factors could include:

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

Impairment indicators

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

Fair value of financial assets and liabilities

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

Decommissioning liability

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

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

Judgments (continued)

Useful life of other property, plant and equipment

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

Allowance for expected credit losses

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

Income tax

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

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

Contingencies

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

4. Summary of significant accounting policies

Business combinations and goodwill

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

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

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

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

Oil and natural gas exploration and evaluation expenditure

License and property acquisition costs

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

Exploration and evaluation costs

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

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

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

4. Summary of significant accounting policies (continued)

Oil and natural gas exploration and evaluation expenditure (continued)

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

Development costs

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

Property, plant and equipment

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

At each reporting date, the Group management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group’s entities estimates the recoverable amount which is determined as the higher of an asset’s fair value less costs to sell and its value in use.

In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

Depreciation

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

4. Summary of significant accounting policies (continued)

Depreciation (continued)

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

The depreciation periods, equal to the estimated useful economic lives of the respective assets, are as follows:

	Years
Buildings	5-30
Plant and machinery	1-30
Equipment and motor vehicles	3-15
Office and other equipment	3-10

Major maintenance and repairs

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

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

Construction in progress

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

Goodwill and other intangible assets

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

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

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

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

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

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

Financial instruments

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Fair value

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

Derivative financial instruments

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

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

Loans and borrowings and accounts payable

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

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

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

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

4. Summary of significant accounting policies (continued)

Loans and borrowings and accounts payable (continued)

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

Cash and cash equivalents

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

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

Inventories

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

Leases

Right-of-use assets

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

4. Summary of significant accounting policies (continued)

Leases (continued)

Lease liabilities

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

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

Provisions

General

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

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

Decommissioning liability

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

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

4. Summary of significant accounting policies (continued)

Taxes

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

Current income tax

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

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except as provided for in IAS 12.

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except as provided for in IAS 12.

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

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

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

Equity

Share capital issued and outstanding

Common and preference shares issued are classified as equity.

Share premium

The excess of the cost of common and preference shares over their nominal value due to the additional emission of shares is recognized as share premium.

4. Summary of significant accounting policies (continued)

Equity (continued)

Forward to purchase treasury shares

The assessment of the fair value of the forward to purchase preference shares of the Parent is recorded in the consolidated statement of financial position as Forward to purchase treasury shares.

Foreign currency translation reserve

Translation differences arising from translating financial statements of subsidiaries whose functional currencies are different from the Group’s presentation currency are recorded as Foreign currency translation reserve.

Non-controlling interests

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

Revenue and income recognition

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

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

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

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

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

4. Summary of significant accounting policies (continued)

Revenue and income recognition (continued)

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

Contract assets

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

Contract liabilities

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

Employee benefits

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

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

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

5. Future changes in accounting policies

New standards and interpretations issued but not yet effective

Amendments to IAS 1 − Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

In January 2020, the IASB issued amendments to IAS 1 − *Classification of Liabilities as Current or Non-current* (the “2020 Amendments”) to specify how an entity classifies liabilities as current or non-current for loans with covenants. The amendments clarify:

- That if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions (covenants), the entity has a right to defer settlement at the end of the reporting period if it complies with those covenants at that date;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- The meaning of “settlement of a liability” where the liability is extinguished by the transfer of the entity’s own equity instruments.

In October 2022, the IASB issued amendments to IAS 1 − *Non-current Liabilities with Covenants* (the “2022 Amendments”) to clarify:

- That only covenants with which an entity must comply on or before the reporting date will affect a liability’s classification as current or non-current;
- That separate disclosures are required for non-current liabilities with covenants to be complied with within twelve months after the reporting date;
- That the disclosures should be sufficient for users to understand the risk that a liability classified as non-current could become repayable within twelve months after the reporting date.

The 2020 Amendments and the 2022 Amendments are effective for annual reporting periods beginning on or after 1 January 2024 and apply retrospectively. The Group is currently assessing the impact the amendments may have on the current classification of liabilities and whether existing loan agreements may require renegotiation.

Amendments to IFRS 16 − Lease Liabilities in a Sale and Leaseback

- On 22 September 2022, the IASB issued amendments to *IFRS 16 Leases*, adding guidance on the subsequent measurement of assets and liabilities in sale and leaseback transactions that meet the criteria for a transfer of control of an asset in *IFRS 15 Revenue from Contracts with Customers*.
- The amendments require a seller-lessee to measure a lease liability arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains.
- Entities should apply *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy for determining how to measure lease payments for such transactions.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements

In May 2023, the IASB issued amendments to *IAS 7* and *IFRS 7 Supplier Finance Arrangements* to enable users of financial statements to assess how supplier finance arrangements affect an entity's liabilities and cash flows, and its exposure to liquidity risk. The amendments require an entity to disclose the following in relation to supplier finance arrangements:

5. Future changes in accounting policies (continued)

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

- the terms and conditions of the arrangements;
- the carrying amounts of financial liabilities, and associated line items in the statement of financial position that are part of supplier finance arrangements, broken down by amounts already received by suppliers;
- the range of payment due dates of both: financial liabilities that are part of these arrangements and comparable trade payables that are not part of such supplier finance arrangements;
- liquidity risk information.

The amendments also provide an explanation of the characteristics of supplier finance arrangements. The Group is reviewing the need to expand additional disclosures in relation to supplier finance arrangements in accordance with these requirements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

Amendments to IAS 21: Lack of Exchangeability

In August 2023, the IASB issued amendments to *IAS 21 The Effects of Changes in Foreign Exchange Rates*. The proposed amendments are intended to help entities identify when there is a lack of exchangeability and to clarify the accounting for such situations. The amendments will require entities to:

- determine whether a currency is exchangeable into another currency. A currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations;
- determine the exchange rate if this is not the case. When exchangeability is lacking, it will be necessary to determine a spot exchange rate;
- improve the quality of information disclosure in its financial statements.

The amendments apply to annual reporting periods beginning on or after 1 January 2025.

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

6. Segment information

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

Revenue from external customers broken down by key products and services and geographical sales segments, as well as information about major customers are disclosed in Note 10 *Revenue.* Geographical distribution of the Group’s non-current assets, except for financial instruments, deferred tax assets and other assets, is disclosed in Notes 15 *Property, plant and equipment,* 16 *Right-of-use assets and lease liabilities*. The Group’s non-current assets are located primarily in the Russian Federation, except for assets located in the Republic of Azerbaijan and related to the Group’s participation in PSA (Note 9).

