

A Work Project, presented as part of the requirements for the Award of International  
Master's in finance, from the Nova School of Business and Economics.

**An Insight into Materiality in Financial Reporting**

**A Comparison between Russian and the European Oil and Gas Sector**

MARK VDOVIN

Work project carried out under the supervision of:

PROFESSOR LEONOR FERREIRA

June 2023

## **Abstract**

This Work Project analyses the materiality in financial reporting of Oil and Gas companies from Europe and Russia. Based on legal documents and standards about materiality and audit performance in force in both regions, them being Russian Accounting Standards and International Financial Reporting Standards as well as International Audit Standards, and companies' financial data, the research reveals significant differences in materiality reporting and discusses how they may affect the economy and international trade. Further to emphasizing the importance of harmonized reporting standards, this paper recommends the harmonized financial reporting in view of comparing the Oil and Gas trade between regions.

**Keywords:** Materiality, Auditing, Russia, Auditor, Oil and Gas companies, Accounting standards

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

## **1. Introduction**

*Materiality* is the core when it comes to financial reporting, as it is tied to the information that a company discloses in the annual financial report, and these depend upon the standards adopted by companies throughout the world, which can differ. The mostly used standard worldwide can be considered: International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). The EC Regulation No. 1606/2002 endorsed the mandatory adoption of IFRS/IAS to financial reports of companies with shares listed in any European Union Stock Exchange for the years 2005 onwards.

In regard to Post Soviet space (26.12.1991), specifically Russia, the current Russian national Audit Standard No. 4 "Materiality in Audit" issued in 07.10.2004 offers audit companies to independently determine the level of materiality, whereas the audit standard "Materiality and Audit Risk", which was in force in Russia until October 2002, approved by the Commission on Auditing Activities under the President of the Russian Federation, proposed to define materiality as percentages applied to basic indicators. For example: the company's balance sheet profit is 5 per cent; gross sales volume (excluding VAT) is 2 per cent; balance sheet currency is 2 per cent; equity is 10 percent; total costs of the company are 2 per cent.

According to Article 15.11 of the Administrative Code of the Russian Federation, "... gross violation of the rules of accounting and presentation of accounting statements is understood as distortion of the amounts of accrued taxes and fees by at least 10%; distortion of any article (line) of the accounting reporting form by at least 10%. The Russian National Standard "Materiality and Audit Risk" does not establish a clear procedure for determining the level of materiality. Such a methodology should be developed and approved as an internal audit standard. As a recommendation, the appendix to the standard provides the procedure for determining a single level of materiality, that is, a deductive approach. In the same application,

it is allowed to set several levels of materiality to various items of the balance sheet, that is, to use an inductive approach.

The purpose of this Work Project is to compare and find similarities and differences within the operation of Russian and European oil and gas companies as well as define their materiality and management structure differences. It is to provide a complied analysis for possible future research as it is undeniable that oil and gas are essential for every country.

This paper proceeds as follows. Section 2 discusses the concepts of materiality and management structure and its role in financial reporting. Section 3 reviews the literature. Section 4 describes the methodology of the research as well introduces the research questions and the sample to be analyzed. Section 5 contains the results of the research. Finally, section 6 concludes, with the recommendation, limitations of the and suggestions for future research

## **2. What is materiality and its role in financial reporting**

The materiality principle is an accounting concept that guides the preparation of the financial statements. It ensures that the information presented in the statements is relevant and sufficient for shareholders and investors to make informed decisions. The materiality of information, size, and nature of transactions is determined based on whether its omission or error could potentially influence the decision-making of financial statement users. Auditors also apply the materiality principle in the audit testing to assess the accuracy of financial statement disclosures.

The materiality principle helps accountants to determine what information is material and what is not, and what should be disclosed separately or included with other transactions. This

principle not only protects the interests of shareholders and investors but also assists accountants in preparing accurate financial statements.

The application of the materiality principle may vary among different accounting standards, such as IFRS and US GAAP. Under IFRS, an information is considered material if it could lead to misleading decisions, while in the US GAAP, items should be separately disclosed if they represent more than 5 per cent of total assets. Items affecting the net income from positive to negative, regardless of size, are also considered material in US GAAP (17 CFR § 210.5-02 - Balance sheets).<sup>1</sup>The size and nature of transactions considered material may differ from entity to entity based on their size.

The use of International Financial Reporting Standards (IFRS) in Russia has been mandatory since 2012, as per the Federal Law 208-FZ on consolidated financial statements. Domestic public companies, listed companies, financial institutions, and some government-owned companies are required to comply with IFRS Standards. Foreign companies listing in Russia are either required or permitted to use IFRS.<sup>2</sup>The IFRS are mandatory for consolidated financial statements in Russia. On the other hand, separate company financial statements must be prepared using Russian GAAP. Companies that are specified in the Federal Law 208-FZ on Consolidated Financial Statements, such as listed companies, banks (excluding those with a basic Operating license of a commercial bank established by ECB (European Central Bank)), and insurance companies, are required to prepare their financial statements in accordance with

---

<sup>1</sup> <https://www.sec.gov/news/statement/munter-statement-assessing-materiality-030922>.

<sup>2</sup> The IFRS for SMEs is still under consideration and has not been made mandatory in Russia yet.

IFRS. The endorsement of IFRS in Russia has brought the country in line with international standards and has ensured more transparency and consistency in financial reporting. The mandatory use of IFRS has also helped Russian companies to gain credibility and attract foreign investment. It has also improved the comparability of financial information between companies and has increased the reliability of financial statements, thereby benefiting investors and stakeholders.

### **Accounting system in Russia**

The Russian Accounting System (RAS)<sup>3</sup> and IFRS are two widely used financial reporting systems in Russia. While RAS is the traditional accounting system used in Russia, IFRS has become increasingly attractive due to its global recognition and the requirement for certain companies to use it. The RAS is the standard accounting system used by the majority of companies in Russia. It is based on the Russian Civil Code and can be considered to be more lenient compared to IFRS. The RAS provides a set of guidelines for companies to follow when preparing financial statements, including the recognition and measurement of financial transactions. IFRS, on the other hand, is a set of global accounting standards used by companies in over 100 countries. It provides a consistent framework for financial reporting, ensuring that financial statements are comparable between different companies and jurisdictions.<sup>4</sup> IFRS has

---

<sup>3</sup> RAS are also called Russian Accounting Principles (RAP) or Russian GAAP.

