NIZHNEKAMSKNEFTEKHIM GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2018

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Independent Auditor's Report

To the Shareholders and Board of Directors of public joint stock company Nizhnekamskneftekhim:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of public joint stock company Nizhnekamskneftekhim ("PAO Nizhnekamskneftekhim") and its subsidiaries (together - the "Group") as at 31 December 2018, as well as its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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.

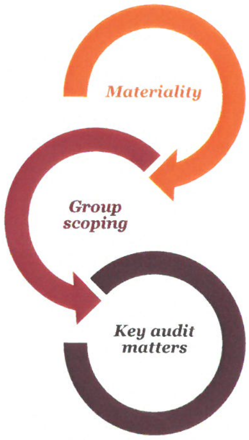
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview



Overall Group materiality: Russian Roubles ("RUB") 1,573 million, which represents 5% of profit before tax.

- We conducted audit work at PAO Nizhnekamskneftekhim, located in the city of Nizhnekamsk in the Russian Federation.
- The group engagement team performed selected audit procedures on subsidiaries situated in the Republic of Tatarstan in the Russian Federation, as well as on a subsidiary located in Finland.
- Our audit scope addressed 100% of the Group's revenues and more than 92% of the Group's total assets.

Key audit matters

- Revenue recognition and disclosure
- Contingent liabilities on legal cases

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RUB 1,573 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and disclosure	
a) The Group executes a large volume of revenue transactions with multiple counterparties from different countries and on different terms of transfer of ownership and risks. The Group recognises revenues from sales of goods based on the quantity of goods dispatched and the agreed prices. Although revenue recognition involves only limited judgement, due to the size and volume of transactions it is an audit area which requires significant time and resources and is therefore considered to be a key audit matter. As in prior year we continued focusing on this area, even though there have been no significant changes in volumes or terms of transactions of the Group.	a) We performed a wide range of audit procedures in the audit of revenue including, but not limited to: • assessment of the consistency in application of the revenue recognition policy; • understanding of controls and evaluation of their effectiveness in the revenue cycle; • substantive detailed procedures, including circularisation procedures and sample testing; We incorporated an element of unpredictability by selecting transactions not otherwise tested due to their materiality and by testing operations with new customers. No exceptions or significant deficiencies were noted from our testing and the procedures performed.
b) The Group has adopted the new revenue standard IFRS 15 "Revenue from contracts with customers" in these consolidated financial statements. Adoption of IFRS 15 had no significant impact on the Group's consolidated financial statements, except for the disclosure of more	b) We performed an analysis of management's adoption of IFRS 15 "Revenue from contracts with customers" in these consolidated financial statements. Based on the above analysis we concurred with the management's conclusion that the impact is not significant.

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Key audit matter	How our audit addressed the key audit matter
detailed information on revenue, recognition of transportation services under certain contracts with customers (based on Incoterms 2010 CPT) as a separate performance obligation, reclassification of the transportation expenses related to the above contracts from Selling, General and Administrative expenses to Cost of Sales as well as disaggregation of revenue by timing of revenue recognition. *See notes 3, 5 and 8 of the consolidated financial statements for management's disclosures of the adoption of the new standard, the related accounting policies, and detailed disclosure of the revenue of the Group for further information.*	We also paid attention to the completeness of disclosure of the relevant information on the transition to IFRS 15 and detailed revenue disclosure in Notes 3, 5 and 8 of the consolidated financial statements according to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors" and IFRS 15 "Revenue from contracts with customers" and concluded that it is sufficient.
Contingent liabilities related to legal proceedings The Group is a defendant in certain legal proceedings and the likelihood of a negative outcome for them in these cases has been assessed by management. Given the materiality of certain claims against the Group and uncertainty about the outcome of the legal proceedings, the assessment of the outcome involves significant judgement, and the audit of this issue requires a significant amount of audit effort and therefore it remains to be the focus of the audit as in prior year. *Information on material court cases is disclosed in Note 36 to the consolidated financial statements.*	We performed audit procedures to assess the probability of various potential outcomes of the legal proceedings, and our work included: • considering how reasonable the position of the Group's management and their internal lawyers is regarding further actions to protect the Group's position in court; • obtaining and assessing the Group's external lawyers' view on the matter, including an assessment of the most likely outcome; • an independent assessment by our legal experts of the likelihood of the outcome taking into account the requirements of Russian accounting law when considering current court practices; • obtaining written representations from the Group's management on the assessment performed to determine the likelihood of a negative outcome for the Group from the legal proceedings. We also assessed the adequacy of disclosures on contingent liabilities related to legal proceedings in Note 36 to the consolidated financial statements, and we assessed their compliance with the disclosure requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Key audit matter	How our audit addressed the key audit matter
	Based on the work performed we concluded that the assessments of management with respect to the probability of a negative outcome of the legal proceeding are justifiable and no adjustments are required to the consolidated financial statements and that disclosure of the matters is sufficient and appropriate. While we found management's estimates regarding contingent liabilities to be acceptable for the purpose of these consolidated financial statements, this does not guarantee that inherently uncertain future events could lead to outcomes that are significantly different to these estimates.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

Based on the risk assessment procedures and results of analysis on significance of consolidated financial statement lines of the Group's companies we identified PAO Nizhnekamskneftekhim as a significant component and performed audit procedures on consolidated financial statements in accordance with ISA 600 "Audits of Group financial statements".

The group engagement team determined the significance of other components for each consolidated financial statement line individually. We performed selected audit procedures for subsidiaries situated in the Republic of Tatarstan in the Russian Federation, as well as on a subsidiary located in Finland. Our audit scope addressed 100% of the Group's revenues and more than 92% of the Group's total assets.

Other information

Management is responsible for the other information. The other information comprises the Annual report of PAO Nizhnekamskneftekhim for 2018 and the Issuer's Report for the first quarter of 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of the report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

When we read the Annual report of PAO Nizhnekamskneftekhim for 2018 and the Issuer's Report for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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 operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 scepticism throughout the audit. We also:

- 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

- 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.
- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 certified auditor responsible for the audit resulting in this independent auditor's report is Denis Petrovich Derevyankin.

AO PricewaterhouseCoopers Audit

26 March 2019

Moscow, Russian Federation

D.P. Derevyankin, certified auditor (licence no. 01-001581),
AO PricewaterhouseCoopers Audit

Акционерное общество "ПрайсвотерхаусКуперс Аудит" * ОГРН 1027700148431 * Москва * "Pricewaterhouse Coopers Audit" pwc

Audited entity: public joint stock company Nizhnekamskneftekhim

Record made in the Unified State Register of Legal Entities on 5 November 2002 under State Registration Number №1021602502316

423574, Russian Federation, Republic of Tatarstan, Nizhnekamsk, 23 Sobolekovskaya str.

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

(in millions of Russian Roubles unless otherwise stated)

Consolidated Statement of Comprehensive Income

	Note	2018	2017
Revenue	**8**	193,859	167,628
Cost of sales	**9**	(147,436)	(118,963)
Gross profit		**46,423**	**48,665**
Selling, general and administrative expenses	**10**	(15,967)	(17,852)
Other operating expenses, net	**11**	(811)	(81)
Operating profit		**29,645**	**30,732**
Interest income		739	1,047
Interest expense		(99)	(125)
Loss on disposal of subsidiary		-	(269)
Revaluation of financial assets at fair value through profit or loss	**16**	(51)	-
Foreign exchange gain, net		1,146	89
Share in profit of associates	**15**	86	70
Profit before income tax		**31,466**	**31,544**
Income tax charge	**12**	(6,684)	(6,693)
Net profit		**24,782**	**24,851**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale investments		-	(179)
Exchange differences on translation of foreign subdivisions to presentation currency		167	93
Income tax attributable to items that may be reclassified to profit or loss		-	36
Total items that may be reclassified subsequently to profit or loss		**167**	**(50)**
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	**27**	(37)	(127)
Total items that will not be reclassified to profit or loss		**(37)**	**(127)**
Total other comprehensive income		**130**	**(177)**
Total comprehensive income		**24,912**	**24,674**
Profit attributable to:			
Shareholders of the parent company		24,689	24,793
Non-controlling interest		93	58
Net profit		**24,782**	**24,851**
Total comprehensive income attributable to:			
Shareholders of the parent company		24,746	24,588
Non-controlling interest		166	86
Total comprehensive income		**24,912**	**24,674**
Basic and diluted earnings per share (in Russian roubles)		**13.49**	**13.55**

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

Consolidated Statement of Financial Position

	Note	31 December 2018	31 December 2017 (restated)	31 December 2016 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	111,766	81,496	72,474
Intangible assets	14	454	323	351
Investments in associates	15	540	544	542
Financial assets	16	1,679	1,768	1,888
Deferred income tax assets	12	682	586	677
Goodwill	17	83	83	83
Other non-current assets	18	1,546	1,366	801
Total non-current assets		**116,750**	**86,166**	**76,816**
Current assets				
Inventories	19	19,357	22,082	19,529
Trade and other receivables	7, 20	6,937	7,644	8,171
Income tax prepayments		23	1,016	368
Other prepaid and recoverable taxes	21	9,010	7,147	7,696
Financial assets	16	15,000	-	40
Prepayments	22	15,758	2,641	14,044
Cash and cash equivalents	23	30,986	24,373	7,108
Total current assets		**97,071**	**64,903**	**56,956**
Total assets		**213,821**	**151,069**	**133,772**
EQUITY AND LIABILITIES				
Equity and reserves				
Share capital	24	6,332	6,332	6,332
Revaluation reserve for financial assets		-	(85)	58
Currency translation reserve		370	276	211
Retained earnings		151,263	126,696	102,031
Total equity attributable to shareholders of the parent company		**157,965**	**133,219**	**108,632**
Non-controlling interest		844	697	629
Total equity		**158,809**	**133,916**	**109,261**
Non-current liabilities				
Non-current loans and borrowings	25	32,783	50	49
Deferred income tax liabilities	12	3,795	3,100	3,044
Other non-current liabilities	26	1,095	1,042	989
Total non-current liabilities		**37,673**	**4,192**	**4,082**
Current liabilities				
Current loans and borrowings	25	802	472	967
Trade and other payables	7, 28	6,366	6,345	8,177
Advances received and accrued liabilities	29	6,173	5,163	8,119
Income tax payable		61	7	2
Other taxes payable	30	3,920	951	3,047
Dividends payable		17	23	117
Total current liabilities		**17,339**	**12,961**	**20,429**
Total liabilities		**55,012**	**17,153**	**24,511**
Total equity and liabilities		**213,821**	**151,069**	**133,772**