7. Subsidiaries of the Group

			Effective ownership	
Company	**Principal activity**	**Country of incorporation**	**31 December 2023**	**31 December 2022**
PJSC Varyeganneft	Extraction and marketing of crude oil and gas	Russian Federation	95%	95%
LLC Valyuninskoe	Property management and leasing	Russian Federation	95%	95%
LLC Novo-Aganskoe	Property management and leasing	Russian Federation	95%	95%
LLC Belye Nochi	Property management and leasing	Russian Federation	100%	100%
JSC ANGG	Property management and leasing	Russian Federation	98%	98%
ST JSC Goloil	Property management and leasing	Russian Federation	100%	100%
JSC Mohtikneft	Property management and leasing	Russian Federation	100%	100%
JSC Chernogorskoe	Property management and leasing	Russian Federation	100%	100%
LLC Alatau-2 (dissolution)	Exploration drilling	Russian Federation	–	100%
LLC Alatau-5 (dissolution)	Exploration drilling	Russian Federation	–	100%
LLC Alatau-8 (dissolution)	Exploration drilling	Russian Federation	–	100%
OJSC NAK Aki-Otyr	Property management and leasing	Russian Federation	100%	100%
JSC Nazymskaya NGRE	Property management and leasing	Russian Federation	100%	100%
JSC KhMNK	Property management and leasing	Russian Federation	100%	100%
PJSC Saratovneftegaz	Property management and leasing	Russian Federation	96%	96%
JSC Saratov-Burenie (under dissolution)	Property management and leasing	Russian Federation	96%	96%
LLC Neftebytservice (under dissolution)	Other	Russian Federation	96%	96%
JSC Geofizservice (disposal)	Other	Russian Federation	–	97%
LLC Saratovenergoneft	Other	Russian Federation	96%	96%
LLC RedOil (under dissolution)	Property management and leasing	Russian Federation	96%	96%
PI DOC Rovesnik	Other	Russian Federation	96%	96%
JSC Ulyanovskneft	Property management and leasing	Russian Federation	100%	100%
LLC KP Neftyanik	Other	Russian Federation	100%	100%
LLC Tomskaya Neft	Property management and leasing	Russian Federation	100%	100%
LLC Sredne-Vasyuganskoye	Oil production	Russian Federation	100%	100%
LLC NK Russneft-Bryansk	Transportation services	Russian Federation	51%	51%
LLC Torgovy Dom Russneft	Other	Russian Federation	100%	100%
LLC M-Trade	Other	Russian Federation	100%	100%
JSC Belkam-Trade	Other	Russian Federation	100%	100%
LLC Rustrade	Other	Russian Federation	100%	100%
Russneft (UK) Limited	Marketing of crude oil and petroleum products	United Kingdom	100%	100%
BIZNETA HOLDINGS LTD (under dissolution)	Other	Republic of Cyprus	100%	100%
Russneft Cyprus Limited[1]	Other	Republic of Cyprus	21%	20%
Russneft (BVI) Limited (dissolution)[1]	Other	BVI	–	20%
Edmarnton Limited (dissolution)[1]	Other	BVI	–	20%
International Petroleum Grouping S.A. (dissolution)[1]	Evaluation and exploration of oil and gas	Islamic Republic of Mauritania	–	11%
Global Energy Cyprus Limited[1]	Other	Republic of Cyprus	21%	20%
GEA Holdings Limited[1]	Other	BVI	21%	20%
Kura Valley Holding Company[1]	Other	Cayman Islands	21%	20%
Karasu Petroleum Company[1]	Other	Cayman Islands	21%	20%
Karasu Development Company[1, 2]	Extraction and marketing of crude oil under PSA	Cayman Islands	21%	20%

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

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

7. Subsidiaries of the Group (continued)

Based on the results of 2022, the annual general meeting of shareholders of PJSC Saratovneftegaz decided to pay preference dividends to shareholders, due to what these shares ceased to be voting at the reporting date. At the annual general meeting of shareholders of PJSC Varyeganneft based on the results of 2022, no decision was made to pay dividends on the company’s preference shares, and therefore the preference shares are voting as at the reporting date.

In December 2023, the Group sold its 97% interest in JSC Geofizservice to third parties for RUB 85 million. Gain on sale in the amount of RUB 63 million is recorded in the consolidated statement of profit or loss and other comprehensive income (Note 14).

In the reporting period, the foreign subsidiaries Russneft (BVI) Limited, Edmarnton Limited and International Petroleum Grouping S.A. were recognised as dissolved in accordance with the *BVI* Business *Companies Act*. Loss on dissolution of these companies in the amount of RUB 4,953 million is reflected in the consolidated statement of profit or loss and other comprehensive income (Note 14).

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

31 December 2023	**PJSC Varyeganneft and its subsidiaries**	**PJSC Saratovneftegaz and its subsidiaries**	**Russneft Cyprus Limited and its subsidiaries and joint ventures**
	RUB million	**RUB million**	**RUB million**
Non-current assets	17,580	5,174	72,871
Current assets	15,805	21,227	9,260
Total assets	**33,385**	**26,401**	**82,131**
Long-term liabilities	(2,825)	(3,497)	(64,027)
Short-term liabilities	(2,332)	(1,800)	(15,526)
Total liabilities	**(5,157)**	**(5,297)**	**(79,553)**
Net assets	**28,228**	**21,104**	**2,578**
Equity attributable to shareholders of the Parent	26,732	20,372	532
Equity attributable to non-controlling interests	1,496	732	2,046
For the year ended 31 December 2023			
Revenue	**14,919**	**1,279**	**2,695**
Profit/(loss) for the period	**(229)**	**816**	**(15,537)**
Profit/(loss) attributable to shareholders of the Parent	(217)	786	(1,000)
Profit/(loss) attributable to non-controlling interests	(12)	30	(14,537)

For the year ended 31 December 2023	**PJSC Varyeganneft and its subsidiaries**	**PJSC Saratovneftegaz and its subsidiaries**	**Russneft Cyprus Limited and its subsidiaries and joint ventures**
	RUB million	**RUB million**	**RUB million**
Operating activities	187	(12)	(174)
Investing activities	(41)	71	49
Financing activities	(146)	(39)	(419)
Total change in cash for the period	**–**	**20**	**(544)**

7. Subsidiaries of the Group (continued)

31 December 2022	PJSC Varyeganneft and its subsidiaries	PJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Non-current assets	18,863	6,320	79,334
Current assets	14,412	19,403	13,744
Total assets	**33,275**	**25,723**	**93,078**
Long-term liabilities	(3,175)	(4,620)	(63,425)
Short-term liabilities	(1,613)	(695)	(14,992)
Total liabilities	**(4,788)**	**(5,315)**	**(78,417)**
Net assets	**28,487**	**20,408**	**14,661**
Equity attributable to shareholders of the Parent	26,980	19,700	3,705
Equity attributable to non-controlling interests	1,507	708	10,956
For the year ended 31 December 2022			
Revenue	**16,528**	**1,927**	**2,396**
Profit/(loss) for the period	**259**	**677**	**(282)**
Profit/(loss) attributable to shareholders of the Parent	245	655	(48)
Profit/(loss) attributable to non-controlling interests	14	22	(234)

For the year ended 31 December 2022	PJSC Varyeganneft and its subsidiaries	PJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Operating activities	217	(200)	(331)
Investing activities	(196)	214	925
Financing activities	(22)	(17)	(158)
Total change in cash for the period	**(1)**	**(3)**	**436**

8. Non-controlling interests

Non-controlling interests include:

	31 December 2023		2023	31 December 2022		2022
	Non-controlling interest in share capital (%)	Non-controlling interests in net assets	Non-controlling interests in profit/(loss)	Non-controlling interest in share capital (%)	Non-controlling interests in net assets	Non-controlling interests in profit/(loss)
		RUB million	RUB million		RUB million	RUB million
Russneft Cyprus Limited and its subsidiaries and joint ventures	79%	2,046	(14,537)	80%, 89%	10,956	(234)
PJSC Varyeganneft and its subsidiaries	5%	1,496	(12)	5%	1,507	14
PJSC Saratovneftegaz and its subsidiaries	4%	732	30	4%	708	22
Other	0.4%-49%	(992)	(75)	0.4%-49%	(917)	(111)
Non-controlling interests at the end of the period		**3,282**	**(14,594)**		**12,254**	**(309)**

As at 31 December 2023 and 31 December 2022, the non-controlling interest in the voting shares of PJSC Saratovneftegaz is 0.819%. The voting shares of PJSC RussNeft account for 100% in Russneft Cyprus Limited.

During 2023, Russneft Cyprus Limited was repurchasing preference shares from minority shareholders with subsequent cancellation of these shares; the net effect of such transactions is reflected in the consolidated statement of changes in equity.

9. Investments in associates and joint ventures

GEA Holdings Limited Group

The Group recognizes its participation in the production sharing agreements in the consolidated financial statements as joint operations involving subsidiaries and joint ventures of GEA Holdings Limited group ("GEA group"). GEA Holdings Limited through its subsidiaries and joint ventures participates in exploration and extraction projects in the Republic of Azerbaijan under the scheme of PSA with the State Oil Company of Republic of Azerbaijan (SOCAR) and SOCAR Oil Affiliate (SOA). Where the control is acquired or exercised jointly, the companies within GEA group are recognized in these consolidated financial statements as subsidiaries of the Group (Note 7) or as joint operations or under the equity method.

