

Development of the Russian classification of oil and gas reserves as a tool to increase the investment attractiveness of the industry







Klubkov Sergey

Director, Oil & Gas Exploration & Production

September 16th, 2021






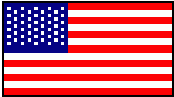

There is a convergence of PRMS and NKZ, but differences in the part of the "options" of the production profile remain

Approaches to assessing profitable reserves

	 PRMS	 NKZ RF	
Estimation of profitable reserves	Main assessment	Additional assessment in the project document	
Production "options"	Proved, Probable, Possible	Recommended case	
Oil and gas prices and exchange rates	Company forecast or 12-month averages	Averages for the last 12 months, calculated on the 1st day	
Discount rate	WACC or other indicator at the discretion of the company	10%	









Unlike other countries, Russia does not conduct an annual reserve assessment

Requirements for the provision of information on reserves for state needs

	 Data	 Period	 Standard	 Purpose
	Reserves, technology and economics of field development	Not specified	RF 2013	Development control Reserves inventory
	Proved oil and gas reserves	Annually	PRMS	Reserves inventory
	Offshore resources, reserves and field development plan	Annually	NPD-2016	Development control Reserves inventory

The disclosure of information on reserves on the Moscow Exchange is softer compared to other stock exchange

Requirements for Disclosure of Reserves by Financial Regulators

	 For listing	 Periodicity	 Standard
 MOSCOW EXCHANGE	Proved Reserves for largest fields	Annually	PRMS
 London Stock Exchange	Competent person report	Annually	PRMS
 NYSE	10-K/20-F forms	Annually	SEC
 TMX Toronto Stock Exchange	Technical report	Annually	NI 51-101
 OSLO BØRS	Independent expert report	Annually	NPD-2016

The current system for reserves assessment in Russia poses risks for the industry

Key disadvantages of the current hydrocarbon reserves assessment

Double Estimate

Companies report NKZ, PRMS and SEC

Leads to an increase in the costs of companies and the state for the preparation and verification of reserves assessment

Information Security

Risks of transmitting sensitive information

Sensitive commercial information on projects audited under PRMS/SEC can be transferred to third parties

Economic reserves assessment

Lack of annual express assessment of economic reserves

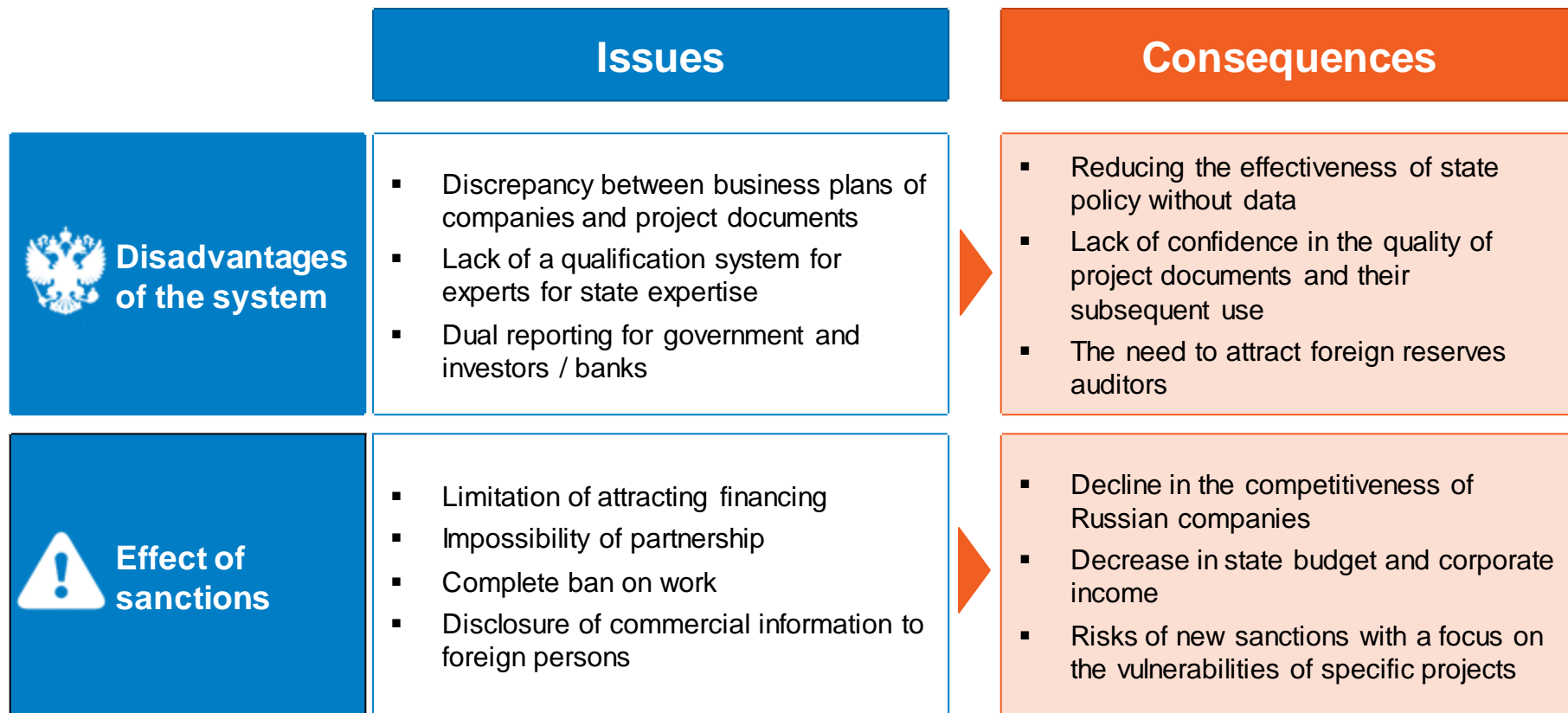
Impossibility to plan budget revenues and implement effective state policy in subsoil use and taxation