A.Sh. Bikmurzin
General Director
26 March 2019

I.R. Yakhin
Chief Accountant

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

Consolidated Statement of Cash Flows

	Note	2018	2017 (restated)
OPERATING ACTIVITIES			
Profit before income tax		**31,466**	**31,544**
Adjustments for:			
Depreciation charge	**9, 10**	5,101	4,690
Interest income, net		(640)	(922)
Income from investments, net		(119)	(69)
Loss on revaluation of financial assets at fair value	**16**	51	-
Loss on disposal of subsidiary		-	269
Loss/(gains) on disposal of property, plant and equipment and other non-current assets	**13**	45	(120)
Foreign exchange (gain)/loss, net		(601)	16
Reversals of provision for impairment of property, plant and equipment	**13**	-	(158)
Increase in allowance for expected credit losses	**20**	173	-
Increase in allowance for doubtful debts	**20**	-	56
Effect of discounting the loans issued	**16**	89	21
Decrease in provision for inventory impairment to net realisable value	**19**	9	67
Operating profit before working capital changes		**35,574**	**35,394**
Decrease/(increase) in inventories	**19**	1,848	(2,716)
Decrease in trade and other receivables	**7, 18, 20**	524	478
(Increase)/decrease in prepaid and recoverable taxes	**21**	(2,474)	547
(Increase)/decrease in other assets	**18, 22**	(12,665)	10,843
Decrease in trade and other payables and other liabilities	**7, 26, 28**	(3,194)	(4,810)
Increase/(decrease) in advances received and accrued liabilities	**29**	1,010	(2,953)
Increase /(decrease) in taxes payable	**30**	2,969	(2,094)
Changes in working capital		**(11,982)**	**(705)**
Interest paid		(23)	(48)
Income taxes paid		(5,038)	(7,253)
Net cash from operating activities		**18,531**	**27,388**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and advances issued for capital construction and acquisition of equipment		(33,719)	(13,542)
Purchase of intangible assets		(334)	(139)
Proceeds from sale of property, plant and equipment		110	67
Placement of deposits and other financial assets		(21,625)	-
Repayment of deposits and other financial assets		7,809	-
Interest income received		662	971
Borrowing costs capitalised		(140)	-
Dividends received		100	68
Net cash used in investing activities		**(47,137)**	**(12,575)**
FINANCING ACTIVITIES			
Proceeds from non-current loans and borrowings	**25**	36,893	50
Proceeds from current loans and borrowings	**25**	1,216	635
Repayment of non-current loans and borrowings	**25**	(123)	(169)
Repayment of current loans and borrowings	**25**	(1,093)	(1,047)
Payment of insurance premiums and commission for loans raising	**25**	(5,202)	-
Financing obtained under factoring agreements with recourse	**7**	2,820	3,114
Repayment of finance lease payables		(50)	(75)
Dividends paid		(25)	(113)
Net cash from financing activities		**34,436**	**2,395**
Net increase in cash and cash equivalents		**5,830**	**17,208**
Cash and cash equivalents at the beginning of the year		24,373	7,108
Effect of exchange rate changes on cash held in foreign currencies		783	57
Cash and cash equivalents at the end of the year		**30,986**	**24,373**

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

Consolidated Statement of Changes in Equity

	Note	Share capital	Revaluation reserve for financial assets	Currency translation reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Total equity
Balance at 1 January 2017	**24**	**6,332**	**58**	**211**	**102,031**	**108,632**	**629**	**109,261**
Profit		-	-	-	24,793	24,793	58	24,851
Other comprehensive income less deferred tax		-	(143)	65	(127)	(205)	28	(177)
Total comprehensive income		-	**(143)**	**65**	**24,666**	**24,588**	86	**24,674**
Dividends declared		-	-	-	(1)	(1)	(18)	(19)
Balance at 31 December 2017	**24**	**6,332**	**(85)**	**276**	**126,696**	**133,219**	**697**	**133,916**
Effect from application of IFRS 9	3	-	85	-	(85)	-	-	-
Balance at 1 January 2018	**24**	**6,332**	**-**	**276**	**126,611**	**133,219**	**697**	**133,916**
Profit		-	-	-	24,689	24,689	93	24,782
Other comprehensive income less deferred tax		-	-	94	(37)	57	73	130
Total comprehensive income		**-**	**-**	**94**	**24,652**	**24,746**	**166**	**24,912**
Dividends declared		-	-	-	-	-	(19)	(19)
Balance at 31 December 2018	**24**	**6,332**	**-**	**370**	**151,263**	**157,965**	**844**	**158,809**

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

Note 1. General Information

PAO Nizhnekamskneftekhim (the "Company") was incorporated on 18 August 1993 and operates at the following address: 23 Sobolekovskaya Str., Nizhnekamsk, Nizhnekamsky Municipal District, 423574, Republic of Tatarstan, Russian Federation. The principal activity of the Company and its subsidiaries (the "Group") is production and sale of petrochemicals.

Major production facilities of the Group are located in Nizhnekamsk, Republic of Tatarstan, Russian Federation. Details of the Company's subsidiaries are included in Note 33.

For the year ended 31 December 2018 and for the year ended 31 December 2017, the average headcount of the Group was 18,867 and 20,065 employees, respectively.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Exchange rates of major foreign currencies at 31 December 2018 were as follows: RUB 69.4706 = USD 1.00 (at 31 December 2017: RUB 57.6002) and RUB 79.4605 = EUR 1.00 (at 31 December 2017: RUB 68.8668).

Note 3. Adoption of New or Revised Standards and Interpretations

IFRS 9 "Financial Instruments". The Group adopted IFRS 9 "Financial Instruments" from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of IFRS 7 "Financial Instruments: Disclosures" have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		Carrying value under IAS 39 – 31 December 2017	Effect of adopting IFRS 9				Carrying value under IAS 9 – 1 January 2018
				Reclassification		Revaluation		
	IAS 39	IFRS 9		Man-datory	Volun-tary	ECL	Other	
Cash and cash equivalents	Loans and recievables	Amortised cost	24,373	-	-	-	-	24,373
Equity securities	Fair value through other comprehensive income	Fair value through profit or loss	1,242	-	-	-	-	1,242
Loans issued	Loans and recievables	Amortised cost	526	-	-	-	-	526
Trade and other receivables	Loans and recievables	Amortised cost	6,109	-	-	-	-	6,109
Trade recievables under a recourse factoring arrangement	Loans and recievables	Fair value through other comprehensive income	1,535	-	-	-	-	1,535

(in millions of Russian Roubles unless otherwise stated)

Note 3. Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 9 "Financial Instruments" (Continued)

a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 23 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to amortised cost measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

b) Investments in equity securities

The Group has elected to irrevocably designate strategic investments in a portfolio of trading and non-trading equity securities as at fair value through profit or loss as required by IFRS 9. Investments in equity securities are reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss as the Group's management expects to sell them in the short- or mid-term period if there is an attractive commercial proposal/ favourable environment in the securities market. Loss from revaluation of fair value of shares, which is accumulated in the revaluation reserve for available-for-sale financial assets in the amount of RUB 85 million as of 1 January 2018, is transferred to retained earnings as of 1 January 2018.

c) Other financial assets

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired:

- trade and other receivables;
- trade recievables under a recourse factoring arrangement;
- loans issued.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018.

	Provision under IAS 39 at 31 December 2017	Effect Remeasurement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Amortised cost			
- Trade and other receivables	(417)	-	(417)
- Loans issued	(410)	-	(410)

At 31 December 2017 all of the Group's financial liabilities were carried at amortised cost. There were no changes to the classification and measurement of financial liabilities.

The expected credit losses as of 1 January 2018 are not different from the recognised provisions in the consolidated financial statements as of 31 December 2017; therefore, the opening retained earnings were not restated as of 1 January 2018.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on 1 January 2018). The Group applied a simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018). The Group believes that the adoption of the new standard had no impact on the Group's financial performance as of 1 January 2018.