9. Investments in associates and joint ventures (continued)

GEA Holdings Limited Group (continued)

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

Company	Principal activity	Country of incorporation	Share in equity 31 December 2023[3]	Share in equity 31 December 2022[3]	Consolidation method
Global Energy Azerbaijan Limited	Other	BVI	50%	50%	Equity method
Global Energy Azerbaijan Management Limited	Other	BVI	50%	50%	Equity method
Neftechala Petroleum Limited	Other	BVI	50%	50%	Equity method
Neftechala Investments Limited	Extraction and marketing of crude oil under PSA	BVI	50%	50%	Equity method
Neftechala Operating Company	Extraction and marketing of crude oil under PSA	BVI	40%	40%	Assets, liabilities, revenue and expenses related to the Group's interest
Absheron Petroleum Limited	Other	BVI	50%	50%	Equity method
Apsheron Investments Limited	Extraction and marketing of crude oil under PSA	BVI	50%	50%	Equity method
Absheron Operating Company Limited	Extraction and marketing of crude oil under PSA	BVI	38%	38%	Assets, liabilities, revenue and expenses related to the Group's interest
Shirvan Petroleum Limited	Other	BVI	50%	50%	Equity method
Shirvan Investments Limited	Extraction and marketing of crude oil under PSA	BVI	50%	50%	Equity method
Shirvan Operating Company Limited	Extraction and marketing of crude oil under PSA	BVI	40%	40%	Assets, liabilities, revenue and expenses related to the Group's interest
Repleton Enterprises Limited	Other	Republic of Cyprus	50%	50%	Equity method
AZEN OIL COMPANY B.V.	Extraction and marketing of crude oil under PSA	Kingdom of the Netherlands	50%	50%	Equity method
Binagadi Oil Company	Extraction and marketing of crude oil under PSA	Cayman Islands	38%	38%	Assets, liabilities, revenue and expenses related to the Group's interest
Global Energy Caspian Limited	Other	BVI	50%	50%	Equity method

As at 31 December 2023 and 31 December 2022, the carrying amount of investments in associates and joint ventures equaled zero.

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

10. Revenue

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

The Group operates in two principal geographical areas: far abroad export and Domestic market (the Russian Federation).

The information on revenue is presented in the table below:

	Far abroad export		Domestic market		Total	
	2023	2022	2023	2022	2023	2022
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
Revenue from external customers						
Crude oil sales	74,333	72,905	160,644	214,530	**234,977**	**287,435**
Petroleum product sales	–	–	392	270	**392**	**270**
Gas sales	–	–	3,043	2,846	**3,043**	**2,846**
Other sales	–	–	313	311	**313**	**311**
Total revenue	**74,333**	**72,905**	**164,392**	**217,957**	**238,725**	**290,862**

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

		Geographical location	2023	2022
			RUB million	RUB million
Major customer 1	Crude oil sales	Domestic market	97,137	112,658
Major customer 2	Crude oil sales	Far abroad export	40,339	15,687
Major customer 3	Crude oil sales	Far abroad export	31,292	20,348
Total revenue from sales to major customers			**168,768**	**148,693**

11. Cost of sales

	2023	2022
	RUB million	RUB million
Mineral extraction tax	121,067	128,749
Depreciation, depletion and amortization	15,684	14,723
Payroll and related taxes	8,089	8,068
Utilities	5,880	6,262
Cost of crude oil and petroleum products sold	5,860	58,410
Additional income tax	2,950	3,632
Raw materials and supplies used in production	2,732	2,825
Production services	2,118	1,903
Transportation expenses	1,416	1,377
Equipment repair, operation and maintenance	1,051	1,235
Depreciation of right-of-use assets	387	377
Other expenses	4,971	5,628
Total cost of sales	**172,205**	**233,189**

12. Selling, general and administrative expenses

Selling expenses comprise:

	2023 RUB million	2022 RUB million
Pipeline tariffs and transportation expenses	13,978	12,084
Other selling expenses	246	265
Total selling expenses	**14,224**	**12,349**

General and administrative expenses comprise the following:

	2023 RUB million	2022 RUB million
Payroll and related taxes	2,898	2,839
Entertainment and business travel	358	309
Consulting, management and other services	181	382
Software	143	208
Operating leases	120	87
Bank services	78	51
Repair and maintenance	56	47
Allowance for inventory obsolescence	(38)	(13)
Allowance for expected credit losses (Note 21)	(363)	712
Other expenses	407	416
Total general and administrative expenses	**3,840**	**5,038**

13. Finance income and expense

Finance income comprises the following:

	2023 RUB million	2022 RUB million
Interest income on loans	7,552	4,851
Interest income for early payments	207	167
Total finance income	**7,759**	**5,018**

Finance expense comprises the following:

	2023 RUB million	2022 RUB million
Interest expense on loans and borrowings	9,184	6,094
Interest expense for early payments	1,414	305
Accretion expense (Note 25)	1,163	1,161
Interest expense on lease liabilities (Note 16)	79	100
Other finance expense	3,420	1,438
Total finance expense	**15,260**	**9,098**

14. Other operating income and expenses[4]

	2023 RUB million	2022 RUB million
Fines and penalties for contractual breaches	349	87
Gain from inventories sale	148	261
Derecognition of provisions	42	–
Financial guarantee (Note 26)	41	41
Management services	1	326
Change in fair value − options (Note 29)	–	4,491
Change in fair value − swaps	–	287
Gain on derivative financial instruments	2,766	1,615
Other income	486	373
Total other operating income	**3,833**	**7,481**

	2023 RUB million	2022 RUB million
Impairment of financial assets, net	9,209	1,026
Disposal and dissolution of subsidiaries, net (Note 7)	4,890	–
Change in fair value – swaps (Note 29)	4,542	–
Impairment of exploration assets (Note 18)	3,644	7
Impairment of property, plant and equipment, net (Note 15)	2,420	3,131
Result from disposal of property, plant and equipment and right-of-use assets, net	1,065	362
Charity and other non-recoverable expenses	530	410
Fines and penalties for contractual breaches	339	149
Impairment of goodwill (Note 17)	20	1,834
Exercise of options	–	6,031
Other expenses	422	456
Total other operating expenses	**27,081**	**13,406**

4 In accordance with IAS 1 *Presentation of Financial Statements*, certain items are presented net.

15. Property, plant and equipment

	Oil and gas properties RUB million	Other property, plant and equipment RUB million	Construction in progress RUB million	Total RUB million
1 January 2022				
Cost	289,346	3,065	–	**292,411**
Accumulated depreciation and impairment	(139,035)	(2,556)	–	**(141,591)**
Net book value at 1 January 2022	**150,311**	**509**	**–**	**150,820**
Additions	27,682	1	2	**27,685**
Decommissioning liability	(4,087)	–	–	**(4,087)**
Disposal of subsidiaries, net	–	(26)	–	**(26)**
Transfer from construction in progress	–	2	(2)	**–**
Depreciation	(14,711)	(12)	–	**(14,723)**
Impairment	(3,562)	–	–	**(3,562)**
Reversal of impairment	431	–	–	**431**
Disposals, net	(1,905)	(16)	–	**(1,921)**
Foreign currency translation, net	(810)	–	–	**(810)**
31 December 2022				
Cost	307,398	2,954	–	**310,352**
Accumulated depreciation and impairment	(154,049)	(2,496)	–	**(156,545)**
Net book value at 31 December 2022	**153,349**	**458**	**–**	**153,807**
Additions	17,471	–	2	**17,473**
Decommissioning liability	(205)	–	–	**(205)**
Disposal of subsidiaries, net	–	(2)	–	**(2)**
Transfer from construction in progress	–	2	(2)	**–**
Depreciation	(15,680)	(4)	–	**(15,684)**
Impairment	(2,534)	–	–	**(2,534)**
Reversal of impairment	114	–	–	**114**
Disposals, net	(1,813)	(5)	–	**(1,818)**
Foreign currency translation, net	3,935	–	–	**3,935**
31 December 2023				
Cost	325,729	2,860	–	**328,589**
Accumulated depreciation and impairment	(171,092)	(2,411)	–	**(173,503)**
Net book value at 31 December 2023	**154,637**	**449**	**–**	**155,086**

As at 31 December 2023 and 2022, the Group had no significant pledges of property, plant and equipment.

Impairment losses

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Based on the assessment in the reporting period, the Group identified indications of impairment of property, plant and equipment and recorded an allowance of RUB 2,534 million in 2023, and simultaneously reversed the previously recognized allowance of RUB 114 million. The accumulated allowance as at 31 December 2023 and 31 December 2022 was RUB 15,036 million and RUB 12,457 million, respectively.