Expertise System

Lack of a mechanism for the accreditation of experts

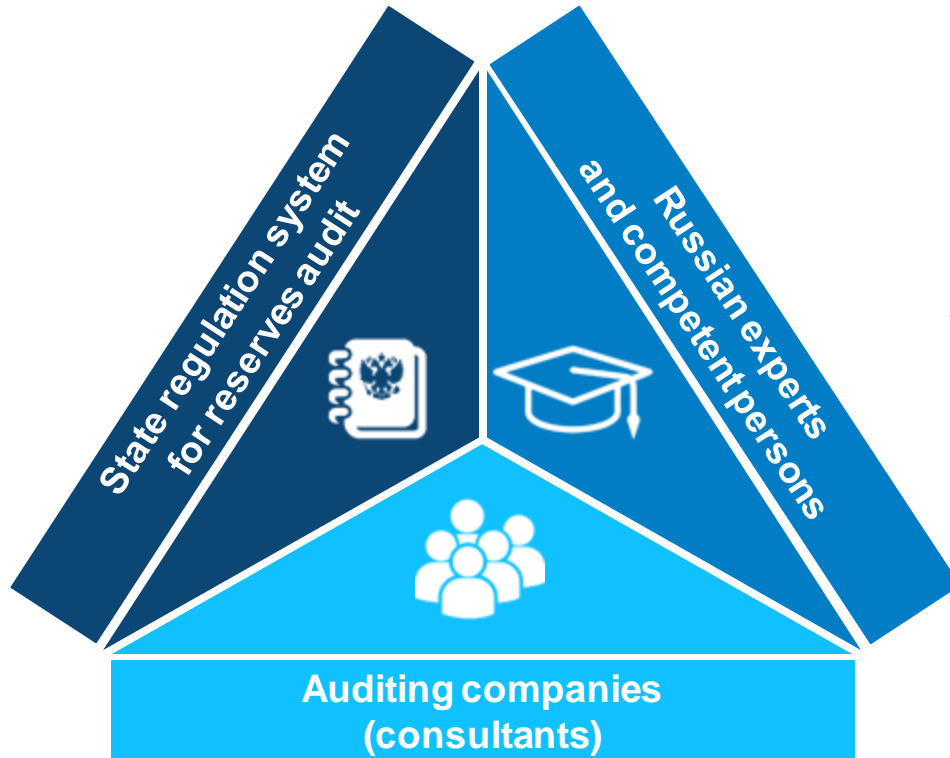
The risk of unreliable expertise due to the lack of a system of control and supervision of experts

External and internal challenges require changes in the system for assessing reserves in Russia



To create a new system, 3 elements are needed: experts, reserves auditing companies and legal acts

Key elements of the national audit system for hydrocarbon reserves



State regulation system

- Regulation of the expert community
- Rules for the preparation of project documents and the provision of data for state expertise
- Requirements and regulations of the Bank of Russia



Expert community

- Have the necessary qualifications to assess the asset and potential risks
- Pass certification in a professional organization