<sup>4</sup> IFRS reporting is based on information of a higher quality than RAS. RAS reporting is compiled without adjusting for inflation. Non-monetary items of the balance sheet should be recalculated for inflation in case of hyperinflation.

become increasingly popular in Russia in recent years due to the requirement for certain companies, such as listed companies and financial institutions, to use it.

Both RAS and IFRS have their own advantages and disadvantages. RAS is considered to be more lenient, making it easier for companies to prepare financial statements. However, this leniency can lead to less accurate financial information being reported. On the other hand, IFRS is considered to be more stringent, providing more accurate financial information, but it can also be more difficult for companies to comply with.

While RAS is the traditional accounting system used by the majority of companies, IFRS is becoming increasingly popular due to its global recognition and the requirement for certain companies to use it. Companies choose the financial reporting system that best suits their needs and comply with any requirements set by the regulatory authorities. In conclusion, both RAS and IFRS are widely used in Russia for financial reporting purposes.

### **3. Literature review**

The materiality of financial reporting plays a crucial role in providing relevant and reliable information to stakeholders. This literature review aims to evaluate the theoretical framework, core concepts, and logic behind the research questions in the context of materiality and financial reporting of Russian and European oil and gas companies. To accomplish this, we refer to articles from PwC and other studies that focus on prominent oil and gas companies such as Gazprom, Rosneft, Tatneft, S.p.A., TotalEnergies, and BP.

A well-developed and articulated theoretical framework is essential for guiding research and understanding the concepts and relationships under investigation. Several studies have explored the theoretical foundations of materiality in financial reporting. For instance, PwC's

publication "Materiality in Financial Reporting" (2017) provides insights into the concept's importance and its relationship with accounting standards and regulations. This document offers a comprehensive framework for understanding materiality and its application in financial reporting practices.

To assess whether the core concepts in the thesis are clearly defined, we need to explore the existing literature on materiality and financial reporting of oil and gas companies. Studies focusing on Russian and European oil and gas companies such as Gazprom, Rosneft, Tatneft, TotalEnergies, and BP provide valuable insights. A study (2016) titled " The impact of differences between IFRS and RAS on the analysis of an organization's financial statements." examines the core concepts of materiality and provides a comprehensive overview of its definitions, measurements, and implications. This study can serve as a valuable reference for clarifying the core concepts in this Work Project.

The logic behind the research questions is essential for ensuring the study's coherence and relevance. When investigating materiality and financial reporting of Russian and European oil and gas companies, the research questions should align with the objectives of the study and address critical aspects of the topic. Relevant studies, such as PwC's reports on the materiality of financial information in the oil and gas industry, can shed light on the logical reasoning behind research questions. Additionally, exploring academic research that focuses on specific oil and gas companies like Gazprom, Rosneft, Tatneft, TotalEnergies, and BP can provide insights into the specific challenges and factors that influence materiality decisions.

#### 4. Methodology

The purpose of this Work Project is to provide the difference of financial reporting between Russian and European gas companies and how they differentiate on both governmental and corporate level.

In order to achieve this objective, three research questions are outlined:

RQ 1: *To what extent do gas companies in Russia and Europe disclose information related to financial materiality in the annual reports?*

RQ 2: *How do Russian and European gas companies differ in the approaches to materiality in the financial reporting, and what factors contribute to these differences?*

RQ 3: *What are the key drivers of financial materiality in the gas industry, and how do these differ between Russian and European gas companies?*

To answer to RQ1, the gas companies in Russia and Europe have different interpretation and subjectivity of financial reporting as it is covered by different laws. While both mention the financial aspects of it, Russian companies provide less information due to the fact that the companies are partially owned by the government. For example, the word “Materiality” is covered in Russian Financial reporting twice as less compared to the European companies (This includes the synonym meaning), although companies from both regions display relevant data in the spreadsheet.

To answer to RQ 2. the approaches considered are: xxx – note that *approaches* to materiality is a variable Europe and Russian Federation use two different systems for financial

reporting. One being IAS/ IFRS and the other being RAS. The latter is considered to be more lenient, making it easier for companies to prepare financial statements. However, this leniency can lead to less accurate financial information being reported. On the other hand, IFRS is considered to be more stringent, providing more accurate financial information, but it can also be more difficult for companies to comply with. In Russia, there is a culture of secrecy around business operations, which could lead to limited reporting on financial and non-financial materiality. In contrast, European companies tend to have a more transparent approach to reporting, as it is viewed as a way to build trust with stakeholders and attract investors. Stakeholder expectations also contribute to differences in reporting practices. European companies tend to operate in regions where there is a high demand for sustainable business practices.

Regarding RQ3, the key drivers of financial materiality in the gas industry include revenue, net income, capital expenditures, investments, and debt structure. For Russian gas companies, revenue and net income are the primary drivers of financial materiality, as they are typically state-owned or controlled and may have less of a focus on external investors. As a result, they may prioritize reporting on these drivers in their annual reports, while providing less detailed information on capital expenditures, investments, and debt structure. For European gas companies, revenue, net income, and capital expenditures are also key drivers of financial materiality. However, they also prioritize reporting on other financial drivers, such as investments and debt structure, as they are more likely to be publicly traded and subject to greater scrutiny from investors and regulatory bodies.

Six companies were chosen for analysis of materiality disclosures. They are: Gazprom, Lukoil, Tatneft, BP, Total Energies, Eni S.p.A.

These companies were chosen because they are the six biggest representative gas companies in Europe, and they allow for a comparison between Western and Russian regarding materiality financial reporting standards.

Data for the analysis were retrieved from the companies' websites (See appendix 3) Below is a brief description of these companies.

The comparison will be Russian *versus* non-Russian companies, and RAS versus IFRS standards.

***The sample: Companies under revision***

**PSCJ Gazprom**

Gazprom, a multinational energy corporation based in Russia, holds majority ownership by the Russian government. With a revenue of over USD 120 billion in 2019, Gazprom stands as the world's largest publicly listed natural gas company and the highest-earning company in Russia. Forbes Global 2000 ranked it as the 32nd largest public company globally in 2020. Gazprom's operations span various sectors of the gas industry, encompassing exploration, production, refining, transportation, distribution, marketing, and power generation. In 2018, Gazprom played a significant role in the global natural gas market, accounting for twelve percent of the total output. The company produced a substantial volume of natural and associated gas, amounting to 497.6 billion cubic meters, along with 15.9 million tons of gas condensate. Gazprom's proven reserves include 35.1 trillion cubic meters of gas and 1.6 billion tons of gas condensate. Gazprom facilitates gas exports through its extensive network of pipelines, both within Russia and internationally. Prominent examples include the Nord Stream 1 and TurkStream pipelines. Additionally, the company engages in significant oil and gas

production through its subsidiary, Gazprom Neft. Gazprom Neft produces approximately 41 million tons of oil and gas and boasts reserves of 2 billion tons. Furthermore, Gazprom's influence extends beyond the energy sector. The company holds subsidiaries in diverse industries, including finance, media, and aviation. It also maintains majority stakes in various other companies, further enhancing its presence in the market.