15. Property, plant and equipment (continued)

Impairment losses (continued)

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

16. Right-of-use assets and lease liabilities

Right-of-use assets	**Oil and gas right-of-use assets**	**Other right-of-use assets**	**Total right-of-use assets**
	RUB million	**RUB million**	**RUB million**
1 January 2022			
Cost	265	1,250	1,515
Accumulated depreciation and impairment	(13)	(148)	(161)
Net book value at 1 January 2022	**252**	**1,102**	**1,354**
Additions	20	9	29
Disposals, net	(5)	(5)	(10)
Depreciation	(16)	(361)	(377)
Modification and reassessment, net	5	4	9
Foreign currency translation, net	–	(2)	(2)
31 December 2022			
Cost	285	1,237	1,522
Accumulated depreciation and impairment	(29)	(490)	(519)
Net book value at 31 December 2022	**256**	**747**	**1,003**
Additions	15	1	16
Disposals, net	(116)	–	(116)
Depreciation	(21)	(366)	(387)
Modification and reassessment, net	7	193	200
Foreign currency translation, net	2	3	5
31 December 2023			
Cost	180	1,298	1,478
Accumulated depreciation and impairment	(37)	(720)	(757)
Net book value at 31 December 2023	**143**	**578**	**721**

Lease liabilities	**31 December 2023**	**31 December 2022**
	RUB million	**RUB million**
At the beginning of the period	**1,057**	**1,396**
including short-term lease liabilities	*336*	*337*
Recognition of lease liabilities	16	29
Disposals	(122)	(10)
Modification and reassessment	190	7
Interest on lease liabilities	79	100
Payments of lease liabilities	(477)	(462)
Foreign currency translation, net	4	(3)
At the end of the period	**747**	**1,057**
including short-term lease liabilities	*408*	*336*

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

	31 December 2023	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Lease liabilities	**747**	408	42	81	216

	31 December 2022	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Lease liabilities	**1,057**	336	377	37	307

17. Goodwill

	RUB million
1 January 2022	**11,796**
Impairment	(1,834)
Foreign currency translation	(1)
31 December 2022	**9,961**
Impairment	(20)
Foreign currency translation	3
31 December 2023	**9,944**

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

CGU	Segment[5]	31 December 2023	31 December 2022
		RUB million	RUB million
PJSC Saratovneftegaz	Exploration, production and related service	9,024	9,024
PJSC Varyeganneft	Exploration, production and related service	598	598
JSC Ulyanovskneft	Exploration, production and related service	227	227
OJSC NAK Aki-Otyr	Exploration, production and related service	95	95
Other		–	17
		9,944	**9,961**

Impairment testing of goodwill

The Group conducts its goodwill impairment test as at 31 December of each reporting annual period or more often if there is evidence of its possible impairment. Based on the testing, an impairment of goodwill of RUB 20 million was recognized as at 31 December 2023 in respect of one cash-generating units (CGU).

[5] The segment is defined in Note 6.

17. Goodwill (continued)

Impairment testing of goodwill (continued)

For goodwill impairment test purposes, the Group uses the discounted cash flow model to determine the value in use. The main assumptions used are represented by estimates made by the Company’s management with regard to the future development trends in oil and gas sector, and are based on the external and internal data sources. Future cash flows are based on the reports on oil and gas reserves prepared by Miller and Lents, Ltd within the range of 18 years. To estimate oil and gas reserves as at 31 December 2023, the Group used the data presented in the report of Miller and Lents, Ltd. as at 31 December 2021, with estimated adjustments related to the development periods and amount of proved developed reserves and total proved reserves for the periods 2022 and 2023 cumulative, as well as taking into account the updating of costs by the cumulative inflation factor for the period from the date of reserves estimation as at 31 December 2021 to the date of these consolidated financial statements.

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

- Discount rate (in RUB): determines the current estimates of time value of money and risks – 14.4%.
- Forecast oil price: price basis for Urals oil is in the range of USD 71.3-70 per barrel which is adjusted for transportation expenses.
- MET and AIT rates are calculated with account of movements in forecast oil prices.
- Sales structure by market (export, domestic market) remains the same during the valuation period.
- Difference in the netback existing in the markets (export, domestic market) remains unchanged.

Change in forecast oil price/discount rate	Effect on profit before tax 2023	Effect on profit before tax 2022
USD/bbl, %	RUB million	RUB million
-10	–	(3,914)
+10	–	2,783
+1%	–	(214)
-1%	–	230

18. Exploration and evaluation assets

The Group reviews indicators of impairment in respect of exploration and evaluation assets at each reporting date. Based on the results of the analysis performed, the Group recognised impairment of exploration and evaluation assets in the amount of RUB 3,637 million at the reporting date.

In 2023, there were no significant acquisitions of exploration and evaluation assets.

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

	Currency	31 December 2023 RUB million	31 December 2022 RUB million
Long-term loans issued to related parties	USD	114,839	84,299
Long-term loans issued to related parties	EUR	23,480	17,102
Long-term loans issued to related parties	RUB	2,754	2,546
Long-term loans issued to other companies	RUB	2,888	2,804
Allowances for expected credit losses on long-term loans issued		(47,135)	(29,140)
		96,826	**77,611**
Short-term loans issued to related parties	USD	–	1,215
Short-term loans issued to related parties	EUR	3	–
Allowances for expected credit losses on short-term loans issued		(1)	–
		2	**1,215**

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

The Parent records loans issued to related parties of GEA group companies under the equity method as long-term financial assets in these consolidated financial statements (Note 9). As at 31 December 2023 and 31 December 2022, loans receivable (including accumulated interest and allowance for expected credit losses) were USD 650 million and USD 637 million (RUB 58,291 million and RUB 44,782 million at the exchange rate as at the reporting date), respectively.

As at 31 December 2023 and 31 December 2022, outstanding balances related to long-term and short-term financial assets (including accumulated interest and allowance for expected credit losses) comprise the outstanding balances of loans issued by GEA group companies to related parties of USD 105 million and USD 100 million (RUB 9,392 million and RUB 6,999 million), respectively.

During the reporting period, certain loans were extended, and this modification had no significant effect on the consolidated financial statements.

20. Inventories

	31 December 2023 RUB million	31 December 2022 RUB million
Crude oil	9,844	4,882
Raw materials and components	4,413	3,804
Petroleum products	17	27
Allowance for obsolete inventories[6]	(385)	(405)
Total inventories	**13,889**	**8,308**

6 The allowance for obsolete inventories relates to Raw materials and components.

21. Other non-current assets, trade and other receivables

	31 December 2023 RUB million	31 December 2022 RUB million
Long-term prepayments	1,458	1,779
Long-term prepayments for capital projects	1,694	2,546
Allowance for prepayments	(1,238)	(1,552)
Other non-current assets	27	45
Total other non-current assets	**1,941**	**2,818**

	31 December 2023 RUB million	31 December 2022 RUB million
Other long-term receivables	5,448	1,253
Allowance for expected credit losses	(657)	(1,218)
Total other long-term receivables	**4,791**	**35**

	31 December 2023 RUB million	31 December 2022 RUB million
Trade receivables	7,556	3,066
Other receivables	220	3,524
Allowance for expected credit losses	(128)	(447)
Total trade and other receivables	**7,648**	**6,143**

	31 December 2023 RUB million	31 December 2022 RUB million
Short-term prepayments	18,021	13,993
Other current assets[7]	223	201
Allowance for prepayments	(77)	(377)
Total other current assets	**18,167**	**13,817**

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

	31 December 2023 RUB million	31 December 2022 RUB million
As at 1 January	**(3,594)**	**(2,413)**
Reversal/(accrual) of allowance	363	(712)
Allowance used	939	9
Disposal of subsidiaries	231	–
Foreign currency translation	(39)	(478)
As at 31 December	**(2,100)**	**(3,594)**

[7] As at 31 December 2023, there were temporarily blocked amounts of RUB 191 million in certain bank accounts.