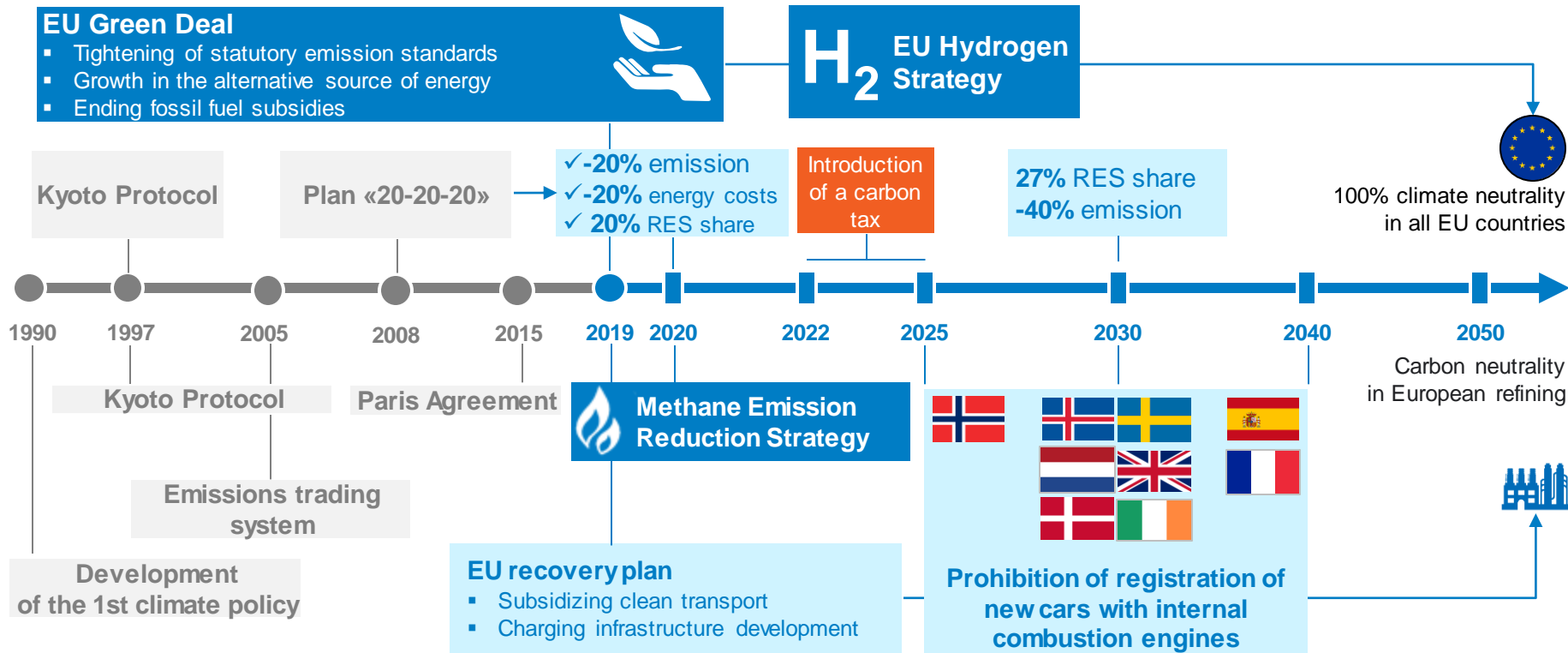


Independent auditing consultants

Proposals for new mechanisms to stimulate the introduction of uneconomic reserves and investments

Over the past year, activity within the EU climate agenda has increased significantly

EU Environmental Agenda



Bridging document between NCZ and UNFC required to be updated

UNFC-2009
(socio-economic viability, technical feasibility, degree of confidence in the estimate)

The Oil and Gas Reserves and Resources Classification of the Russian Federation (2013)



Bridging Document 2016

- Prepared by the **State Commission of Mineral Reserves of the Russian Federation** and the **Technical Advisory Group on Resource Classification**;
- **First Bridging Document in the world** between UNFC and other reserves classification;
- **Reconciliation of reserves and resources** according to the classification of the Russian Federation with the **categories and classes** of UNFC-2009
- Based on outdated UNFC-2009 and **not included ESG criteria**.

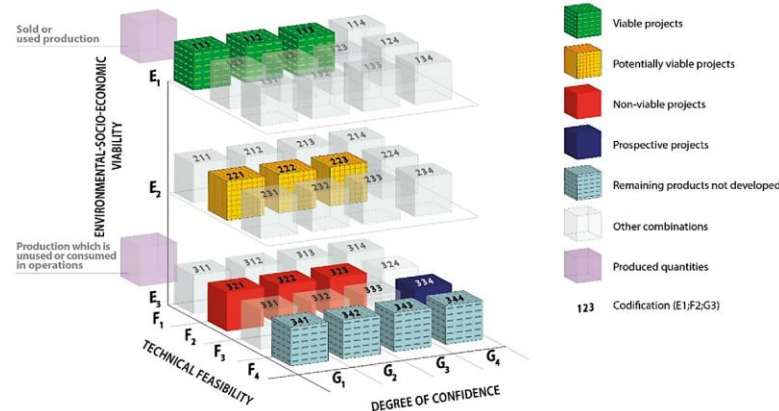
Further steps

SPE 2017 **CO₂ Storage Resources Management System (SPE-SRMS)**.
(economic viability, asset maturity and degree of confidence in the estimate)