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Note 3. Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 15 "Revenue from Contracts with Customers" (Continued)

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the consolidated financial statements. The main changes from the adoption of IFRS 15 are explained below:

- Additional performance obligations identified;
- Changes in timing of revenue recognition;
- Presentation of contract assets and contract liabilities.

a) Additional performance obligations identified

If the Group undertakes an obligation to deliver goods to a specific point (generally, under the contracts based on Incoterms 2010 – CPT), revenue is divided into two performance obligations, i.e. sales of goods and provision of services to deliver them. Expenses on the obligation to deliver goods to a specific destination point were reclassified from the line item "Selling, general and administrative expenses" to line item "Cost of sales" within "Transportation expenses" in amount of RUB 3,496 million (Note 9 and 10) in the consolidated statement of comprehensive income.

b) Changes in timing of revenue recognition

Revenue from sales of goods is recognised at the point of time when control is transferred to the customer, normally, when the goods are shipped and related risks, rewards and rights of ownership are transferred. Revenue from provision of the delivery services, including transportation services under the contracts based on Incoterms 2010 – CPT, is recognised over time that such services are provided to the customer in the type of revenue "Revenue from services rendered".

c) Presentation of contract assets and contract liabilities

The Group changed the presentation of certain amounts in the consolidated financial statements to bring the presentation into compliance with the terminology used in IFRS 15: Contract assets represent the Group's right for consideration under contracts in exchange for goods and services transferred by the Group to the customer when such right is dependent on the future performance of the Group. Contract liabilities represent advance payments from customers for supplied goods or provided services, that are not completed at the reporting date (Note 29).

Adoption of IFRS 15 had no significant effect on the Group's financial position and results of operations, except the requirement to disclose more detailed information on revenue, changes in the presentation of assets and liabilities and reclassification adjustment of expenses on obligation to deliver goods to a specific destination point. Thus, comparative information and equity were not restated as of 1 January 2018.

Other new or revised standards or interpretations

The following amended standards became effective from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 – "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Note 4. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. As at the date of transition to IFRS 16, the Group decided to apply the practical expedient under which the Group is not required to reassess whether a contract is, or contains, a lease. Therefore, the definition of lease as per IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" is applied to all lease contracts that were executed or modified before 1 January 2019.

The Group also plans to apply the following practical expedients:

(a) apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);

(b) exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;

(c) retrospectively use the judgement for instance when determining the lease term under a contract that contains options to extend or terminate the lease;

(d) recognise lease payments associated with short-term (below 12 months at the initial application) leases or leases for which the underlying asset is of low value as an expense on a straight-line basis over the lease term.

The management of the Group also performed an analysis of the existing lease long-term agreements, including land plots operating lease agreements with the State. The adoption of IFRS 16 "Leases" will not require the recognition of assets and liabilities in respect of such lease agreements, since the lease payments will not be included in determination of lease liability beacause they are nor fixed nor variable payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date . Rental payments will be accounted for as operating expenses when they are incurred and will also presented as operating cash flows in the cash flow statement (Note 35).

According the above, the Group does not expect a significant impact on its consolidated financial statements from the adoption of the new standard. However, starting next year, additional disclosures will be required.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a tax authority, changes in rules established by a tax authority or the expiry of a tax authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

Note 4. New Accounting Pronouncements (continued)

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term "outputs" is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by IASB).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

Note 5. Significant Accounting Policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

Note 5. Summary of Significant Accounting Policies (Continued)

Basis of preparation of consolidated financial statements

The Group operates in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, as modified by:

- Assets, liabilities and contingent liabilities of acquired subsidiaries measured at fair value at the acquisition date in accordance with IFRS 3 "Business Combinations";
- Financial instruments measured at fair value through profit and loss and at fair value through other comprehensive income in accordance with IFRS 9 "Financial Instruments".

Basis of preparation of consolidated financial statements

Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered.

When preparing the consolidated financial statements, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in compliance with those applied by the Group.

Non-controlling interest is the part of net results and equity of a subsidiary attributable to the interest, which is not owned by the Company either directly or indirectly. Non-controlling interest forms a separate component of the Group's equity.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries in the consolidated financial statements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting fair value of the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

Note 5. Summary of Significant Accounting Policies (Continued)

Business combinations (Continued)

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If acquired at bargain price, when the fair value of net assets exceeds the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date, any excess ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Purchases and sales of non-controlling interests

Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates.

Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the profit or loss for the year in a separate line in the consolidated statement of comprehensive income, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately in the consolidated statement of comprehensive income.

Losses of associates are initially recognised in the consolidated financial statements as long as investments in associates are not written down to nil. Then losses are recorded in the consolidated financial statements to the extent the Group has assumed obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Revenue and income recognition accounting policy in effect from 1 January 2018

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised at a transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised net of discounts, value added taxes, export duties, excise tax and other similar mandatory payments.

Note 5. Summary of Significant Accounting Policies (Continued)

Revenue and income recognition accounting policy in effect from 1 January 2018 (Continued)

Product sales

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales is recognised based on the price specified in the contract, net of discounts.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the Group provides any additional services to the customer after control over goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Provision of services

The Group provides its services under contracts with fixed consideration amounts. Revenue from services is recognised in the reporting period in which they are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Revenue recognition accounting policy in effect until 1 January 2018

Revenue is recognised at the fair value of the consideration received or receivable net of VAT, export duties and discounts.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Note 5. Summary of Significant Accounting Policies (Continued)

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. The line "Interest income" of the consolidated statement of comprehensive income is intended for recognising interest income on financial assets carried at amortised cost, such as loans issued and deposits using the effective interest rate.

Finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. The assets held under finance leases are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of leased assets or present value of future minimum lease payments at the inception of the lease, with the finance lease liability being recognised. Leased assets are depreciated over their useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of depreciation is useful life of the asset.

Finance lease payments are calculated using the effective interest rate method and allocated between the finance charges, which are included in finance costs, and capital repayment, which reduces the related finance lease obligation to the lessor so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of future finance charges, depending on maturity, are included in other long-term liabilities or trade and other payables.

Operating lease

Leases where the lessor retains substantially all the risks and rewards incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

Foreign currency translations

Foreign exchange differences

The stand-alone financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency of all Group entities is the Russian rouble ("RUB"). The Russian rouble has also been selected as the presentation currency of the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates of the Central Bank of the Russian Federation ("CBRF") effective at the date of the transactions.

Exchange differences arising from foreign currency transactions and translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss in the consolidated statement of comprehensive income separately from other income or expenses.

Foreign exchange differences of foreign entities

At each reporting date, the assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian rouble are translated into Russian roubles at the exchange rate effective as at each balance sheet date. All items included in equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian roubles at average exchange rates of each reporting period.

All resulting exchange differences are treated as a separate component of equity, and the accumulated amount is recognised as currency translation reserve in the consolidated statement of changes in equity, and movements in the reserve are recorded within other comprehensive income in the consolidated statement of comprehensive income. When control over a foreign entity is lost, the previously recognised exchange differences on translation of assets and liabilities to a different presentation currency of the consolidated financial statements are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a foreign entity without loss of control, the related portion of accumulated currency translation differences from recalculation of assets and liabilities is reclassified to non-controlling interest within equity.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for use or sale (a qualifying asset) are added to the cost of this asset, until such time as the asset is substantially ready for its intended use or sale.

Note 5. Summary of Significant Accounting Policies (Continued)

Borrowing costs (Continued)

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not incurred any expenses for acquisition, construction or production of a qualifying asset. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowing less any investment income on the temporary investment of these borrowings are capitalised.

Interest expense

The line item "Interest expense" of the consolidated statement of comprehensive income is intended for recognising interest expense on financial liabilities carried at amortised cost, such as loans and borrowings received using the effective interest rate less capitalised borrowing costs.

Employee benefits

Short-term benefits to employees in respect of services rendered during a reporting period are recognised as an expense in that reporting period.

Pension and other post-employment benefits

The Group makes mandatory insurance contributions to the State Pension Fund. In the Russian Federation, contributions to the Russian Federation State Pension Fund are calculated by applying a regressive rate to the annual gross remuneration of each employee, where the regressive rate is determined based on the current legislation.

Moreover, some entities of the Group have signed agreements with non-government pension funds on additional pension schemes for which the Group has recognised the constructive obligation.

Under a collective agreement between the Group's company and its employees, the Group has a number of long- term benefit liabilities: jubilee benefits, lump sum benefit on retirement and regular fixed payments to non-working pensioners.

Liabilities on lump-sum benefit on retirement and fixed payments to non-working pensioners are treated by the Group as post-employment benefit liabilities. The Group classifies these obligations as defined benefit plans. There are no assets on these plans. The Group uses the Projected Unit Credit Method to determine the discounted value of its defined benefit obligations and the related current service cost, and where applicable, past service cost. When evaluating its defined benefit liability, the Group recognises the past service cost as current expenses.

Jubilee benefits are classified and recorded by the Group as other long-term benefits.

When calculating post-employment and other long-term benefits, the Group uses such assumptions as expected salary growth, staff turnover, average life expectancy and discount rate equivalent to interest rates on top-quality government bonds with a currency and maturity similar to that of the defined benefit plan.

Gains/ losses from revaluation on pension plans are fully recognised in the consolidated statement of comprehensive income within other comprehensive income. Expenses/ income from revaluation related to other long-term benefits are recognised in the consolidated statement of comprehensive income as a component of cost and selling, general and administrative expenses within labour expenses.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation effective at the reporting date. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it relates to transactions that are recognised in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Note 5. Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial statements purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised (enacted or substantively enacted at the reporting date).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group determines whether it is necessary to recognise deferred tax on temporary differences associated with dividends of subsidiaries from retained earnings of subsidiaries, taking into account tax rates applicable to such dividends under effective legislation and the ability to control reversal of these temporary differences.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at each reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the taxation authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Property, plant and equipment

All property, plant and equipment are stated at cost, except for assets acquired prior to 1 January 2003 which have been adjusted for the impact of changes in the general purchasing power in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", less accumulated depreciation.