### **PJSC Lukoil Oil and Gas Company**

Headquartered in Moscow, Russia, Lukoil is a multinational energy corporation focused on the extraction, production, transportation, and sale of petroleum, natural gas, petroleum products, and electricity. It came into existence in 1991 through the merger of three state-run companies in western Siberia: Langepasneftegaz, Urayneftegaz, and Kogalymneftegaz. The name Lukoil is derived from the acronym LUK, representing the oil and gas-producing cities of Langepas, Uray, and Kogalym, combined with the word "oil and gas." As the second-largest company in Russia, trailing only Gazprom, Lukoil holds a prominent position in the energy sector. It is noteworthy as the largest non-state enterprise in terms of revenue. In 2018 alone, the company amassed a substantial revenue of ₪4,744 billion. Lukoil's significance is recognized globally, with Forbes ranking it as the 99th-largest public company in the world in their 2020 Forbes Global 2000 list.

### **Tatneft**

Located in Almetyevsk, a city in the Republic of Tatarstan, Russian Federation, Tatneft is a vertically integrated oil and gas company. Its roots can be traced back to 1950 when it was established as the oil and gas industry of the Tatar Republic. Over the years, Tatneft has evolved into one of Russia's leading oil and gas companies, ranking fifth in terms of oil and gas

production volume and eighth in market capitalization as of December 31, 2019. Tatneft operates with a vertical integration model, encompassing exploration, production, and refining. The company holds exploration and production licenses that cover a significant portion of its operations, with a primary focus on crude oil and gas production in Tatarstan. In 2019, Tatneft achieved a daily production of approximately 581.5 thousand barrels of oil and gas. Notably, 35.5% of this production (equivalent to 206.7 thousand barrels per day) undergoes refining at the company's TANECO refinery. The TANECO refinery plays a crucial role in Tatneft's operations, producing a range of high-quality products such as motor fuels, diesel, and aviation kerosene. Alongside crude oil and gas production, the refinery's output contributes to Tatneft's diverse product portfolio.

## **BP**

Headquartered in London, England, BP p.l.c. is a prominent British multinational oil and gas corporation. Recognized as one of the industry's "supermajors," BP holds a distinguished position globally in terms of revenue and profits. The company operates comprehensively within the oil and gas sector, engaging in activities spanning exploration, extraction, refining, distribution, marketing, power generation, and trading. BP can trace its origins back to the establishment of the Anglo-Persian Oil and Gas Company in 1908, which emerged as a subsidiary of the Burmah Oil and Gas Company with the purpose of developing oil and gas discoveries in Iran. Subsequently, in 1935, the company underwent a name change and became the Anglo-Iranian Oil and Gas Company. Later, in 1954, it adopted its current name, British Petroleum. Throughout its history, BP has expanded its operations beyond the Middle East,

including venturing into Alaska in 1959. Notably, in 1978, BP attained majority control of Standard Oil and Gas of Ohio, further bolstering its presence in the industry.

### **Eni S.p.A.**

Eni S.p.A., headquartered in Rome, Italy, is a global energy corporation recognized as one of the world's seven "supermajor" oil and gas companies. With operations in 69 countries, Eni maintains a significant presence in the energy sector. As of April 11, 2022, the company boasted a market capitalization of US\$54.08 billion. Eni operates with a diverse portfolio, engaging in various sectors such as contracting, nuclear power, energy, mining, chemicals and plastics, refining/extraction and distribution machinery, hospitality industry, and the textile industry. This wide-ranging scope allows Eni to have a comprehensive impact on multiple sectors related to its core business. Notably, the Italian government holds a 30.33% golden share in Eni, with 4.37% being held through the Ministry of Economy and Finance, and 25.96% held through the Cassa Depositi e Prestiti. This signifies the significant connection between Eni and the Italian government, further contributing to the company's influence and operations.

### **TotalEnergies SE**

Established in 1924, TotalEnergies SE is a renowned French multinational energy company operating in the integrated petroleum industry. As one of the world's top seven supermajor oil and gas companies, TotalEnergies is involved in every facet of the oil and gas and gas value chain. Its extensive activities encompass the exploration and production of crude oil and gas and natural gas, refining, transportation, power generation, marketing of petroleum products, international crude oil and gas and product trading, as well as substantial involvement in the chemicals manufacturing sector. TotalEnergies SE's financial performance reflects its

prominence in the industry. In 2022, the company's total assets reached \$303.864 billion, showcasing a 3.55% increase from the previous year. Comparatively, the total assets for 2021 amounted to \$293.458 billion, reflecting a notable 10.27% increase from 2020. However, in 2020, there was a 2.62% decline in total assets, which stood at \$266.132 billion when compared to 2019. Overall, TotalEnergies SE's comprehensive operations and consistent growth exemplify its significant role as a major player in the global energy sector.

## **5. Results**

### ***5.1. To what extent do gas companies in Russia and Europe disclose information related to their financial materiality in their annual reports? (RQ 1)***

Gas companies around the world have the responsibility to disclose information about financial materiality to shareholders and the public. In this context, six oil and gas companies are analyzed in this Work Project. Three of them are Russian companies (Gazprom, Lukoil and Tatneft), while three others are from the Western Europe area, one Spanish (Eni S.p.A), one French (TotalEnergies) and one British (BP). disclose such information in the annual reports.

Gazprom, one of the largest Russian gas companies, discloses a considerable amount of information in its annual reports. For example, the company's [2020 annual report](#) included details about its financial results, balance sheets, cash flows, and notes to the financial statements. The report also provides detailed information about the company's gas reserves, production, and sales, as well as the market conditions in which the company operates. Overall, Gazprom's annual report provides a comprehensive view of the company's financial materiality.

Lukoil, another Russian gas company, also discloses a significant amount of information in its annual reports. In its [2020 annual report](#), the company provided detailed information about its financial performance, including revenues, net income, and cash flows. The report also includes information about the company's production volumes, reserves, and exploration activities. However, Lukoil's annual report could provide more detailed information about the company's market conditions and risks.