22. Cash and cash equivalents

	31 December 2023 RUB million	31 December 2022 RUB million
RUB-denominated cash at bank and on hand	6,390	304
Deposits and other cash equivalents	2,386	1,300
Foreign currency-denominated cash at bank and on hand	914	516
Total cash and cash equivalents	**9,690**	**2,120**

23. Share capital

	31 December 2023 thousand	31 December 2023 RUB million	31 December 2022 thousand	31 December 2022 RUB million
Common shares (issued and paid) with a nominal value of RUB 0.5 each	294,120	147	294,120	147
Preference shares[8] with a nominal value of RUB 0.5 each	98,032	49	98,032	49
Total share capital	**392,152**	**196**	**392,152**	**196**

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

The Company does not have a controlling shareholder as at the reporting date.

Interests in the share capital of the Parent relate to shareholders owning at least 5 percent of voting (common) shares as at the reporting date:

Shareholder	**Percentage of total voting shares, %**
RAMBERO HOLDING AG	31.28
BRADINAR HOLDINGS LIMITED (since 19.12.2023 MK LLC "BRADINAR" is registered in the territory of the Russian Federation under redomiciliation)	16.07
PJSC SFI	11.18
CJSC Mlada	10.27
OJSC IC Nadezhnost	6.60
Other shareholders each holding less than 5%	24.60

The General Meeting of Shareholders of the Company in 2023 made a decision to allocate USD 110 million (RUB 10,628 million at the exchange rate established by the CBR at the date of accrual), or USD 1.1220825853 per one preference share of the Company, to pay dividends to preference shareholders of PJSC “RussNeft.” As at the reporting date, the declared dividends were fully paid, with the payment amounting to RUB 10,418 million at the exchange rate ruling at the payment date. Considering the decision made to pay dividends on preference shares, they are not voting shares. No dividends were declared or paid on the Parent’s common shares.

Under Russian legislation, the basis for dividend distribution is net profit calculated in accordance with the Russian Accounting Standards.

[8] Preference shares of PJSC “RussNeft” are non-cumulative.

23. Share capital (continued)

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to common equity holders of the Parent, as adjusted, by the weighted average number of common shares outstanding during the year. As the decision to pay dividends for 2023 under the preference shares was not announced at the reporting date, no adjustment for the forecast amount of these dividends for 2023 was made in the reporting period.

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

		2023	2022
Profit attributable to shareholders of the Parent	RUB million	20,441	20,446
Dividends on preference shares	RUB million	(10,628)	(4,593)
Profit attributable to shareholders of the Parent, as adjusted	RUB million	**9,813**	**15,853**
Weighted average number of common shares outstanding	million	294	294
Effect of dilution		–	–
Basic and diluted earnings per share	RUB per share	33	54

Russneft Cyprus Limited (a subsidiary) acts as a party to a forward contract entities to purchase 33,240,827 preference shares of the Parent in 2026. The amount of the forward of RUB 21,123 million is recorded in the equity of the consolidated statement of financial position as Forward to purchase treasury shares. The forward liability measured at amortized cost using the effective interest rate method is recorded in Other long-term financial liabilities at RUB 18,444 million and in Trade and other payables, other short-term financial liabilities at RUB 3,432 million (Note 26). Simultaneously, Russneft Cyprus Limited acts as a party to a currency interest rate swap during the term of the forward contract.

24. Loans and borrowings

	Currency	Weighted average interest rate by type of liability as at 31 December 2023	31 December 2023
		%	RUB million
Long-term loans and borrowings			
Bank loans	USD	11.14%	69,514
Borrowings	USD	7.49%	1,971
Total long-term loans and borrowings			**71,485**
Short-term loans and borrowings			
Bank loans	USD	11.14%	8,062
Loans received	USD	5.50%	480
Borrowings	USD	6.10%	1,906
Borrowings	RUB	6.54%	45
Total short-term loans and borrowings			**10,493**

24. Loans and borrowings (continued)

	Currency	Weighted average interest rate by type of liability as at 31 December 2022	31 December 2022
		%	RUB million
Long-term loans and borrowings			
Bank loans	USD	10.27%	63,202
Loans received	USD	5.5%	753
Borrowings	USD	7.28%	6,728
Total long-term loans and borrowings			**70,683**
Short-term loans and borrowings			
Bank loans	USD	10.27%	6,589
Borrowings	RUB	6.54%	46
Total short-term loans and borrowings			**6,635**

The Company has an effective credit agreement with stage-by-stage repayment of the principal debt and maturity in March 2026. In the reporting period, a transition was made to the SOFR overnight rate, with the margin revised to 5.76%.

The Company repays accrued interest on a quarterly basis, in accordance with the schedule and the interest rate set for the date of payment. In the reporting period, the Company paid the total interest under this loan agreement in the amount of RUB 8,979 million at the exchange rate as at the date of payment (USD 103 million). Principal payments under the credit agreement in the reporting period amounted to RUB 11,529 million at the exchange rate on the date of payment (USD 127 million, including USD 37 million additionally in excess of the established repayment schedule, which amounted to RUB 3,660 million at the exchange rate on the date of payment).

Outstanding principal payable amounts of the loan agreement to RUB 77,365 million or USD 863 million at the exchange rate as at the reporting date, including the current portion payable in the amount of RUB 7,851 million or USD 88 million. Current interest payable amounts to RUB 211 million or USD 2 million at the exchange rate as at the reporting date.

The Company's loan was secured by pledge of the common shares of the Parent and the equity interests that the Parent holds in certain subsidiaries. At the same time, certain subsidiaries of the Group and other related and third parties are joint guarantors to the creditor with regard to the Parent’s liabilities (Note 30).

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

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

24. Loans and borrowings (continued)

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

	2023			2022		
	Long-term and short-term loans and borrowings	**Other financial liabilities**	**Total**	**Long-term and short-term loans and borrowings**	**Other financial liabilities**	**Total**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**	**RUB million**
At the beginning of the period	**77,318**	**–**	**77,318**	**87,657**	**–**	**87,657**
Cash flow – financing activities	(20,539)	–	**(20,539)**	(10,971)	–	**(10,971)**
Interest accrued	9,182	–	**9,182**	6,034	–	**6,034**
Discounting of financial liabilities	87	–	**87**	5	–	**5**
Disposal of subsidiaries	(4,320)		**(4,320)**	–	–	–
Foreign exchange difference	19,347	–	**19,347**	(5,040)	–	**(5,040)**
Foreign currency translation	903	–	**903**	(367)	–	**(367)**
At the end of the period	**81,978**	**–**	**81,978**	**77,318**	**–**	**77,318**
Other cash flows – financing activities, including:	–	(10,781)	**(10,781)**	–	(11,460)	**(11,460)**
Dividends paid	–	(10,421)	**(10,421)**	–	(4,917)	**(4,917)**
Exercise of derivative financial instruments	–	121	**121**	–	(6,076)	**(6,076)**
Including options	–	–	**–**	–	*(6,158)*	***(6,158)***
Payments of lease liabilities	–	(477)	**(477)**	–	(462)	**(462)**
Other movements	–	(4)	**(4)**	–	(5)	**(5)**
Net cash – financing activities	**(20,539)**	**(10,781)**	**(31,320)**	**(10,971)**	**(11,460)**	**(22,431)**

25. Decommissioning liability

	2023		2022	
	Decommissioning liability	**Land restoration liability**	**Decommissioning liability**	**Land restoration liability**
	RUB million	**RUB million**	**RUB million**	**RUB million**
At the beginning of the period	**8,225**	**2,621**	**10,580**	**3,372**
Acquisitions	322	26	52	163
Disposals	(221)	(75)	(60)	(95)
Change in estimates	(195)	(342)	(3,199)	(1,103)
Accretion expense	887	276	877	284
Foreign currency translation	82	–	(25)	–
At the end of the period	**9,100**	**2,506**	**8,225**	**2,621**

25. Decommissioning liability (continued)

The Group makes provision for the future cost of decommissioning oil production facilities and restoring disturbed land on a discounted basis as the facilities are put into operation or sites are damaged. The Group estimated the provision taking into account existing oil extraction technologies and current estimates of decommissioning costs (adjusted for inflation projections) and discounted the provision at the rate of 11.64% (2022: 11.04%).