Items acquired after 1 January 2003 are recorded at cost less accumulated depreciation and impairment loss, if any, in the consolidated financial statements. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Depreciation is computed under the straight-line method over the estimated useful lives of the assets, which are:

Buildings, construction and transmission equipment	20–100 years
Machinery and equipment	5–30 years
Motor vehicles and other assets	2–30 years

For the purpose of disclosure in the consolidated financial statements land owned by the Group is included in "Land, buildings, construction and transmission equipment". Land is not depreciated.

Gain or loss arising on the disposal of property, plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income in line "Other operating expenses, net".

Construction in progress

Construction in progress comprises costs directly related to construction of property, plant and equipment. Depreciation of these assets commences when the assets are ready for intended use. Construction in progress includes prepayments for capital construction, net of VAT.

Note 5. Summary of Significant Accounting Policies (Continued)

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

The Group's intangible assets, other than goodwill, have definite useful lives and are amortised on a straight-line basis over their expected useful lives.

Software products	1–10 years
Patents	1–20 years
Licences	1–17 years

Costs incurred on the development, implementation and enhancement of software are capitalised and amortised over its expected useful life. Software costs relating to the maintenance of existing software are recognised as an expense in the period in which they occur.

Inventories

Inventories are recorded at the lower of cost and net realisable value. When inventory is released to production or disposed of otherwise it is valued using the moving average method. Cost of finished goods and semi-finished products comprises raw material, direct labour, other direct costs and relevant variable costs but excludes borrowing costs and other costs that are not directly related to production.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Work in progress (semi-finished goods) is measured at net production cost per unit.

Inventories are recorded in the consolidated statement of financial position within current assets (line "Inventories") if they are consumed in the next reporting period or non-current assets (line "Other non-current assets") if they are consumed not earlier than after 12 months.

Value-added tax

Output value-added tax ("VAT") related to sales is payable to the budget and recorded on an accrual basis based on invoices issued to customers. Input VAT on goods and services is offset against output VAT subject to certain limitations.

VAT on advances paid for capital expenditures is recognised in the consolidated statement of financial position depending on maturity: to be settled within 12 months – within non-current assets (line "Other non-current assets"), to be settled within 12 months – within current assets (line "Other prepaid and recoverable taxes").

VAT on advances paid that was recovered from the budget is recognised in the consolidated statement of financial position in lines "Other taxes payable" and "Other non-current liabilities" depending on the expected dates when the assets and/or services are actually received.

VAT paid on advances received is recognised in the consolidated statement of financial position in line "Other prepaid and recoverable taxes".

Excise tax

The amount of excise tax deductible or recoverable from the budget is recorded within line "Other prepaid and recoverable taxes" in the consolidated statement of financial position.

In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the excess of excise tax deductions over excise accruals due to application of an index prescribed by the Russian law is recorded by the Group as government assistance in the consolidated financial statements. This excess in the amount established by law is recognised in the consolidated statement of comprehensive income as decrease in expenses for raw materials of production cost, if all required conditions are met. The excise tax on sold products is reflected in the "Cost of sales" line of consolidated statement of other comprehensive income, the excise tax on unsold products is recorded as a decrease in the line "Inventories" of consolidated statement of.financial position

Note 5. Summary of Significant Accounting Policies (Continued)

Prepayments

In the consolidated financial statements prepayments are carried at cost less provision for impairment. Prepayments are classified as non-current when the goods or services relating to these prepayments are expected to be obtained after one year, or when these prepayments relate to an asset, which will itself be classified as non-current upon initial recognition.

If there is an indication that the assets (for example, goods) or services relating to the prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year in line “Other operating expenses, net”.

Impairment of assets except for goodwill and financial assets

The Group reviews the carrying amounts of its non-current non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost of disposal and 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised for the asset in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit and loss.

Financial instruments accounting policy in effect from 1 January 2018

Financial instruments: Key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Group. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held by the Group and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost (“AC”) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses (“ECL”). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

Note 5. Summary of Significant Accounting Policies (Continued)

Financial instruments accounting policy in effect from 1 January 2018 (Continued)

***Financial instruments: Key measurement terms* (Continued)**

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition

Financial instruments at at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

Financial assets of the Group are classified into the following specified categories:

- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

Classification and subsequent measurement of debt financial assets depend on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Note 5. Summary of Significant Accounting Policies (Continued)

Financial instruments accounting policy in effect from 1 January 2018 (Continued)

Financial assets – classification and subsequent measurement – cash flow characteristics (Continued)

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets measured at amortised cost

Loans and receivables. Loans and trade and other receivables are initially recognised at fair value and subsequently carried at cost amortised at the effective interest rate (except for short-term receivables for which interest is insignificant) net of allowance for expected credit losses.

Losses on initial recognition of loans granted to employees at rates below market are recorded in the consolidated statement of comprehensive income as labour expenses within cost of sales, selling, general and administrative expenses or other operating expenses depending on staff categories.

On the initial recognition of receivables profit/losses resulting from difference between the recognised amount of revenue and the fair value are recorded in the consolidated statement of comprehensive income in line “Other operating expenses, net”.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, bank deposits and other highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and exposed to an insignificant risk of changes in value. However, in accordance with IFRS 9 “Financial Instruments”, for cash on settlement accounts the Group assesses counterparties using ratings assigned to them by international agencies (or the national rating is used, if international ratings are not available).

No allowance for expected credit losses is accrued if the ratings have not deteriorated against the previous reporting period and also if the bank’s grade is within the range of the least investment grade. If the counterparty risk has deteriorated against the previous reporting period and also, if the counterparty was assigned a grade falling under the range of “obligations speculative to a large extent” and below, an allowance for expected credit losses will be accrued following the internal methodologies for setting up provisions for impairment of financial assets.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Deposits. Cash placed on deposits with a maturity of more than three months and received upon their closing is recognised in the consolidated statement of cash flows on a gross basis (net basis approach is not applied).

Financial assets measured at fair value through profit or loss

Equity securities. The securities held by the Group that are traded in an active market are measured at fair value. Investments that are not quoted in an active market are recorded at fair value based on the approach applied in equity accounting method using necessary adjustments.

Fair value calculations for investments in credit institutions also use a market multiplier for net assets of similar companies. Gains or losses arising from changes in fair value of equity instruments are recognised in profit or loss.

Dividends on equity securities are recognised in profit and loss when the Group's right to receive the dividends is established.

Trade and other receivables from factoring agreements without recourse option. Factoring arrangements without recourse option result in derecognition of the factored balances and are measured at fair value through profit or loss as financial assets according to “other” business model.

Financial assets measured at fair value through other comprehensive income

Trade and other receivables from factoring agreements with recourse option. Trade receivables under factoring aarangement with the recourse option is classified as financial assets valued through other comprehensive income under business model “hold to collect contractual cash flows and sell” since the business model is achieved for both collecting contractual cash flows and selling the receivables.

Note 5. Summary of Significant Accounting Policies (Continued)

Financial instruments accounting policy in effect from 1 January 2018 (Continued)

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current period and did not make any reclassifications.

Impairment of financial assets

Under IFRS 9 "Financial Instruments", the Group determined two approaches to the measurement of allowance for expected credit losses:

- General model and
- Simplified model.

The general model is applied to the Group's financial assets, such as loans, deposits, cash and cash equivalents, long-term trade receivables and other receivables.

The Group measures ECL and recognises an allowance for credit losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions.

Under the general approach, the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

For certain categories of financial assets, such as trade receivables, if an asset is assessed not to be impaired individually, a group of similar assets may be assessed using a simplified approach.

The allowance for expected credit losses for receivables may depend on the Group's past experience of non-collection of payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

Note 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Changes in ECL allowance for receivables are recognised in the consolidated statement of comprehensive income in line "Other operating expenses, net".

For financial assets carried at amortised cost, impairment losses are recognised through setting up an ECL allowance in the amount to make assets carrying amount reach the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Note 5. Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Uncollectible assets are written off against the related ECL allowance after all the necessary procedures to recover the asset, in full or in part, have been completed and the amount of the loss has been determined. Subsequent reversal of the amounts previously written off is credited to profit for the year.

Financial liabilities

Financial liabilities, including loans and borrowings, trade and other payables, finance lease liabilities and dividends payable are initially measured at fair value, net of transaction costs. Subsequently, the financial liabilities are carried at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Financial instruments accounting policy in effect before 1 January 2018

Financial instruments

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Financial assets and liabilities that are not traded in an active market are measured at the fair value using market approach. Estimation of the fair value is based on confirmed publicly available information about market multipliers for net assets of similar companies.

Note 5. Summary of Significant Accounting Policies (Continued)

Financial instruments accounting policy in effect before 1 January 2018 (Continued)

Financial instruments (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus or minus any accrued interest, and for financial assets – less any impairment loss incurred (directly or through the valuation allowance account). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest in each reporting period (effective interest rate) on the carrying amount of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Financial assets of the Group are classified into the following specified categories:

- available-for-sale financial assets;
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Initial recognition and classification of financial instruments.

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Available-for-sale financial assets mainly include listed and unlisted shares.

The securities held by the Group that are traded in an active market are measured at fair value. Investments that are not quoted in an active market are recorded at fair value based on the approach applied in equity accounting method using necessary adjustments.

Gains and losses arising from changes in fair value of these investments are recognised in other comprehensive income, the cumulative amount is recognised in the consolidated statement of financial position within equity in line "Revaluation reserve for financial assets" with the exception of losses from impairment, which are recognised directly within profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is included in profit and loss.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans issued, trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognised at fair value and subsequently carried at cost amortised at the effective interest rate (except for short-term receivables for which interest is insignificant) net of impairment provision.