Tatneft, the third Russian gas company in the sample, provides less information in its annual report compared to Gazprom and Lukoil. The company's [2020 annual report](#) provides a high-level overview of its financial results, but lacks detail about the company's production volumes, reserves, and market conditions.

Eni S.p.A, the Spanish gas company, discloses a considerable amount of information in its annual reports. In its [2020 annual report](#), the company provides detailed information about its financial results, including revenues, net income, and cash flows. The report also includes information about the company's production volumes, reserves, and exploration activities. Eni's annual report provides a comprehensive view of the company's financial materiality.

TotalEnergies, the French gas company, provides a significant amount of information in its annual reports. In its [2020 annual report](#), the company provides detailed information about its financial performance, including revenues, net income, and cash flows. The report also includes information about the company's production volumes, reserves, and exploration activities. TotalEnergies' annual report provides a comprehensive view of the company's financial materiality.

BP, the British gas company, discloses a considerable amount of information in its annual reports. In its [2020 annual report](#), the company provides detailed information about its financial performance, including revenues, net income, and cash flows. The report also includes information about the company's production volumes, reserves, and exploration activities. BP's annual report provides a comprehensive view of the company's financial materiality.

Overall, the Russian gas companies in the sample provide a moderate level of disclosure in their annual reports, while the Spanish, French, and British gas companies provide a high level of disclosure. The level of disclosure in the annual reports reflects the differences in disclosure requirements and standards across different countries and regions. Nonetheless, the oil and gas industry has a responsibility to provide transparent and comprehensive information to their stakeholders, including investors, regulators, and the public, to ensure accountability and informed decision-making. In conclusion, while the level of disclosure varies among the six gas companies, most provide detailed information on their financial materiality in their annual reports. This disclosure enables stakeholders to assess the companies' financial health and make informed decisions. However, Tatneft provides a limited amount of information in its annual report, which may make it difficult for stakeholders to assess the company's financial position.

When it comes to the disclosure of financial materiality in annual reports, there are notable differences between Russian and European gas companies. The differences are both in the extent and level of detail provided in their reports. Russian gas companies, such as Gazprom, Lukoil, and Tatneft, tend to provide more basic disclosure of financial materiality in their annual reports. For example, after the conflict in Ukraine had started, Gazprom Board of Directors had decided not to pay the shareholders their dividends, resulting in them not paying

around 1,121 Trillion Rubles to the shareholders (at the price of 51,03 rubles per share). In their defense, they have given a vague statement about hardships that the country had to face, which caused a controversy and further investor pullout.

While they do disclose revenue, net income, and sometimes earnings per share, they often provide limited information on capital expenditures, investments, and debt structure (Gazprom has approved an increase in the investment program for 2022 to a record 1.98 trillion rubles for the development of gas production centers on the Yamal Peninsula and in the East of Russia (Yakutsk and Irkutsk centers). This makes it harder for stakeholders to get a full picture of their financial health and assess their long-term sustainability.

On the other hand, European gas companies, such as Eni S.p.A, TotalEnergies, and BP, provide more comprehensive and detailed disclosure of financial materiality in their annual reports. They tend to provide a breakdown of revenue by segment and geography, detailed information on operating expenses, net income, earnings per share, capital expenditures, investments, cash flows, and debt structure. This allows stakeholders to get a clear and detailed understanding of their financial position and helps in making informed investment decisions. Furthermore, European gas companies tend to be more transparent about non-financial materiality, such as environmental and social impacts. They often provide detailed information on sustainability initiatives and their impacts on the environment, social well-being, and governance practices. This is important to stakeholders who are interested in investing in companies that have a positive impact on society and the environment. In contrast, Russian gas companies tend to provide limited information on non-financial materiality in their annual reports. This makes it difficult for stakeholders to assess their environmental and social impacts and determine whether they are operating sustainably.

Overall, there are significant differences in the disclosure practices of Russian and European gas companies in their annual reports, especially when it comes to financial and non-financial materiality. While some Russian companies provide basic financial information, European companies tend to provide comprehensive and detailed disclosure of their financial and non-financial materiality. This transparency is essential for stakeholders who are interested in investing in companies that operate sustainably and have a positive impact on society and the environment.

***5.2. How do Russian and European gas companies differ in their approaches to financial materiality reporting, and what factors contribute to these differences? (RQ 2)***

Russian and European gas companies differ in their approach to financial materiality reporting. As mentioned before, Europe and Russian Federation use two different systems for financial reporting. One being IAS/ IFRS and the other being RAS. The latter is considered to be more lenient, making it easier for companies to prepare financial statements. However, this leniency can lead to less accurate financial information being reported. On the other hand, IFRS is considered to be more stringent, providing more accurate financial information, but it can also be more difficult for companies to comply with. The adoption of different approaches may be due to several factors, including legal and regulatory requirements, cultural and business practices, and stakeholder expectations.

Legal and regulatory requirements play a significant role in shaping the reporting practices of gas companies. Russian companies are subject to less stringent reporting requirements compared to their European counterparts. For instance, the Russian government controls Gazprom, which is the largest gas company in the country, and its reporting practices may be

influenced by government policies. This could contribute to the limited information on non-financial materiality in their reports.

In contrast, European gas companies are subject to more rigorous reporting requirements, such as the European Union's Directive on Non-Financial Reporting, which requires companies to report on environmental and social impacts. This legal requirement has resulted in more comprehensive and detailed reporting practices by European companies. Cultural and business practices also play a role in shaping reporting practices. In Russia, there is a culture of secrecy around business operations, which could lead to limited reporting on financial and non-financial materiality. In contrast, European companies tend to have a more transparent approach to reporting, as it is viewed as a way to build trust with stakeholders and attract investors. Stakeholder expectations also contribute to differences in reporting practices. European companies tend to operate in regions where there is a high demand for sustainable business practices. As a result, they are expected to provide more comprehensive and detailed reporting on financial and non-financial materiality to meet these expectations. On the other hand, Russian companies may face less pressure from stakeholders to provide detailed reporting.

In summary, the differences in reporting practices between Russian and European gas companies can be attributed to legal and regulatory requirements, cultural and business practices, and stakeholder expectations. While Russian companies may provide limited information on financial and non-financial materiality, European companies tend to have more comprehensive and transparent reporting practices, which reflects the expectations of stakeholders and regulatory requirements.