The decommissioning liability represents the present value of decommissioning costs relating to oil and gas properties which are expected to be incurred up to 2096 depending on the recovery period of total proved reserves for each group of oil and gas fields. Management makes assumptions based on the current economic environment and believes that they are a reasonable basis upon which the future liability is estimated. These estimates are reviewed regularly to take into account any material changes in the assumptions. Actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning work which will reflect specific market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in its turn, will depend on future oil and gas prices, which are inherently uncertain.

26. Long-term and short-term financial and other liabilities

Other long-term financial liabilities	**31 December 2023**	**31 December 2022**
	RUB million	**RUB million**
Derivative financial instruments (Note 29)	30,353	24,134
Long-term trade payables	158	133
Financial guarantee (Note 30)	135	175
Total other long-term financial liabilities	**30,646**	**24,442**

Trade and other payables, other short-term financial liabilities	**31 December 2023**	**31 December 2022**
	RUB million	**RUB million**
Trade payables	25,147	26,652
Other short-term payables	4,214	4,027
Derivative financial instruments (Note 29)	3,432	1,912
Total trade and other payables, other short-term financial liabilities	**32,793**	**32,591**

Taxes and levies payable (excluding income tax)	**31 December 2023**	**31 December 2022**
	RUB million	**RUB million**
Mineral extraction tax	14,461	6,879
Value added tax	8,542	4,908
Additional income tax	1,098	462
Property tax	381	411
Other taxes and levies (excluding income tax)	227	227
Total taxes and levies payable (excluding income tax)	**24,709**	**12,887**

26. Long-term and short-term financial and other liabilities (continued)

Advances received and other short-term liabilities	**31 December 2023**	**31 December 2022**
	RUB million	**RUB million**
Advances received	16,776	14,290
Other short-term liabilities	8,084	4,619
Total advances received and other short-term liabilities	**24,860**	**18,909**

27. Income tax

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

	2023	**2022**
	RUB million	**RUB million**
Current income tax		
Current income tax expense	4,941	1,698
Income tax relating to previous years	(34)	1
Excess profits tax of previous years	38	–
Deferred income tax		
Relating to origination and reversal of temporary differences	6,489	3,770
Change in deferred income tax relating to previous periods	1,083	1,079
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**12,517**	**6,548**

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

	2023	**2022**
	RUB million	**RUB million**
Accounting profit before tax	**18,364**	**26,685**
Income tax at applicable tax rate (20%)	**3,673**	**5,337**
Tax effect of non-deductible expense and non-taxable income	5,997	1,144
Tax effect of rates other than 20%	1,545	44
Change in unrecognized deferred tax assets	215	(1,057)
Change in deferred income tax relating to previous periods	1,083	1,079
Income tax relating to previous years	(34)	1
Excess profits tax of previous years	38	–
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**12,517**	**6,548**

Generally, the subsidiaries of the Group incorporated in the Russian Federation used a 20% tax rate in 2023 and 2022. The subsidiaries incorporated outside the Russian Federation applied rates and exemptions stipulated by local legislation.

In accordance with Federal Law No. 414-FZ of 4 August 2023 *On Excess Profits Tax*, OJSC NAK Aki-Otyr is the payer of excess profits tax in the amount of RUB 76 million. OJSC NAK Aki-Otyr used the right to reduce the tax by the amount of the security payment of RUB 38 million (50% of the total tax) transferred to the budget in November 2023.

27. Income tax (continued)

Deferred income tax

Deferred tax assets and liabilities as at 31 December 2023 by line of the consolidated statement of financial position as well as their movements in 2023 are presented below:

	Consolidated statement of financial position 31 December 2022	Consolidated statement of profit or loss and other comprehensive income 2023	Disposal of subsidiaries	Consolidated statement of financial position 31 December 2023
	RUB million	RUB million	RUB million	RUB million
Deferred tax liabilities				
Oil and gas properties	(14,141)	(374)	2	(14,513)
Inventories	(604)	(919)	–	(1,523)
Other	(18,703)	(10,056)	–	(28,759)
Deferred tax assets				
Tax loss carry forward	23,885	(4,881)	(9)	18,995
Oil and gas properties	419	(10)	–	409
Inventories	42	4	–	46
Trade and other receivables	75	(12)	–	63
Other	1,540	8,892	(2)	10,430
Unrecognized tax assets	(2,262)	(215)	–	(2,477)
Total deferred tax liabilities and deferred tax assets	**(9,749)**	**(7,571)**	**(9)**	**(17,329)**
Deferred income tax expense	**–**	**7,571**	**1**	**–**
Consolidated statement of financial position				
Deferred tax assets	819	–	–	755
Deferred tax liabilities	(10,568)	–	–	(18,084)

Deferred tax assets and liabilities as at 31 December 2022 by line of the consolidated statement of financial position as well as their movements in 2022 are presented below:

	Consolidated statement of financial position 31 December 2021	Consolidated statement of profit or loss and other comprehensive income 2022	Acquisition of subsidiaries	Disposal of subsidiaries	Consolidated statement of financial position 31 December 2022
	RUB million	RUB million	RUB million	RUB million	RUB million
Deferred tax liabilities					
Oil and gas properties	(13,158)	(983)	–	–	(14,141)
Inventories	(758)	154	–	–	(604)
Other	(245)	(18,458)	–	–	(18,703)
Deferred tax assets					
Tax loss carry forward	10,092	13,798	1	(6)	23,885
Oil and gas properties	19	400	–	–	419
Inventories	40	2	–	–	42
Trade and other receivables	54	21	–	–	75
Other	2,374	(834)	–	–	1,540
Unrecognized tax assets	(3,319)	1,057	–	–	(2,262)
Total deferred tax liabilities and deferred tax assets	**(4,901)**	**(4,843)**	**1**	**(6)**	**(9,749)**
Deferred income tax expense	**–**	**4,843**	**–**	**6**	**–**
Consolidated statement of financial position					
Deferred tax assets	1,509	–	–	–	819
Deferred tax liabilities	(6,410)	–	–	–	(10,568)

27. Income tax (continued)

Deferred income tax (continued)

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

28. Transactions with related parties

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

The nature of the related party relations for those related parties with whom the Group entered into significant transactions in 2023 and 2022 or had significant balances outstanding as at 31 December 2023 and 2022 are detailed below.

Transactions with related parties in 2023 and 2022:

2023	**Sales**	**Other transactions**	**Acquisitions**	**Finance income**	**Finance expense**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Associates and joint ventures	–	2,939	44	4,873	208
Other related parties	97,189	5,885	25	1,881	54
Total	**97,189**	**8,824**	**69**	**6,754**	**262**

2022	**Sales**	**Other transactions**	**Acquisitions**	**Finance income**	**Finance expense**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Associates and joint ventures	–	(424)	21	2,988	89
Other related parties	112,726	573	17,556	1,486	76
Total	**112,726**	**149**	**17,577**	**4,474**	**165**

As at 31 December 2023 and 31 December 2022, amounts due to and due from related parties are as follows:

31 December 2023	**Receivables**	**Loans issued**	**Payables**	**Loans received**	**Guarantees issued**	**Guarantees issued to secure liabilities**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Associates and joint ventures	99	67,684	59	3,877	–	–
Other related parties	106	29,144	19,257	–	59	26,957
Total	**205**	**96,828**	**19,316**	**3,877**	**59**	**26,957**

31 December 2022	**Receivables**	**Loans issued**	**Payables**	**Loans received**	**Guarantees issued**	**Guarantees issued to secure liabilities**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Associates and joint ventures	77	51,782	46	2,487	–	–
Other related parties	5,102	27,044	16,411	–	59	43,561
Total	**5,179**	**78,826**	**16,457**	**2,487**	**59**	**43,561**

28. Transactions with related parties (continued)

Pricing policy

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

Key management personnel

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

In 2023, key management personnel compensation expense, consisting of salaries and payroll taxes, totaled RUB 1,324 million (2022: RUB 1,294 million).