Note 5. Summary of Significant Accounting Policies (Continued)

Financial instruments accounting policy in effect before 1 January 2018 (Continued)

Loans and receivables (Continued)

Losses on initial recognition of loans granted to employees at rates below the market ones are recorded in the consolidated statements of comprehensive income as personnel costs within cost of sales, selling, general and administrative expenses or other operating expenses depending on staff categories.

On the initial recognition of receivables profit/losses resulting from difference between cost and fair value are recognised in the consolidated statement of comprehensive income in line “Other operating expenses, net”.

Interest income is accounted for by applying the effective interest rate and recognised in the consolidated statement of comprehensive income in line “Interest income”.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and exposed to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Recognition of placement and repayment of deposits

Cash placed on deposits with a maturity of more than three months and received upon their closing is recognised in the consolidated statement of cash flows on a gross basis (not applying a net basis approach).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. An impairment loss is recognised where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows generated by the asset decreased.

For financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company’s past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

Changes in provision for impairment of receivables are recognised in the consolidated statement of comprehensive income in line “Other operating expenses, net”.

For financial assets carried at amortised cost, impairment losses are recognised through making a provision in the amount to make assets carrying amount reach the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

With the exception of available-for-sale financial assets, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent reversal of the amounts previously written off is credited to profit for the year. When a decline in fair value of an available-for-sale equity investment has been recognised in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognised as a component of other comprehensive income in equity is transferred to profit and loss even though the investment has not been disposed of. Impairment losses previously recognised through profit and loss are not reversed through profit and loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Note 5. Significant Accounting Policies (Continued)

Financial instruments accounting policy in effect before 1 January 2018 (Continued)

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirely to an unrelated third party without need to impose additional restrictions on the sale.

Financial liabilities

Financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Subsequently, the financial liabilities are carried at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously. Such a right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) in the event of default and (c) in the event of insolvency or bankruptcy.

Share capital

Ordinary shares and preference shares are recognised in the consolidated statement of financial position in line "Share capital" within equity.

Dividends

Dividends payable and related taxation thereon are recognised in the period in which they have been declared and become legally payable under the Russian law.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the Russian legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the events after the reporting date note.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company adjusted by dividends after-tax attributable to preference shareholders, by the weighted average number of ordinary shares outstanding during the reporting year.

Provisions for liabilities and charges

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

The amount recorded as provision is the best estimate of payments required to settle obligations at the reporting date accounting for obligation related risks and uncertainty. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

Note 5. Significant Accounting Policies (Continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Note 6. Critical Accounting Estimates and Judgements

Due to uncertainties in business operations only estimates instead of accurate amounts can be determined for certain line items of consolidated financial statements. An estimate requires that the Group management make assumptions, which are based on the most recent reliable information available. Estimates may affect the reported amounts of assets and liabilities at the reporting date, income and expenses for the reporting period, as well as disclosure of contingent assets and liabilities in the consolidated financial statements.

Estimates are based on subjective factors and depend on experience, current and expected economic conditions and other information available to the Group management. Judgements that have the most significant effect on the amounts reported in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below. Actual results may differ from those estimates.

Useful lives of property, plant and equipment

Management regularly review the appropriateness of asset useful lives exercising professional judgement as to the estimated period during which they will continue to bring economic benefits to the Group. The effect of any changes in estimate is accounted for on a prospective basis (Note 13).

Impairment of non-financial assets

Management of the Group regularly test tangible and intangible assets of the Group, including goodwill, for any indication of impairment. Management apply their judgement in estimating the timing and value of cash flows within the recoverable amount calculation for the assets. Key assumptions in management's analysis relate to determining the discounting rate, sales volume (including sales growth rates) and prices, and raw materials prices (Note 17).

Fair value measurement of investments in securities

Management of the Group determined fair value of its investments in securities by reference to their market quotes at the reporting date. The fair value of investments in securities, for which there are no market quotes, was calculated using the equity method. For investments in bank securities an adjustment was made for an average market banking multiplier that reflects the market data on comparable banks. Management of the Group considered it necessary to apply the banking multiplier to assess investments in bank securities due to increasing risks in the securities market (Note 16).

Assessment of post-employment benefit obligations

Management of the Group has determined that certain lump sum payments to employees on retirement and fixed benefits paid to non-working retirees constitute a constructive post-employment benefit obligation of the Group. Consequently, a provision in respect of post-employment benefits has been created and recognised in the consolidated statement of financial position. Management of the Group continue to review such programs and continue to assess whether they give rise to an obligation (Note 27).

Provision for environmental obligations

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group pays fees for the negative impact on the environment and the right to discharge pollutants or other waste, within legal norms, and recognises such payments within current period expenses. Management believe these fees cover all environmental obligations; therefore, the Group has no provision for environmental obligations (Note 36).

(in millions of Russian Roubles unless otherwise stated)

Note 7. Changes in Comparative Information

The Group restated the consolidated statement of financial position to reflect changes in the treatment of transactions under a recourse factoring agreement. The Group believes that the error occurred due to failure to notice a recourse option of the factoring arrangement resulting in derecognition of financial asset and liability. In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the change has been made retrospectively and comparatives have been restated accordingly.

The adjustment had the following effect on the consolidated statement of financial position at 31 December 2017:

	As originally presented at 31 December 2017	Adjustment	As adjusted at 31 December 2017
Trade and other receivables	6,109	1,535	7,644
Total current assets	63,368	1,535	64,903
Total assets	**149,534**	**1,535**	**151,069**
Trade and other payables	(4,810)	(1,535)	(6,345)
Total current liabilities	(11,426)	(1,535)	(12,961)
Total liabilities	**(15,618)**	**(1,535)**	**(17,153)**
Total equity and liabilities	**(149,534)**	**(1,535)**	**(151,069)**

The adjustment had the following effect on Note 20 Trade and Other Receivables and Note 28 Trade and Other Payables at 31 December 2017:

	As originally presented at 31 December 2017	Adjustment	As adjusted at 31 December 2017
Trade receivables under a recourse factoring agreement	-	1,535	1,535
Financial payables under a recourse factoring agreement	-	(1,535)	(1,535)

The above adjustment had the following effect on the presentation of the consolidated statement of cash flows for 2017:

	As originally presented for 2017	Adjustment	As adjusted for 2017
Decrease in trade and other payables and other liabilities	(1,696)	(3,114)	(4,810)
Changes in working capital	2,409	(3,114)	(705)
Net cash from operating activities	30,502	(3,114)	27,388
Financing obtained under recourse factoring agreements	-	3,114	3,114
Net cash from in financing activities	**(719)**	**3,114**	**2,395**

The adjustment had the following effect on the consolidated statement of financial position at 31 December 2016:

	As originally presented at 31 December 2016	Adjustment	As adjusted at 31 December 2016
Trade and other receivables	6,636	1,535	8,171
Total current assets	55,421	1,535	56,956
Total assets	**132,237**	**1,535**	**133,772**
Trade and other payables	(6,642)	(1,535)	(8,177)
Total current liabilities	(18,894)	(1,535)	(20,429)
Total liabilities	**(22,976)**	**(1,535)**	**(24,511)**
Total equity and liabilities	**(132,237)**	**(1,535)**	**(133,772)**

(in millions of Russian Roubles unless otherwise stated)

Note 7. Changes in Comparative Information (Continued)

The adjustment had the following effect on Note 20 Trade and Other Receivables and Note 28 Trade and Other Payables at 31 December 2016:

	As originally presented at 31 December 2016	Adjustment	As adjusted at 31 December 2016
Trade receivables under a recourse factoring agreement	-	1,535	1,535
Financial payables under a recourse factoring agreement	-	(1,535)	(1,535)

Note 8. Revenue

Analysis of revenue by category under revenue recognition guidance effective from 1 January 2018:

	2018
Revenue from contracts with customers	193,739
Lease income	120
Total	**193,859**

Timing of revenue recognition (for each revenue stream) is as follows:

	2018
Revenue from sales of products and goods	186,589
Total revenue recognised at a point in time	**186,589**
Revenue from services rendered	7,150
Total revenue recognised over time	**7,150**
Total revenue from contracts with customers	**193,739**

The Group derives revenue from sales of products and goods and services rendered at a point of and over time in the following key regions:

	2018	2017
Russian Federation	98,453	82,578
Export (revenue amounts to more than 10% of the total revenue):		
Europe	55,176	51,038
Asia	24,307	18,969
Other countries	15,803	15,043
Total	**193,739**	**167,628**

Revenues from external customers for each group of similar products and goods are as follows:

	2018	2017
Synthetic rubber	76,046	72,019
Plastics	61,629	55,562
Other petrochemical products	48,914	37,487
Total	**186,589**	**165,068**

Counterparties accounting for 10% or more of the Group's total revenue are absent. The following table presents the analysis of revenues by major customers for which sales amount to above RUB 1,000 million each:

	2018	2017
Major 35 customers (2017: 34 customers)	125,666	115,725
Other customers	68,193	51,903
Total	**193,859**	**167,628**

Analysis of revenue by category under revenue recognition guidance effective prior to 1 January 2018:

	2018 IAS 18	2017
Sales of products and goods	190,667	165,068
Services provision, work performance	3,156	2,436
Other	114	124
Total	**193,937**	**167,628**

The Group applies a practical expedient in IFRS 15.121 and does not include disclosure of outstanding performance obligations at the reporting date that are part of contracts with expected lifetime of one year or less.