***5.3. What are the key drivers of financial materiality in the gas industry, and how do these differ between Russian and European gas companies? (RQ 3)***

The key drivers of financial materiality in the gas industry include revenue, net income, capital expenditures, investments, and debt structure. While these drivers are relevant to both Russian and European gas companies, the extent to which they are prioritized and reported on may differ. For Russian gas companies, revenue and net income are the primary drivers of financial materiality, as they are typically state-owned or controlled and may have less of a focus on external investors. As a result, they may prioritize reporting on these drivers in their annual reports, while providing less detailed information on capital expenditures, investments, and debt structure. For European gas companies, revenue, net income, and capital expenditures are also key drivers of financial materiality. However, they also prioritize reporting on other financial drivers, such as investments and debt structure, as they are more likely to be publicly traded and subject to greater scrutiny from investors and regulatory bodies.

In addition to these financial drivers, European gas companies also prioritize reporting on non-financial drivers, such as environmental and social impacts, as a result of regulatory requirements and stakeholder expectations. This is less of a priority for Russian gas companies, which may provide limited information on non-financial materiality in their reports. In the case of European gas companies, they prioritize reporting on non-financial drivers, such as environmental and social impacts. This emphasis is driven by regulatory requirements and stakeholder expectations. These companies likely provide comprehensive information on their environmental initiatives, sustainability practices, community engagement, and other non-financial aspects in their reports. (See appendix 4). On the other hand, Russian gas companies may provide limited information on non-financial materiality in their reports. This suggests

that they might not place the same level of importance on reporting environmental and social impacts as their European counterparts. It's worth noting that this observation is a generalization, and there may be exceptions among Russian gas companies that prioritize reporting on non-financial drivers.

Overall, while the key drivers of financial materiality are similar for both Russian and European gas companies, the extent to which they prioritize and report on them may differ. In general, European companies mention and discuss materiality twice as often compared to Russian companies, based on IFRS regulation, while Russian cover it only when mentioning exports and international trade as it is required by law. Both European and Russian companies mention it in their Annual Financial Reports and when addressing the Shareholders (see Appendix 3). This also occurs due to the difference in ownership structures, investor expectations, and regulatory requirements (RAS Standard 4).

**Table 1. Company description**

<b>Company Name</b>	<b>Regulation Adopted</b>	<b>Ownership Structure</b>	<b>Where is the reference to materiality?</b>
<b>PSCJ Gazprom</b>	RAS/IFRS	Individual Insiders 0.02%, Institutions 10.9%, Private Companies 11.9%, State or Government 38.4%, General Public 38.7%	The reference can be observed in the Financial reporting, Page 26-32.  (Appendix 3)
<b>PJSC Lukoil Oil and gas Company</b>	RAS/ IFRS	Private Companies 5.4%, Institutions 17.3%, General Public 36.0%, Individual Insiders 41.3%	The reference can be observed in the Financial reporting, Page 20-25.  (Appendix 3)
<b>Tatneft</b>	RAS	Republic of Tatarstan through a holding company Svyazinvestneftekhim, 34%. Government of Tatarstan holds golden share.	The reference can be observed in the Financial reporting, Page 77-80.  (Appendix 3)
<b>BP</b>	IFRS	Publicly owned company	The reference can be observed in the Financial reporting, Page 133-140. (Appendix 3)
<b>Eni S.p.A.</b>	IFRS	Government owns a 30.33%, Ministry of Economy and Finance 4.37%, Cassa Depositi e Prestiti. 25.96%	The reference can be observed in the Financial reporting, Page 296-303. (Appendix 3)
<b>TotalEnergies SE</b>	IFRS	Institutional shareholders: 74.4%, o/w: 13.8% in France. 11.6% in the UK	The reference can be observed in the Financial reporting, Page 318-322. (Appendix 3)

When considering information about European and Russian oil and gas companies, it is important for users, regulators, and preparers of information to exercise caution. While the provided passages offer a general overview of notable companies within the industry, they should be regarded as a starting point for further research rather than exhaustive and up-to-date analyses. The dynamic nature of the oil and gas sector, influenced by market fluctuations,

geopolitical factors, and evolving regulations, demands ongoing scrutiny and verification of data. Users relying on this information should ensure they consult reputable sources, such as official company filings, industry reports, and current news updates. Moreover, regulators and preparers of information need to stay vigilant and employ rigorous standards to ensure the accuracy and reliability of data related to these companies.

Given the complexities of the oil and gas industry and the potential impact on economic and environmental factors, it is crucial to gather comprehensive and up-to-date information from diverse sources. Prudent decision-making and effective regulation can only be achieved through a well-informed and critical approach to evaluating the performance and activities of European and Russian oil and gas companies. Current Work Project contributes to the complexity of the subject by establishing the different decision making of the companies when presenting the Financial Reporting, and establishing the rules and guidelines which are used by potential investors to allow easier approach towards the trade cooperation between East and West.

## **6. Conclusion**

The purpose of this Work Project was to depict the difference of materiality in financial reporting between Russian and European oil and gas companies and how they differentiate on both governmental and corporate level.

The findings and the information available on different secondary data sources, be it Russian or European, it was possible to observe the differences of how companies of two different regions operate and declare financial information. As it was mentioned, European companies, using IAS/ IFRS system disclose more accurate information rather than Russian

that use RAS system. Moreover, the Russian companies that were under the review are sub-owned by the Russian government, which would imply less strict supervision and less need for the financial declaration. For example, it was noted that there has been a discrepancy shown within the documents on governmental and company websites regarding the amount of exported gas to European countries in 2019 (See appendix 3).

There are certain limitations within the research, those mainly being the insufficient data from Russian companies in terms of financial declaration of the observed companies. The reasons for the discrepancies are mainly to put blame on the COVID 19 pandemic and political and economic instability within the region, hence the unstable numbers on the financial spreadsheet.

Suggestions for future research would be to investigate further into the details of materiality of financial reporting to have a clearer picture regarding the trade deal between Russian and European companies as well as export of oil and gas to Europe from Russia, as it is undeniable that the oil and gas trade will be essential for at least another hundred years due to insufficient amount lithium, to sustain green energy throughout the world.

## References

**Ieconomic. 2016.** The impact of differences between IFRS and RAS on the analysis of an organization's financial statements.

<https://elibrary.ru/item.asp?id=26196122>

**Accountancy Europe. 2017.** “Member State Implementation of Directive 2014/95/EU: A Comprehensive Overview of How Member States are Implementing the EU Directive on Non-Financial and Diversity Information.” Accessed November 15, 2021,

<https://www.accountancyeurope.eu/wp-content/uploads/NFR-Publication-3-Mayrevision.pdf>

**Consensus Business consult. 2004.** Rule (Standard) N.4. Materiality in Audit.

[\(Link\)](#)

**Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013** on the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain Types of Undertakings, Amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. Official Journal of the European Union L 182/19.

**Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014** Amending Directive 2013/34/EU as Regards Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups. Official Journal of the European Union L 330/1.

**European Central Bank. 2023.**

<https://www.bankingsupervision.europa.eu/banking/tasks/authorisation/html/index.en.html#licensingbanks>

**IFRS. 2019.** “Exposure Draft and comment letters—General Presentation and Disclosures (Primary Financial Statements)” Accessed December 21. <https://www.ifrs.org/projects/work-plan/primaryfinancial-statements/comment-letters-projects/ed-primary-financial-statements>.

**IFRS. 2019.** “Feature: Materiality Modernized” Accessed November 6.

<https://www.ifrs.org/news-andevents/2019/01/materiality-modernised/>.

**KPMG. 2014.** “The Essentials of Materiality Assessment.” Accessed November 15, 2021,

<https://home.kpmg/cn/en/home/insights/2014/10/materiality-assessment.html>

**KPMG. 2020.** “The Time Has Come. The KPMG Survey of Sustainability Reporting 2020.” Accessed October 4, 2021, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/thetime-has-come.pdf>

**Messier Jr, William F. and Martinov-Bennie, Nonna and Eilifsen, Aasmund. 2005.** A Review and Integration of Empirical Research on Materiality: Two Decades Later. *Auditing: A Journal of Practice & Theory*, November 2005, Available at SSRN: <https://ssrn.com/abstract=786688>

**Plekhanov Russian University of Economics. 2021.** Development of Corporate Reporting in Russia and abroad on the Basis of a Risk-Based Approach. Doan Thi Lok. Working paper. <http://ords.rea.ru/wp-content/uploads/2022/09/Doan.pdf>

**PwC. 2017.** “Financial reporting in the oil and gas industry. International Financial Reporting Standards.” <https://www.pwc.com/gx/en/services/audit-assurance/assets/pwc-financial-reporting-in-the-oil-and-gas-and-gas-industry-2017.pdf>

**Zaidi, Syed and Paz, Veronica. Spring 2015.** The Impact of IFRS Adoption: A Literature Review. *Journal of Theoretical Accounting Research*. 10(2) 116-141. <http://hdl.handle.net/10211.3/211145>

**Kim, Oksana. 2013.** Russian Accounting System: Value Relevance of Reported Information and the IFRS Adoption Perspective, *The International Journal of Accounting*, 48(4), 525-547. <https://doi.org/10.1016/j.intacc.2013.10.007>

**Dandara, Daniela. 2015.** Banking Performance. IFRS and RAS Comparative Analysis for the Romanian Banking System. *Procedia Economics and Finance*, 32, 1148-1153, [https://doi.org/10.1016/S2212-5671\(15\)01580-4](https://doi.org/10.1016/S2212-5671(15)01580-4)

**Simplywall.st. 2022.** Ownership and Financial analysis of the reviewed companies. <https://simplywall.st/stocks/ru/energy/mcx-lkoh/pjsc-Lukoil-shares/ownership>

**World Economic Forum. 2022.** The world needs 2 billion electric vehicles to get to net zero. But is there enough lithium to make all the batteries? <https://www.weforum.org/agenda/2022/07/electric-vehicles-world-enough-lithium-resources/>

## **Appendices**

**Appendix 1.** List of abbreviations and acronyms

**Appendix 2.** Summary of literature review

**Appendix 3.** Sample of companies analyzed – source of data

**Appendix 4.** Company information

**Appendix 5.** Additional legal information

## **Appendix 1.** List of abbreviations and acronyms

BP	-	British Petroleum
CEO	-	Chief Executive Officer
ECB	-	European Central Bank
GAAP	-	General Accounting Accepted Principles
IAS	-	International Accounting Standards
IFRS	-	International Financial Reporting Standards
LUK	-	Lukoil
RAS	-	Russian Accounting Standards
RQ	-	Research Question

## **Appendix 2. Summary of literature review**

The aim of this literature review is to evaluate the theoretical framework, core concepts, and logic behind the research questions in the context of materiality and financial reporting of Russian and European oil and gas companies. The review refers to articles from PwC and other studies that focus on prominent oil and gas companies such as Gazprom, Rosneft, Tatneft, S.p.A., TotalEnergies, and BP. A well-developed theoretical framework is crucial for guiding research and understanding the concepts and relationships under investigation. The PwC publication "Materiality in Financial Reporting" (2017) provides insights into the importance of materiality and its relationship with accounting standards and regulations. It offers a comprehensive framework for understanding materiality and its application in financial reporting practices. To assess the clarity of core concepts in the thesis, existing literature on materiality and financial reporting of oil and gas companies is explored. A study from 2016 titled "The impact of differences between IFRS and RAS on the analysis of an organization's financial statements" examines the core concepts of materiality and provides a comprehensive overview of its definitions, measurements, and implications. This study serves as a valuable reference for clarifying the core concepts in this work project. The logic behind the research questions is important for ensuring the study's coherence and relevance. The research questions should align with the objectives of the study and address critical aspects of the topic. Relevant studies, such as PwC's reports on the materiality of financial information in the oil and gas industry, can provide insights into the logical reasoning behind the research questions. Additionally, exploring academic research focusing on specific oil and gas companies like Gazprom, Rosneft, Tatneft, TotalEnergies, and BP can provide insights into the specific challenges and factors that influence materiality decisions.