In the reporting period, the Company adopted another three-year long-term motivation program for senior and medium management for the period of 2023-2025. The program recognizes the phantom shares to be paid off in cash as a liability expensed to bonuses during the period of rendering services. Planned payments are calculated upon reaching the target program criteria in each reporting period. At the end of 2023, the Company accrued RUB 204 million (including insurance contributions) from calculation for time actually worked for the first year of the long-term motivation program based on the preliminary estimate of planned performance progress (2022: RUB 244 million). In April 2023, the Company made payments for the third year (2022) of the previous three-year program in the amount of RUB 262 million (including insurance contributions).

29. Fair value measurement

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

Management believes that the fair value of the Group’s cash, short-term financial assets, short-term trade payables and short-term loans and borrowings is equal to their carrying amount. The fair value of long-term loans and borrowings received by the Group, long-term trade payables and receivables and loans issued is determined using a discounted cash flow model based on the discount rates that are equal to the market rates effective at the reporting date. As at 31 December 2023, management classified the risk of default as insignificant.

The accounting classification of each category of financial instruments, their carrying amounts and fair values are as follows below. The fair value of lease liabilities approximates their carrying amount, these items are not included in the disclosure below as the information on their value is presented in Note 16.

29. Fair value measurement (continued)

	31 December 2023		31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	RUB million		RUB million	
Financial assets				
Loans issued	96,828	122,307	78,826	94,858
Trade and other receivables and other financial assets	12,468	11,729	6,233	6,233
Cash and cash equivalents	9,690	9,690	2,120	2,120
Financial liabilities measured at amortized cost				
Trade and other payables	27,497	27,497	27,914	27,914
Loans and borrowings	81,978	80,811	77,318	84,278

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

	Change in discount rate	Effect on profit before tax for 2023	Effect on profit before tax for 2022
		RUB million	RUB million
Long-term loans issued	+1%	(2,378)	(2,272)
Long-term loans issued	-1%	2,448	2,358
Long-term trade and other receivables	+1%	(51)	(1)
Long-term trade and other receivables	-1%	52	1
Long-term loans and borrowings received	+1%	1,255	2,441
Long-term loans and borrowings received	-1%	(1,290)	(2,323)

The measurement of the Group’s derivative financial instruments broken down by fair value or amortized cost is presented in the following table.

Derivative financial instruments	31 December 2023	31 December 2022
	RUB million	RUB million
Long-term derivative financial liabilities − forward	18,444	18,542
Long-term derivative financial liabilities − swaps	11,909	5,592
Long-term derivative financial instruments, net	**30,353**	**24,134**
Short-term derivative financial liabilities − forward	3,432	1,912
Short-term derivative financial instruments, net[9]	**3,432**	**1,912**

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

30. Contingencies, commitments and operating risks

Operating environment of the Group

The Group's principal activities are in the Russian Federation. The Russian economy is characterised by significant dependence on world prices for crude oil, fluctuations in commodity and financial markets, economic slowdowns elsewhere in the world, and active involvement in geopolitical risks and conflicts.

In the reporting period, the effect of external sanctions continued against the Russian Federation, certain legal entities and individuals whose lists are systematically supplemented with new participants. The current sanctions are aimed, among other things, against the Russian fuel and energy sector. The Government of the Russian Federation is systematically updating packages of measures intended to protect Russian companies. Among these measures, on 5 July 2023, Decree of the Government of the Russian Federation No. 1102 dated 4 July 2023 “*On the Specifics of Disclosure and (or) Provision of Information to be Disclosed and (or) Provided as Required by the Federal Law “On Joint-Stock Companies” and the Federal Law “On the Securities Market*” was enacted which defines information that is subject to limited disclosure, as well as cases in which such limited disclosure is possible.

In December 2022, an embargo was introduced on seaborne oil supplies from Russia. At the same time, a maximum level (ceiling) of prices for Russian oil at the rate of USD 60/bbl came into effect, which prohibited purchase of oil at a price above the established limit, as well as its transportation and insurance. The restriction was initially adopted by the G7 countries joined by the rest of the EU, Australia and some non-EU countries in Europe. In February 2023, similar measures began to apply to oil products. In March 2023, the average price for Russian Urals oil was USD 47.85/bbl, which is almost two times lower than in March 2022. In April 2023, the discount for Russian oil to the benchmark Brent decreased to USD 26-27/ bbl.

After a downward trend in the first quarter of 2023, the average price of a barrel of Russian Urals oil showed an increase to USD 62.9 at the end of 2023. At the same time, compared to 2022, there was a decrease in this indicator by 19%. Following the alliance meeting in June 2023, OPEC+ countries agreed to reduce oil production in 2024 by 3.34%. In September 2023, the Russian Federation, together with Saudi Arabia, reached an agreement to reduce oil supply until the end of the year, which immediately served as a new impetus for oil growth (a barrel of Brent oil was trading above USD 90). Both countries reviewed oil production cuts on a monthly basis depending on market conditions during the reporting period. Russia voluntarily extended the reduction in oil exports by 300 thousand barrels per day from September until the end of December 2023 (in August this reduction was at the level of 500 thousand barrels per day). This measure was in addition to the previously announced voluntary reduction in oil production by 500 thousand barrels per day by the Russian Federation, which was supposed to be in effect until the end of 2024. At the same time, certain OPEC countries are reluctant to support measures to reduce their production.

The external isolation of Russian business has led to an increase in the share of settlements and savings in CNY and RUB.

In the reporting period, the Company was not subject to sanctions or restrictions on doing business.

The length of sanctions depends on future arrangements between Russia and the Western countries on key geopolitical issues. It is currently difficult to predict what arrangements will be put in place. Management is closely monitoring the developments and steps being taken on both sides, to be able to promptly respond to the rapidly changing business environment.

30. Contingencies, commitments and operating risks (continued)

Operating environment of the Group (continued)

Recurring cyclic waves of new strains of the coronavirus or other viruses causing similar conditions remain highly probable. The Group’s management takes active measures to ensure security and protect the health of employees and their families, as well as companies engaged under joint contracts, in all regions where the Group has a presence.

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

Taxation

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

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

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

On 1 January 2023, changes to the Tax Code of the Russian Federation came into force, according to which each Group company located in the Russian Federation pays taxes as a single tax payment to a single tax account.

Russian transfer pricing legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price. In case a domestic transaction results in an accrual of additional income tax liabilities for one party, the other party may correspondingly adjust its income tax liabilities.

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

30. Contingencies, commitments and operating risks (continued)

Taxation (continued)

In 2023, the Company, as the parent of a multinational corporation (MNC), submitted to the tax authority a notice of participation in the MNC and the CbC report for 2022 within the statutory timeframe.

To ensure compliance with the legislation governing taxation of controlled foreign companies and to mitigate related tax risks, the Group’s management developed a set of internal routine procedures.

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

Compliance with the terms and conditions for subsoil use

In accordance with Part 4, art. 12.1 of Russian Federation Law No. 2395-1 dated 21 February 1992 *On Subsoil Resources*, the authorized agency for the execution, state registration and issuance of hydrocarbon licenses is the Federal Agency for Subsoil Management and its local divisions. Under art. 10 of Russian Federation Law No. 2395-1 dated 21 February 1992 *On Subsoil Resources*, the Company may request extension to its subsoil license, as necessary, to complete a geological survey or mineral extraction process. The Russian executive authorities exercise oversight and supervision of the Company’s operations and its compliance with the mandatory conditions attached to the subsoil licenses issued to it. The Company may face administrative charges and withdrawal of the subsoil license in the event of non-compliance. The Company’s employees use all reasonable efforts to prevent and mitigate the risks of non-compliance with subsoil license conditions.

Liabilities concerning environmental and safety matters

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

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

Insurance

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

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

30. Contingencies, commitments and operating risks (continued)

Retirement and post-retirement benefit obligations

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

Litigations

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

Guarantees issued

The Group’s subsidiaries are joint guarantors with regard to the Parent’s liabilities under the loan agreement with the outstanding balance (including interest) of RUB 77,576 million, or USD 865 million, at the exchange rate at the reporting date (Note 24).

The Parent issued a financial guarantee in the total amount of EUR 267 million or RUB 26,498 million at the exchange rate as at the reporting date (the underlying liability is to be repaid by 2027). This financial guarantee is recorded in these consolidated financial statements in Other long-term financial liabilities in the amount of RUB 135 million (Note 26).