(in millions of Russian Roubles unless otherwise stated)

Note 9. Cost of Sales

	2018	2017
Raw materials and consumables	102,029	80,763
Energy and heating	23,714	21,924
Personnel costs	11,071	11,154
Depreciation	4,407	4,027
Transportation expenses	3,800	101
Repairs and maintenance	1,689	1,357
Purchased services	747	446
Other expenses	322	185
Rent expenses	77	453
Change in inventories of finished goods, goods despatched and work in progress	(420)	(1,447)
Total	**147,436**	**118,963**

In connection with changes in the Russian tax legislation and reduced custom duties on oil and certain types of oil products which resulted in the growth of feedstock prices for entities involved in the feedstock further processing, and introduction of excise taxes for a number of petrochemical products, the Russian Government developed a compensation mechanism for these entities in the form of a mark-up factor applied to excise amounts in accordance with paras 15 and 20, Article 200 of the Russian Tax Code. Thus, the line "Raw materials and consumables" is reduced by excise recovered from the budget in the amount of RUB 18,563 million for 2018 (2017: RUB 16,636 million) as a partial compensation of the growing feedstock costs.

Transportation expenses relate to a new performance obligation identified under adoption of IFRS 15 (Note 3).

Note 10. Selling, General and Administrative Expenses

	2018	2017
Personnel costs	4,412	4,304
Advertising and other services	2,620	2,744
Transportation expenses	2,610	5,105
Taxes other than on income	1,591	1,354
Materials	1,258	1,125
Repairs and maintenance	968	854
Depreciation	694	663
Insurance	394	444
Energy and heating	189	209
Lease	178	177
Other expenses	1,053	873
Total	**15,967**	**17,852**

Note 11. Other Operating Expenses, Net

	2018	2017
Maintenance of social infrastructure and charity	1,046	1,211
Gain on sale of currency	(546)	(325)
Gain on disposal of other assets	(89)	(218)
Loss/(gain) on disposal of property, plant and equipment	59	(120)
Reversals of provision for impairment of property, plant and equipment	-	(158)
Increase in allowance for expected credit losses	173	-
Increase in provision for doubtful debts	-	56
Expenses from investments	28	1
Other expenses/(income), net	140	(366)
Total	**811**	**81**

(in millions of Russian Roubles unless otherwise stated)

Note 12. Income Tax Expense

Income tax expense includes the following components:

	2018	2017
Current income tax	6,063	6,610
Deferred income tax	599	83
Income tax for the previous periods payable	22	-
Total	**6,684**	**6,693**

The income tax rate applicable to the majority of the Group's 2018 and 2017 income is 20%. As AO Polymatiz operates in a free-trade zone "Alabuga", it applies the income tax rate of 2% for 2018 (2017: 2%). The following presents a reconciliation of theoretical income tax calculated at the rate effective to the amount of actual income tax expense recorded in the consolidated statement of comprehensive income.

	2018	2017
Profit before income tax	**31,466**	**31,544**
Theoretical income tax expense	6,284	6,232
Tax effect of income and expenses which are not assessable for taxation purposes	378	461
Income tax for the previous periods	22	-
Income tax expense	**6,684**	**6,693**

	2018	2017
Deferred income tax assets	(682)	(586)
Deferred income tax liabilities	3,795	3,100
Deferred income tax liabilities, net	**3,113**	**2,514**

(in millions of Russian Roubles unless otherwise stated)

Note 12. Income Tax Expense (Continued)

Temporary differences between the Russian statutory tax regulations and the amounts recorded in these consolidated financial statements give rise to the following deferred tax liabilities. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 % and 2% for AO Polymatiz at 31 December 2018 (31 December 2017: 20% and 2% for AO Polimatiz).

	31 December 2018	Charged/ (Credited) to profit or loss	31 December 2017	Disposal of subsidiaries	Charged/ (Credited) to profit or loss	Credited to other comprehensive income	31 December 2016
Property, plant and equipment	2,869	664	2,205	62	90	-	2,053
Financial assets	173	53	120	-	(12)	(36)	168
Trade and other receivables	(191)	(31)	(160)	-	(152)	-	(8)
Tax losses carry forwards	(31)	(3)	(28)	-	73	-	(101)
Inventories	297	(158)	455	-	74	-	381
Other, net	(4)	74	(78)	38	10	-	(126)
Deferred income tax liabilities, net	**3,113**	**599**	**2,514**	**100**	**83**	**(36)**	**2,367**

Intercompany dividends received from the majority of subsidiaries of the Group are taxable at a 0% rate in accordance with applicable tax legislation. Therefore, the Group does not recognise deferred tax liabilities on retained earnings of such subsidiaries, which could be distributed to the Company in the future.

(in millions of Russian Roubles unless otherwise stated)

Note 13. Property, Plant and Equipment

	Land, buildings, construction and transmission equipment	Machinery and equipment	Motor vehicles and other assets	Construc-tion in progress	Total
Carrying amount at 1 January 2017	**28,009**	**17,360**	**5,939**	**21,166**	**72,474**
Cost balance at 1 January 2017	**62,069**	**65,880**	**8,515**	**21,340**	**157,804**
Additions	6	18	-	13,483	13,507
Transfers from assets under construction	1,307	2,327	254	(3,888)	-
Disposals	(139)	(223)	(372)	(37)	(771)
Cost balance at 31 December 2017	**63,243**	**68,002**	**8,397**	**30,898**	**170,540**
Accumulated depreciation and impairment at 1 January 2017	**(34,060)**	**(48,520)**	**(2,576)**	**(174)**	**(85,330)**
Accrued for the period	(1,099)	(2,996)	(437)	-	(4,532)
Written-off on disposal	102	207	351	-	660
Reversals of impairment	-	-	-	158	158
Accumulated depreciation and impairment at 31 December 2017	**(35,057)**	**(51,309)**	**(2,662)**	**(16)**	**(89,044)**
Carrying amount at 31 December 2017	**28,186**	**16,693**	**5,735**	**30,882**	**81,496**
Cost balance at 1 January 2018	**63,243**	**68,002**	**8,397**	**30,898**	**170,540**
Additions	-	8	-	35,353	35,361
Transfers from assets under construction	12,766	10,011	144	(22,921)	-
Disposals	(101)	(447)	(119)	(36)	(703)
Cost balance at 31 December 2018	**75,908**	**77,574**	**8,422**	**43,294**	**205,198**
Accumulated depreciation and impairment at 1 January 2018	**(35,057)**	**(51,309)**	**(2,662)**	**(16)**	**(89,044)**
Accrued for the period	(1,328)	(3,050)	(531)	-	(4,909)
Written-off on disposal	57	348	116	-	521
Accumulated depreciation and impairment at 31 December 2018	**(36,328)**	**(54,011)**	**(3,077)**	**(16)**	**(93,432)**
Carrying amount at 31 December 2018	**39,580**	**23,563**	**5,345**	**43,278**	**111,766**

Assets under construction mainly consists of projects that enhance production facility of plastics and rubber. Upon completion, these assets are reclassified to “buildings, construction and transmission equipment” and “machinery and equipment”.

At 31 December 2018, construction in progress includes advances issued for capital construction and purchase of equipment in the amount of RUB 14,759 million (at 31 December 2017: RUB 1,520 million), including advances for construction of new ethylene complex with the capacity of 600 thousand tonnes per year and for construction of a new power plant with the capacity of 495 MW (combined cycle plant – TPP).

At 31 December 2018, property, plant and equipment included assets with a carrying amount of RUB 101 million (at 31 December 2017: RUB 113 million) held under finance lease agreements. At the end of the lease term the Group automatically takes the ownership of the assets. The Group's obligations under finance leases are secured by the lessors’ title to the leased assets.

At 31 December 2018, the carrying amount of land included in “Land, buildings, construction and transmission equipment” was RUB 571 million (at 31 December 2017: RUB 571 million).

(in millions of Russian Roubles unless otherwise stated)

Note 13. Property, Plant and Equipment (Continued)

At 31 December 2018 included in the original cost of property, plant and equipment are fully depreciated assets which are still in service in the amount of RUB 44,226 million (at 31 December 2017: RUB 44,672 million).

The Group's property, plant and equipment with a carrying value of RUB 556 million (at 31 December 2017: RUB 1,084 million) have been pledged as security for non-current and current loans and borrowings.

Included in additions for 2018 is capitalised borrowing costs of RUB 348 million (2017: RUB 0 million). The average capitalisation rate was 0,91%.

Were the estimated useful lives of assets to differ by 10% from management's estimates, the impact on depreciation charges for 2018 would be an increase by RUB 545 million or decrease by RUB 446 (2017: increase by RUB 504 million, decrease by RUB 412 million).

Management did not identify any impairment indicators related to the property, plant and equipment and goodwill as at 31 December 2018.