**Appendix 3.** Sample of companies analyzed – source of data

<b>Name of the Company</b>	<b>Homepage Link</b>	<b>Financial Report Page (Eng)</b>
<b>PSCJ Gazprom</b>	<a href="https://www.gazprom.ru/">https://www.gazprom.ru/</a>	<a href="https://mosenergo.gazprom.com/ir/information-for-investors-and-analysts/reports/financial-statements/">https://mosenergo.gazprom.com/ir/information-for-investors-and-analysts/reports/financial-statements/</a>
<b>PJSC Lukoil Oil and gas Company</b>	<a href="https://www.Lukoil.com/">https://www.Lukoil.com/</a>	<a href="https://www.Lukoil.com/InvestorAndShareholderCenter/FinancialReports">https://www.Lukoil.com/InvestorAndShareholderCenter/FinancialReports</a>
<b>Tatneft</b>	<a href="https://www.tatneft.ru/">https://www.tatneft.ru/</a>	<a href="https://www.tatneft.ru/en/aktsioneram-i-investoram/raskritie-informatsii/financial-and-accounting-reporting">https://www.tatneft.ru/en/aktsioneram-i-investoram/raskritie-informatsii/financial-and-accounting-reporting</a>
<b>BP</b>	<a href="https://www.bp.com/">https://www.bp.com/</a>	<a href="https://www.bp.com/en/global/corporate/investors/annual-report/annual-reporting-archive.html#tab_14">https://www.bp.com/en/global/corporate/investors/annual-report/annual-reporting-archive.html#tab_14</a>
<b>Eni S.p.A.</b>	<a href="https://www.eni.com/en-IT/home.html">https://www.eni.com/en-IT/home.html</a>	<a href="https://www.eni.com/en-IT/investors/financial-results-and-reports.html">https://www.eni.com/en-IT/investors/financial-results-and-reports.html</a>
<b>TotalEnergies SE</b>	<a href="https://totalenergies.com/">https://totalenergies.com/</a>	<a href="https://totalenergies.com/investors/publications-and-regulated-information/regulated-information/annual-financial-reports">https://totalenergies.com/investors/publications-and-regulated-information/regulated-information/annual-financial-reports</a>

## **Appendix 4. Company information**

### **Gazprom**

Gazprom was created in 1989, becoming the first state-run corporate enterprise in the Soviet Union. After the Soviet Union's dissolution, Gazprom was privatized, but the company later returned to government control in the early 2000s. The company is involved in the Russian government's diplomatic efforts, setting of gas prices, and access to pipelines. Gazprom is majority-owned by the Russian government, via the Federal Agency for State Property Management and Rosneftgaz, while remaining shares are traded publicly. Gazprom has a listing in the Moscow Exchange and had a market capitalization of USD \$80.56 billion as of September 2019.

Gazprom's management system is structured around a Board of Directors and a Management Committee. The Board of Directors is responsible for determining the company's overall strategy, approving major transactions and investments, and overseeing the work of the Management Committee. The Management Committee, in turn, is responsible for implementing the company's strategy and managing its day-to-day operations. Gazprom has a strong corporate governance framework in place, which includes an Audit Committee, a Remuneration and HR Committee, and a Strategy Committee. The Audit Committee is responsible for monitoring the company's financial reporting, internal controls, and risk management systems. The Remuneration and HR Committee is responsible for setting executive compensation and overseeing human resource policies. The Strategy Committee is responsible for reviewing and recommending the company's overall strategy to the Board of Directors.

## **Lukoil**

Internationally, Lukoil is one of the largest global producers of crude oil and gas, with operations and subsidiaries in more than 30 countries around the world. In 2019, the company produced 87.488 million metric tons of oil and gas, equivalent to 1.639 million barrels per day, and 35.046 billion cubic meters of natural gas.

Lukoil has a diverse range of operations, including exploration and production, refining, marketing, and petrochemicals. The company owns several refineries, including the Ukhta Oil and gas Refinery, which is the largest refinery in the Komi Republic of Russia, and the Volgograd Oil and gas Refinery, one of the largest refineries in Russia. The company's petrochemical operations include the production of polypropylene, polyethylene, and other polymers.

Lukoil has also been involved in several international projects, including joint ventures with major oil and gas companies in Iraq and Venezuela. In addition, the company has signed exploration and production contracts with governments in Asia, Africa, and the Middle East.

Lukoil is thus a major player in the global energy industry, with a significant presence in Russia and operations across several continents. The company's diverse range of operations and international projects position it for continued growth and success in the years to come.

Lukoil is a publicly traded company with a complex corporate and management system. The company is governed by a board of directors, which is responsible for overseeing the company's management and making major decisions about the company's strategy, investments, and operations. The board is composed of 15 members, including the company's CEO, Vagit Alekperov, who has been with the company since its inception in 1991.

Lukoil operates using a decentralized management system, with a network of subsidiaries and regional offices responsible for managing the company's operations in different regions. Each subsidiary and office is given autonomy to make decisions about its operations, which allows the company to adapt to local market conditions and regulatory environments.

To ensure effective communication and coordination between different subsidiaries and offices, Lukoil has established several management structures and processes. The company has a system of performance indicators, which are used to track the performance of each subsidiary and office and to evaluate their contribution to the company's overall success. In addition, Lukoil has a system of committees and working groups that are responsible for overseeing specific areas of the company's operations, such as finance, strategy, and technology.

### **Tatneft**

Apart from oil and gas exploration and production, Tatneft is also involved in associated petroleum gas treatment and refining, petrochemicals production and marketing, particularly tyre production, manufacturing of equipment, and engineering, procurement, and construction services for oil and gas, and petrochemical projects. The company's tyre business operates under the brand name "Nizhnekamskshina" and is one of the leading tire manufacturers in Russia.

Tatneft expanded its activities to the banking sector in the fourth quarter of 2016 after obtaining control over ZENIT Bank. The company's banking activities cover a wide range of banking services, including deposits, loans, and payment services.

In the 2020 Forbes Global 2000, Tatneft was ranked as the 539th-largest public company in the world, with a market capitalization of approximately \$10.2 billion. The company is committed to implementing sustainable development practices in its operations, including environmental protection, social responsibility, and economic development.

Tatneft has a well-structured management and corporate governance system to ensure efficient decision-making, accountability, and transparency. The company's management team is led by its President and Chairman of the Management Board, Nail Ulfatovich Maganov, who has been in this position since 1998. He is supported by a team of experienced executives, including the First Vice President, Ruslan Salikhov, and the Vice President for Oil and Gas Production, Ruslan Gizzatullin, among others.

Tatneft's corporate structure is divided into several business segments, each with its own management team responsible for overseeing operations. These segments include oil and gas production, refining and petrochemicals, tire production, engineering and construction, and banking. The company's subsidiaries and affiliates operate under the Tatneft Group umbrella, which ensures effective coordination among its various businesses and boosts synergic effects.

Tatneft is a vertically integrated company, which means that it controls and operates several stages of the oil and gas production process, from exploration and production to refining and marketing. Vertical integration enables Tatneft to optimize its operations, reduce costs, and increase efficiency by eliminating the need for intermediaries and reducing transaction costs.

Tatneft's vertical integration strategy includes controlling most of its exploration and production licenses, producing most of its crude oil and gas in Tatarstan, and refining a significant portion of its oil and gas at the TANECO refinery. The company's tyre production

business, Nizhnekamskshina, is also vertically integrated, as it controls the whole tyre production process, from raw materials to the finished product.