The Parent together with several subsidiaries issued the RUB 72,000 million independent guarantee for Russneft Cyprus Limited (a subsidiary) the forward contract to purchase preference shares of PJSC “RussNeft” in 2026 (Note 23).

As at the reporting date, the Parent acts as a guarantor with respect to the obligations for prepayments received under oil supply contracts for the total amount of RUB 459 million (Note 32).

31. Financial risk management

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

In December 2019, the Group acted as a party to derivative contracts measured at fair value (currency interest rate swap) or amortized cost through profit or loss (forward to purchase preference shares of the Parent, Note 23).

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

31. Financial risk management (continued)

Market risk

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

Commodity price risk

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

The Group’s management calculates budgets by scenario depending on projected oil prices, exchange rates and other indicators in order to assess a potential effect of the risk of changes in the price of main commodities on the Group’s management reports. The Group enters into standard agreements on sale of oil and oil products with customers.

Foreign currency risk

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

As at 31 December 2023 and 2022, the carrying amount of the Group’s financial assets and liabilities denominated in the currency used by the Group’s companies is as follows:

Financial assets	**31 December 2023**	**RUB**	**USD**	**EUR**	**CNY**	**Other currencies**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Trade and other receivables and other financial assets	**12,468**	1,326	11,100	–	–	42
Loans issued	**96,828**	2,681	80,058	14,089	–	–
Cash and cash equivalents	**9,690**	8,775	23	26	860	6

Financial liabilities	**31 December 2023**	**RUB**	**USD**	**EUR**	**Other currencies**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Loans and borrowings received	**(81,978)**	(45)	(81,933)	–	–
Trade and other payables	**(27,497)**	(7,466)	(19,737)	(135)	(159)
Derivative financial instruments[10]	**(33,785)**	(21,876)	(11,909)	–	–

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[10] Recorded net with derivative financial liabilities in the consolidated statement of financial position.

31. Financial risk management (continued)

Foreign currency risk (continued)

Financial assets	31 December 2022	RUB	USD	EUR	Other currencies
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other receivables and other financial assets	**6,233**	2,183	4,019	–	31
Loans issued	**78,826**	2,412	64,440	11,974	–
Cash and cash equivalents	**2,120**	1,604	508	8	–

Financial liabilities	31 December 2022	RUB	USD	EUR
	RUB million	RUB million	RUB million	RUB million
Loans and borrowings received	**(77,318)**	(46)	(77,272)	–
Trade and other payables	**(27,914)**	(11,473)	(16,265)	(176)
Derivative financial instruments[11]	**(26,046)**	(20,454)	(5,592)	–

A (-25.00% and -15.00%) strengthening or (25.00% and 15.00%) weakening of the RUB against the USD, the EUR, the CNY as at 31 December 2023 and 31 December 2022, respectively, with all other variables held constant, would have changed profit before tax by the amounts shown below and relates to financial instruments denominated in foreign currency, i.e., the currency other than the functional currency in which they are measured. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the reporting date and had been applied to the foreign currency balances to which the Group has significant exposure, and that all other variables, in particular interest rates, remain constant.

Currency	Relative weakening / (strengthening) of exchange rates	Effect on profit before tax for 2023	Effect on profit before tax for 2022
		RUB million	RUB million
USD	+25.00%	(3,691)	(6,122)
USD	-25.00%	3,691	6,122
EUR	+25.00%	3,495	2,951
EUR	-25.00%	(3,495)	(2,951)
CNY	+25.00%	215	–
CNY	-25.00%	(215)	–
RUB[12]	+25.00%	4,158	3,987
RUB[12]	-25.00%	(6,931)	(6,645)

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

[11] Recorded net with derivative financial liabilities in the consolidated statement of financial position.

[12] Analysis of sensitivity of RUB-denominated financial instruments to currency fluctuations for the Group companies whose functional currency is other than the Russian ruble.

31. Financial risk management (continued)

Interest rate risk

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

The Group’s management analyzes risks related to a possible increase of interest rates which are assessed as significant, as the Parent’s borrowings are mostly represented by the foreign currency denominated loan with a floating interest rate pegged to the SOFR overnight. Regarding financial assets, the Group switched to a fixed rate in the current period.

Financial instrument		**Effect on profit before tax for 2023**	**Effect on profit before tax for 2022**
		RUB million	**RUB million**
Loans and borrowings received	+2.00%	(1,471)	(1,357)
	-2.00%	1,471	1,357
Loans issued	+2.00%	–	717
	-2.00%	–	(717)

As at 31 December 2023, the Group did not enter into any transactions aimed to reduce its interest rate risk exposure, in particular, any interest rate swaps (except for currency interest rate swap under the forward contract, Note 29).

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

Credit risk

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

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

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

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

31. Financial risk management (continued)

Credit risk (continued)

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

Financial assets	**31 December 2023**	**Within one year**	**1 to 2 years**	**2 to 4 years**	**Over 4 years**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Loans issued	**96,828**	2	21,006	17,210	58,610
Trade and other receivables and other financial assets	**12,468**	7,677	4,748	–	43

Financial assets	**31 December 2022**	**Within one year**	**1 to 2 years**	**2 to 4 years**	**Over 4 years**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Loans issued	**78,826**	1,215	18,510	59,059	42
Trade and other receivables and other financial assets	**6,233**	6,200	–	–	33

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

Liquidity risk

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

As at 31 December 2023, the Group’s short-term liabilities exceeded its current assets by RUB 42,860 million (31 December 2022: RUB 38,774 million).

The Group’s management examines different budget scenarios in various price ranges to assess business risks and takes certain measures to mitigate the liquidity risk, namely:

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

31. Financial risk management (continued)

Liquidity risk (continued)

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

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

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

The following table shows undiscounted contractual cash flows for non-derivative financial liabilities, including estimated interest liability, as at 31 December 2023 and 2022. Derivative financial liabilities are presented in the 31 December 2023 and 2022 estimates reflected in these consolidated financial statements.

Financial liabilities	**31 December 2023**	**Within one year**	**1 to 2 years**	**2 to 4 years**	**Over 4 years**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Trade and other payables	**27,497**	27,203	159	–	135
Loans and borrowings received	**99,559**	18,732	15,979	64,848	–
Derivative financial instruments	**33,785**	3,432	2,643	27,710	–

Financial liabilities	**31 December 2022**	**Within one year**	**1 to 2 years**	**2 to 4 years**	**Over 4 years**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**
Trade and other payables	**27,914**	27,606	1	–	307
Loans and borrowings received	**106,280**	14,276	14,342	71,559	6,103
Derivative financial instruments	**26,046**	1,912	1,799	22,335	–

Capital management

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

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

32. Subsequent events

In February 2024, the EU and Switzerland introduced the thirteenth package of sanctions against the Russian Federation, which significantly limits export of goods to the Russian Federation and expands the list of Russian individuals and legal entities subject to sanction restrictions. Organisations located in India, Turkey, China and other countries were also subject to export restrictions. At the same time, the United States tightened sanctions against Russia. New sanctions were introduced by the UK, Australia, Canada, New Zealand and Japan. Sanctions are aimed at eliminating possible ways to circumvent previously established sanction restrictions. The European Parliament is discussing the timing of the adoption of the fourteenth package of sanctions against Russia.

In February 2024, PJSC Saratovneftegaz, based on the results of its activities in 2012, accrued dividends on preference and ordinary shares in the total amount RUB 2,500 million.

In February 2024, the subsidiaries JSC Saratov-Burenie and LLC Neftebytservice were liquidated. In March 2024, the liquidation of the subsidiary LLC RedOil was completed.

In March 2024, the Company issued a third party guarantee to a Russian bank for its obligation to repurchase 64,791,173 preference shares of PJSC RussNeft. The guarantee amount is no more than USD 172 million (equivalent to RUB 15,811 million at the exchange rate on the date of guarantee issue), valid until 31 December 2026.

In March 2024, the obligation was fulfilled against the received prepayments under the oil supply contract, in respect of which the Parent acted as a guarantor (Note 30); all rights and obligations under the main agreement were fulfilled as at the date of issue of these consolidated financial statements.

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