Note 14. Intangible Assets

	Patents and licences	Software	Other	Total
Carrying amount at 1 January 2017	**284**	**67**	**-**	**351**
Cost balance at 1 January 2017	**513**	**278**	**262**	**1,053**
Additions	82	29	28	139
Disposals	-	-	(18)	(18)
Cost balance at 31 December 2017	**595**	**307**	**272**	**1,174**
Accumulated amortisation at 1 January 2017	**(229)**	**(211)**	**(262)**	**(702)**
Accrued for the period	(128)	(16)	(14)	(158)
Written-off on disposal	-	-	9	9
Accumulated amortisation at 31 December 2017	**(357)**	**(227)**	**(267)**	**(851)**
Carrying amount at 31 December 2017	**238**	**80**	**5**	**323**
Cost balance at 1 January 2018	**595**	**307**	**272**	**1,174**
Additions	168	160	6	334
Disposals	(16)	(66)	(1)	(83)
Cost balance at 31 December 2018	**747**	**401**	**277**	**1,425**
Accumulated amortisation at 1 January 2018	**(357)**	**(227)**	**(267)**	**(851)**
Accrued for the period	(69)	(133)	-	(202)
Written-off on disposal	16	66	-	82
Accumulated amortisation at 31 December 2018	**(410)**	**(294)**	**(267)**	**(971)**
Carrying amount at 31 December 2018	**337**	**107**	**10**	**454**

(in millions of Russian Roubles unless otherwise stated)

Note 15. Investments in Associates

The Group has investments in the following associates that are accounted for under the equity method:

		Carrying amount		Ownership, %	
Associate	**Activities of an associate**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
OOO Elastokam*	Production of polyurethane	360	350	50.00%	50.00%
OOO Gazenergoneftekhim	Production of key chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms	134	149	49.00%	49.00%
PAO Yamal-Povolzhye	Transportation of gas and derivative products via pipelines	46	45	33.40%	33.40%
OOO Tatneft-NKNK-Oil	Production of oil products	-	-	26.00%	26.00%
Total		**540**	**544**		

**As under the incorporation documents the Group does not exercise control of OOO Elastokam, this investment is recognised within investments in associates.*

The carrying value of the Group's investment in its associate OOO Tatneft-NKNK-Oil is nil. The unrecognised share of loss of this associate is RUB 49 million for 2018 (2017: RUB 62 million). Cumulatively, the unrecognised share of losses of this associate is RUB 618 million (2017: RUB 569 million).

The table below presents changes of the Group's investments in associates:

	2018	2017
Balance at the beginning of the year	**544**	**542**
Dividends received from associates	(90)	(68)
Share of the Group in associates' profit	86	70
Balance at the end of the year	**540**	**544**

Place of business and country of incorporation of all associates is the Russian Federation.

Summaries of the Group's share of associates' revenue, profit for the year, assets and liabilities for 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Total assets	1,757	1,792
Total liabilities	(633)	(652)
Net assets	**1,124**	**1,140**
The Group's share in net assets	**540**	**544**

	2018	2017
Revenue	3,508	2,742
Profit for the period	173	140
Group's share in profit for the year	**86**	**70**

(in millions of Russian Roubles unless otherwise stated)

Note 16. Financial Assets

	Level of fair value hierarchy	31 December 2018	31 December 2017
Non-current			
Financial assets at fair value through profit or loss			
Equity securities	1, 3	1,178	-
Financial assets at fair value through other comprehensive income			
Equity securities	1, 3	-	1,242
Financial assets carried at amortised cost			
Loans issued	2	501	526
Total		**1,679**	**1,768**
Current			
Financial assets carried at amortised cost			
Deposits (more than 3 months)	2	15,000	-
Total		**15,000**	**-**

At 31 December 2018, the loans issued at amortised cost are presented net of allowance for expected credit losses for the loan issued to an associate in the amount of RUB 388 million (impairment provision at 31 December 2017: RUB 410 million).

Non-current equity securities consisted of shares of the following companies:

	% of ownership				
	31 December 2018	31 December 2017	Level of fair value hierarchy	31 December 2018	31 December 2017
PAO AK Bars Bank	1.46%	1.46%	3	510	614
OAO Tatneftekhiminvest-holding	6.98%	6.98%	3	643	592
Other	-	-	1, 3	25	36
Total				**1,178**	**1,242**

The table below discloses sensitivity of financial assets' fair value calculation for changing one or more of the alternative assumptions (market multipliers for net assets of comparable companies):

	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
At 31 December 2018	510	market multipliers for banks	±5%	± 26
At 31 December 2017	614			± 34
At 31 December 2018	1,178	net assets of analysed companies	±10%	± 118
At 31 December 2017	1,242			± 124

The movements in the carrying value of financial assets measured at fair value are as follows:

	2018	2017
Carrying amount at the beginning of the year	**1,242**	**1,421**
Revaluation reported in profit or loss	(51)	-
Revaluation reported in other comprehensive income	-	(87)
Disposal of equity securities	(13)	-
Disposal of revaluation due to changes in ownership interest	-	(92)
Carrying amount at the end of the year	**1,178**	**1,242**

Note 17. Goodwill

	2018	2017
Carrying amount at the beginning of the year	**83**	**83**
Carrying amount at the end of the year	**83**	**83**

Goodwill impairment test

The recoverable amount was determined based on the value-in-use calculations. The calculations used actual results of operations for 2018 and business plan figures for 2019-2023 (in 2017: actual results of operations for 2017 and business plan figures for 2018-2022).

(in millions of Russian Roubles unless otherwise stated)

Note 17. Goodwill (Continued)

The growth rates do not exceed long-term average growth rates projected for the business sector in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

Key assumptions	**2018**	**2017**
Sales growth rate	3.0%	2.0%
Pre-tax discount rate	13.2%	13.1%

The pre-tax discount rate assumption was primarily based on inflation rates with account for the Russian Central Bank's refinancing rate and risks specific to investment projects. The weighted average growth rates used in the 2018 calculations are consistent with the mid-term inflation rates.

Management believes that potential reasonable changes in the above assumptions would not result in any goodwill impairment.

Note 18. Other Non-Current Assets

	31 December 2018	**31 December 2017**
Catalysts	821	1,284
Value-added tax on advances issued	655	-
Other non-current assets	70	76
Non-current receivables	-	6
Total	**1,546**	**1,366**

Note 19. Inventories

	31 December 2018	**31 December 2017**
Inventory and supplies	10,114	13,259
Work in progress	4,318	3,664
Finished goods	2,633	3,245
Goods dispatched	2,292	1,914
Total	**19,357**	**22,082**

At 31 December 2018, inventories amounting to RUB 346 million have been pledged as a security for bank loans and borrowings received by the Group (at 31 December 2017: RUB 315 million). Major part of such loans and borrowings are represented by loans and borrowings received by a trading company of the Group to finance its ordinary activities.

During 2018, the Group reversed RUB 12 million (2017: RUB 6 million) of a previous inventory write-down. The Group sold (used in production) all the goods that had been previously written down for approximately their net carrying value. The amount reversed has been included in cost of sales in profit or loss for the year.

In 2018, the Group recognised RUB 21 million (2017: RUB 73 million) of the inventories write-down to their net realisable value as an expense.

Note 20. Trade and Other Receivables

	31 December 2018	**31 December 2017**	**31 December 2016**
Trade receivables	7,292	6,270	6,730
Trade receivables under a recourse factoring agreement	-	1,535	1,535
Other receivables	224	256	283
Loss allowance for expected credit losses	(579)	-	-
Loss allowance for doubtful debts	-	(417)	(377)
Total	**6,937**	**7,644**	**8,171**

(in millions of Russian Roubles unless otherwise stated)

Note 20. Trade and Other Receivables (Continued)

Trade receivables

	31 December 2018
Foreign trade activity	4,544
Domestic trade activity	2,748
Total	**7,292**

The Group applies two approaches to measuring expected credit losses provided under IFRS 9: i) simplified model; and ii) general model. Note 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

To minimise credit risk, the Group has established credit risk policies. When entering into new contracts the Group companies follow internal guidelines that include consideration and review by the relevant Group departments of the terms and conditions of the draft contracts. The review is generally held by departments responsible for financial, commercial and legal matters as well as economic security.

Management believe that fair value of receivables does not differ significantly from their carrying amount.

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

	Trade receivables	Other receivables
Balance at 1 January 2018	**290**	**127**
New originated or purchased	257	46
Write-offs	(36)	(2)
Financial assets derecognised during the period	-	(103)
Balance at 31 December 2018	**511**	**68**

Movements in the impairment provision for trade and other receivables during 2017 are as follows:

	Trade receivables	Other receivables
Provision for impairment at 1 January 2017	**268**	**109**
Increase in impairment provision	69	18
Release of impairment loss	(34)	
Amounts written off during the year as uncollectible	(13)	-
Provision for impairment at 31 December 2017	**290**	**127**

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large. The Group's management believe that the recorded allowance for doubtful debts is sufficient to cover the Group's credit risk (Note 37).

Included in the trade and other receivables at 31 December 2017 were receivables, which were past due but not impaired.The ageing analysis of past due but not impaired trade and other receivables is as follows:

	31 December 2017
Less than three months	239
From three months to one year	25
Total	**264**

Note 21. Other Prepaid and Recoverable Taxes

	31 December 2018	31 December 2017
Value-added tax recoverable	6,245	4,961
Excise tax recoverable	2,762	2,168
Other taxes prepaid	3	18
Total	**9,010**	**7,147**

(in millions of Russian Roubles unless otherwise stated)

Note 22. Prepayments

	31 December 2018	31 December 2017
Prepayments to suppliers	15,766	2,676
Impairment provision	(8)	(35)
Total	**15,758**	**2,641**

For the year ended 31 December 2018, the Group recognised an impairment provision release of RUB 27 million (for 12 months 2017: impairment loss of RUB 3 million).

The increase in prepayments to suppliers and contractors as part of operating activities was due to changes in contractual payment terms.

Note 23. Cash and Cash Equivalents

	31 December 2018	31 December 2017
Current accounts		
- in RUB	16,975	4,743
- in foreign currency	5,505	19,511
Deposits		
- in foreign currency	8,336	-
- in RUB	166	117
Other cash and cash equivalents	4	2
Total	**30,986**	**24,373**

Note 24. Shareholders' Equity and Earnings per Share

At 31 December 2018, the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary registered shares (31 December 2017: 1,611,256,000 ordinary registered shares) and 218,983,750 preferred registered shares (31 December 2017: 218,983,750 preferred registered shares) at the nominal value of 1 Russian rouble per share.

At 31 December 2018, the Company has authorised share capital comprised of 27,400,000,000 declared ordinary registered shares (31 December 2017: 27,400,000,000 shares) and 218,983,750 declared preferred registered shares (31 December 2017: 218,983,750 shares) at the nominal value of 1 Russian rouble per share.