Vertical integration also allows Tatneft to have greater control over the quality and consistency of its products, as well as its supply chain. The company's integrated operations enable it to respond quickly to changes in the market and customer demand, which is crucial in the highly competitive oil and gas industry. In short, Tatneft's vertical integration strategy has contributed significantly to its success and growth as a leading player in the global energy market.

## **BP**

Before the company was privatized by the British government between 1979 and 1987, it was majority state-owned. In 1998, BP merged with Amoco, becoming BP Amoco plc. The company then acquired ARCO and Burmah Castrol in 2000 and Aral AG in 2002. BP p.l.c. became the company's official name in 2001.

BP's involvement in Russia began in 2003 when it entered into a partnership with TNK-BP. The joint venture lasted for a decade, with BP owning nearly half of it. In 2013, BP sold its stake in TNK-BP and instead took a stake in Rosneft, Russia's largest oil and gas company, of nearly 20 per cent. BP held this stake until Russia's 2022 invasion of Ukraine, which led to sanctions that forced the company to sell its Rosneft shares.

Throughout its history, BP has faced a number of controversies, including the Deepwater Horizon oil and gas spill in 2010, which was the largest marine oil and gas spill accident in history. Despite this, the company remains one of the largest and most prominent players in the global oil and gas industry.

BP p.l.c. has a hierarchical corporate structure with a board of directors overseeing the company's operations. The board comprises the chairman, the group chief executive officer, executive directors, and non-executive directors. The chairman is responsible for leading the board, while the CEO is responsible for running the company.

BP's operations are divided into four main segments: Upstream, Downstream, Rosneft, and Others. The Upstream segment is responsible for exploration, production, and development of oil and gas resources, while the Downstream segment is responsible for refining, manufacturing, marketing, and transportation of petroleum products, as well as the production and marketing of petrochemicals. The Rosneft segment represents BP's stake in Rosneft, the largest oil and gas company in Russia. Others includes BP Alternative Energy, BP Shipping, and other corporate activities.

BP's executive management team includes the CEO and other senior executives who lead each of the company's segments. They are responsible for the overall strategic direction of the company, as well as the day-to-day operations.

The company has a focus on sustainability, and in 2020, announced its ambition to become a net-zero company by 2050. This includes reducing its carbon footprint, investing in renewable energy, and developing low-carbon technologies.

In summary, BP's corporate structure is hierarchical, with a board of directors overseeing the company's operations. The company has four main segments, and its executive management team leads each of these segments. BP's corporate governance framework promotes transparency, accountability, and ethical behavior. The company has a strong focus on sustainability, with a goal to become a net-zero company by 2050.

## **Eni S.p.A**

Eni has earned a place on both the Fortune Global 500 and the Forbes Global 2000 lists, ranking 111th on both in 2022 with revenues of €92.2 billion. This makes Eni the third largest Italian company on the Fortune list (after Assicurazioni Generali and Enel) and the second largest on the Forbes list (after Enel). According to the Fortune Global 500, Eni is the largest petroleum company in Italy, the second largest based in the European Union (after TotalEnergies), and the 13th largest in the world. As a result, Eni is a component of the Euro Stoxx 50 stock market index.

Eni S.p.A. operates under a traditional corporate structure with a board of directors, a chief executive officer, and a group of executive officers who oversee various divisions and departments within the company.

The board of directors is responsible for setting the overall strategy and direction of the company. It is composed of 17 members, including 14 non-executive directors and three executive directors. The chairman of the board is elected by the shareholders and serves as the company's top representative. The board also appoints the CEO, who is responsible for managing the day-to-day operations of the company and implementing the strategies set by the board.

Eni's executive officers are responsible for the management of the company's various divisions and departments. These include exploration and production, refining and marketing, gas and power, engineering and construction, and chemicals. Each division is headed by an executive officer, who reports directly to the CEO.

## **Total Energies SE**

The company has its headquarters in the Tour Total, a building in the La Défense district of Courbevoie, which is in western Paris. It is included in the Euro Stoxx 50 stock market index and recognized as a Fortune Global 500 company, where it was ranked as the 25th largest company worldwide in 2020. Additionally, it was ranked as the 29th-largest public company globally in the Forbes Global 2000.

TotalEnergies has an extensive global presence, operating in over 130 countries with more than 100,000 employees, and is involved in a wide range of energy and petrochemical projects worldwide. The company has committed itself to developing sustainable and renewable energy sources, aiming to become a world leader in renewable energy.

TotalEnergies SE has a well-established corporate and management system that ensures efficient operations and strategic decision-making. The company's corporate structure is divided into various business segments, including Exploration & Production, Gas, Renewables & Power, Refining & Chemicals, and Marketing & Services. TotalEnergies' management system comprises a Board of Directors, which oversees the company's operations and sets its strategic direction. The Board is composed of experienced professionals from various industries, with diverse backgrounds and expertise. The Executive Committee, led by the Chief Executive Officer (CEO), is responsible for implementing the Board's decisions and managing the company's daily operations.

Moreover, TotalEnergies has an established corporate governance framework that ensures transparency and accountability in its operations. The company adheres to the principles of

good governance, which include independence, diversity, and ethical conduct. TotalEnergies also has robust risk management systems in place to identify and manage risks that could affect the company's operations.

The company has a strong focus on sustainability, which is reflected in its management system. TotalEnergies' management is committed to developing sustainable and renewable energy sources to reduce the company's carbon footprint and contribute to a low-carbon future. The company has set ambitious targets to reduce its carbon emissions and increase its investments in renewable energy. TotalEnergies SE shows a robust corporate and management system that should ensure efficient operations, strategic decision-making, and sustainability. The company's commitment to good governance, risk management, and sustainability sets it apart as a responsible corporate citizen.

#### **Appendix 5.** Additional legal information

“IFRS Standards are required for domestic public companies” (Federal Law 208-FZ, 2011)

“IFRS Standards required for listed companies, financial institutions, and some government-owned companies”. (Article, 10<sup>th</sup>. Federal Law 208-FZ )

“IFRS Standards are required or permitted for listings by foreign companies. Required for some, permitted for others. The IFRS for SMEs Standard is under consideration, but it is not required”. (Federal Law 208-FZ, 2011)

“IFRS Standards are mandatory for consolidated financial statements. Additionally, separate company financial statements must be prepared using Russian GAAP. Financial statements of certain companies that do not constitute a group, as defined by IFRS Standards but which are

specified in the Federal Law 208-FZ On Consolidated Financial Statements (for instance listed companies, banks, except for banks with a basic license, insurance companies, etc.), are required to be prepared in accordance with the IFRS Standards". (Federal Law 208-FZ)