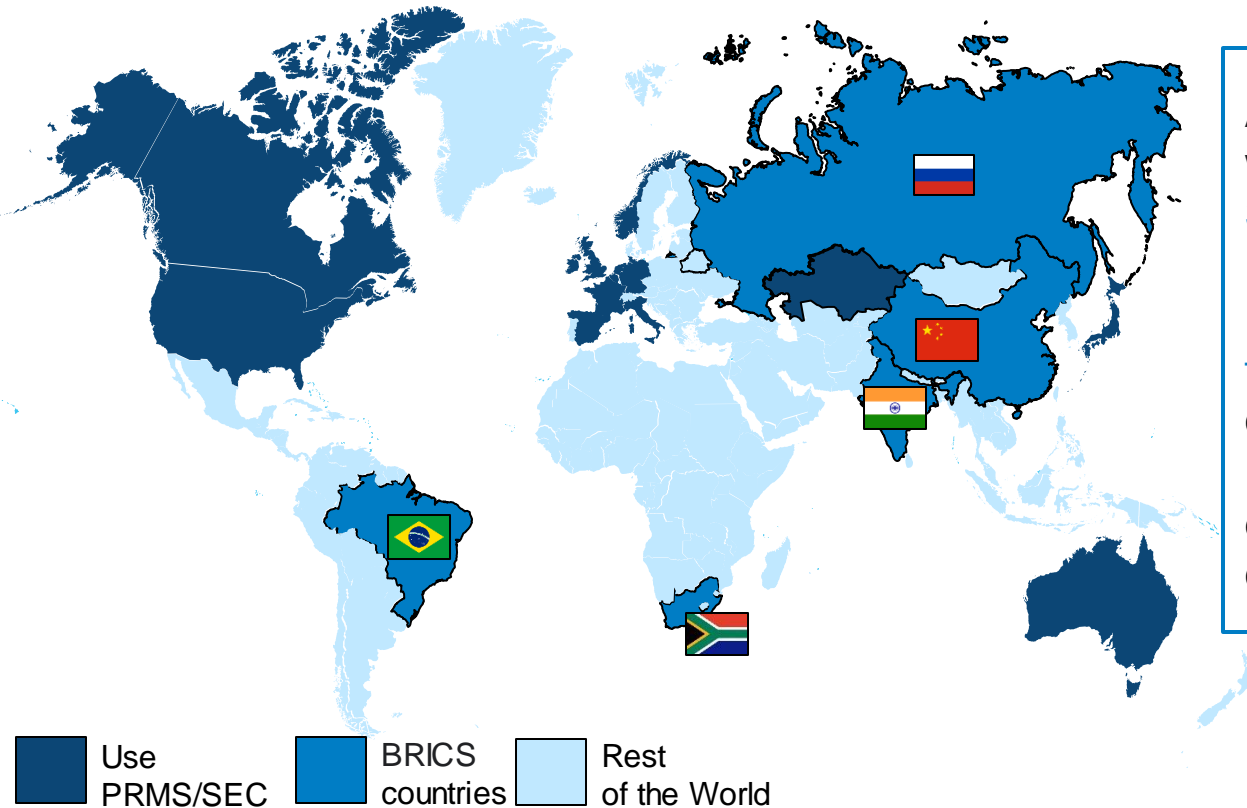
UNFC 2019 **An updated version of UNFC**, which also includes not only oil and gas projects, but also **projects of CO₂ injection for storage**

The main difference between SRMS and UNFC-2019 is that in the UNFC the first criterion covers not only economic, but also **environmental and social feasibility (E axis)**, which is a response to the publication of the Sustainable Management Goals 2015.

United Nations Framework Classification for Resources 2019



On the basis of BRICS financial institutions, it is possible to develop national systems for reserves assessment



All key financial sites in the world are focused on **PRMS / SEC** standards

It is necessary to coordinate the actions of the **BRICS** to create their own system of raising capital (debt and equity) based on national classifications

Contacts

123610, Russia, Moscow,

Krasnopresnenskaya nab., 12

Tel: +7 495 543 76 43

web: <http://vygon.consulting>

e-mail: info@vygon.consulting

All materials presented in this document are for informational purposes only, are the sole private judgment of the authors and cannot be considered as a call or recommendation to take any action.

VYGON Consulting and its employees are not responsible for the use of the information contained in this document for direct or indirect damage resulting from the use of this information, as well as for the accuracy of information obtained from external sources.

Any use of materials of the document is allowed only with reference to the source - VYGON Consulting