The Company's ordinary and preferred shares are included in Level 3 of the List of securities admitted to trading at Moscow Exchange (MOEX). The Company's preferred shares are included into the calculation of the chemical production index at Moscow Exchange (MOEXCH).

The ultimate controlling party and ultimate parent is AO TAIF ("TAIF"), which controls OOO Telecom-Management which owns over 50% shares of the Group. As at the reporting date the Group has no other shareholders with more than 20% shares owned.

Earnings per share

	2018	2017
Profit attributable to the shareholders of the parent company, RUB million	24,689	24,793
Weighted average number of participating shares	1,830,239,750	1,830,239,750
Earnings per participating share (net and diluted earnings per share)(Russian roubles per share)	**13.49**	**13.55**

(in millions of Russian Roubles unless otherwise stated)

Note 24. Shareholder's Equity and Earnings per Share (Continued)

Special Right "The Golden Share"

The Government of the Republic of Tatarstan has a special right (the right of Golden Share) to veto certain decisions which can be vetoed in accordance with the legislation and the Charter of PAO Nizhnekamskneftekhim. These decisions relate to the following: amendments and addenda to the Company's charter or adoption of a new edition; reorganisation of the Company; liquidation of the Company, creation of the liquidation commission and approval of the interim and final liquidation balance sheets; changes in share capital; entering into significant transactions and transactions with related parties in accordance with the Law of the Russian Federation "On Joint Stock Companies".

Rights attributable to preferred shares

Preferred shareholders have the right to participate with voting rights in General Shareholders' Meetings at which issues relating to the amendment of their rights or to the Company's liquidation or reorganisation are discussed.

Preferred shareholders have the right to receive annual dividends of at least RUB 0.06 per share, and this amount can be accumulated for a period of up to three years and paid when funds are available to do so and authorised by the Company's Board of Directors. Since the dividend on each preferred share cannot be less than that on each ordinary share, for the purposes of the earnings per share calculation preferred shares are considered to be participating shares.

In the event that no decision is taken in the General Shareholders' Meeting regarding payment of dividends on preferred shares, or if a decision is made to pay less than the minimum amount shown above, preferred shareholders acquire voting rights equivalent to those of the holders of ordinary shares until such time as the minimum dividends are paid.

On liquidation, preferred shareholders have the right to receive a distribution of the nominal amount of their shares, after the settlement of all external liabilities in accordance with the relevant legislation, before any amounts are paid to ordinary shareholders.

The statutory accounting reports of the Company are the basis for profit distribution. The Russian legislation identifies net income as the basis for distribution. For 2018, the net statutory profit of the Company as reported in the published statutory reporting forms was RUB 24,252 million (for 2017: RUB 23,703 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

On 11 May 2018, the Board of Directors made recommendations to the Annual General Shareholders' Meeting of PAO Nizhnekamskneftekhim not to declare or pay dividends on PAO Nizhnekamskneftekhim's shares based on the 2017 performance. This decision was approved at the Annual General Shareholders' Meeting on 20 June 2018.

Note 25. Loans and Borrowings

Long-term loans and borrowings

	31 December 2018	31 December 2017
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian roubles	15,134	75
Loans and borrowings with floating interest rate:		
Loans and borrowings in Euro	23,005	-
Less: insurance premium and commissions for loans raising	(5,202)	-
Less: current portion repayable within one year and recognised within current loans and borrowings	(154)	(25)
Total long-term loans and borrowings	**32,783**	**50**

The contractual undiscounted maturity profile calculated using interest rates in effect at 31 December 2018 and 31 December 2017 was as follows:

	31 December 2018	31 December 2017
1 to 3 years	3,758	52
3 to 5 years	4,842	-
5 to 9 years	23,296	-
9 to 14 years	21,909	-
Total	**53,805**	**52**

(in millions of Russian Roubles unless otherwise stated)

Note 25. Loans and Borrowings (Continued)

During the reporting year, the Group raised loans from a consortium of German banks led by Deutsche Bank AG due in 2032 for the purposes of realisation of investment programme and from AO Alfa Bank due in 2026 for the purposes of increase of working capital.

The insurance premium fand the fees paid when raising loans from a consortium of German banks organized by Deutsche Bank AG in 2018 are recognized as transaction costs and included in the calculation of the effective interest rate on the credit line.

Borrowings denominated in Russian roubles include RUB-denominated coupon bonds. The bonds are issued on 20 December 2018 and have the final maturity date of 7 December 2028. The bonds are placed on the Moscow Exchange trading floor (MOEX). They provide for semi-annual coupon payments. The bonds are placed on the trading floor on the Moscow Exchange. AO Raiffeisenbank and AO Alfa Bank acted as organisers of the issue.

For loans and borrowings obtained with floating interest rates, EURIBOR rates at the reporting date are applied in order to calculate future cash flows.

The fair value of non-current loans and borrowings is determined as follows:

a. The fair value of instruments with a floating interest rate approximates their carrying value.

б. The estimated fair value of fixed interest rate instruments is based on the discounted cash flow method using effective interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of non-current loans and borrowings issued at a fixed interest rate with the carrying value of RUB 15,044 million (31 December 2017: RUB 50 million) determined based on the above methodology by applying the rate of 9.6% (31 December 2017: 8.18%) amounts to RUB 15,829 million (31 December 2017: RUB 51 million).

Current Loans and Borrowings

	31 December 2018	31 December 2017
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	123	132
Loans and borrowings in Euros	118	-
Loans and borrowings in RUB	61	-
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	207	126
Loans and borrowings in Euro	139	189
Current portion of long-term loans and borrowings repayable within one year	154	25
Total	**802**	**472**

The contractual undiscounted maturity profile calculated using interest rates in effect at 31 December was as follows:

	31 December 2018	31 December 2017
Within three months	777	467
From three months to one year	1,913	14
Total	**2,690**	**481**

To calculate future cash flows of current loans and borrowings with floating interest rate the EURIBOR rates as of the reporting date are used.

The fair value of current loans and borrowings within one-year maturity approximates their carrying amount.

(in millions of Russian Roubles unless otherwise stated)

Note 25. Loans and Borrowings (Continued)

The below table summarises movements in loans and borrowings received by the Group arising from financing, activities, including cash- and non-cash related changes.

	Note	2018	2017
Carrying amount at 1 January		**522**	**1,016**
Cash flows			
Long-term loans and borrowings received		36,893	50
Long-term loans and borrowings repaid		(123)	(169)
Payment of insurance premiums and commisions for loans raising		(5,202)	-
Current loans and borrowings received		1,216	635
Current loans and borrowings repaid		(1,093)	(1,047)
Borrowing costs paid (operating and investing activities)		(253)	(48)
Non-cash changes			
Foreign exchange loss, net		1,161	38
Borrowing costs capitalised	**13**	348	-
Borrowing costs accrued		116	47
Carrying amount at 31 December		**33,585**	**522**

Note 26. Other Non-Current Liabilities

	31 December 2018	31 December 2017
Post-employment benefit obligations (Note 27)	1,062	1,017
Other non-current liabilities on benefits to employees (Note 27)	32	23
Non-current finance lease liabilities	1	2
Total	**1,095**	**1,042**

Note 27. Non-Current Liabilities on Benefits to Employees

The Group's pension and other post-employment obligations and actuarial assumptions used in their determination are described below.

The amount recognised in the consolidated financial statements is as follows:

Post-employment benefit obligations

	2018	2017
Obligation at the beginning of the year	**1,017**	**924**
Expenses charged to profit or loss, including:		
Current service cost	164	104
Interest expense	70	68
Benefits paid	(226)	(206)
Loss charged to other comprehensive income, including:		
Actuarial losses	37	127
Obligations at the end of the year	**1,062**	**1,017**

Actuarial losses in 2018 and 2017 are mainly caused by changes in demographical assumptions, changes in financial assumptions did not have a significant impact on actuarial losses.

(in millions of Russian Roubles unless otherwise stated)

Note 27. Non-Current Liabilities on Benefits to Employees (Continued)

Other non-current liabilities on benefits to employees

	2018	2017
Obligation at the beginning of the year	**23**	**22**
Current service cost	10	10
Interest expense	2	2
Benefits paid	(7)	(7)
Remeasurement losses/(gains)	4	(4)
Obligations at the end of the year	**32**	**23**

Key actuarial assumptions are as follows:	2018	2017
Discount rate	8.81%	7.64%
Tariff/ salary growth rates	4.11%	4.00%
Average staff turnover, males	6.81%	5.53%
Average staff turnover, females	4.12%	

Due to the existing post-employment benefit obligations, the Group is exposed to various risks. The most significant risks are described below:

1. Interest rate risk. Lower yield of state bonds will result in higher long-term employee benefit obligations.
2. Inflation risk. As a part of the Group's post-employment benefit obligations is adjusted based on the consumer price index, the pension plan is exposed to the inflation risk. Higher inflation rate will result in higher post-employment benefit obligations.

Sensitivity analysis of the post-employment benefit obligation by significant actuarial assumptions is set out in the table below. The table includes estimated increase in the post-employment benefit obligation with a 1% change in the actuarial assumption, in absolute terms, and other assumptions unchanged.

	2018	2017
Discount rate – 1% lower	66	32
Tariff/salary growth rate – 1% higher	68	33

Next year, the Group plans to settle its post-employment benefit obligations of RUB 138 million.

The average term of the post-employment benefit obligation is from 9 to 10 years.

In 2018, the Group made contributions to the Russian Federation State Pension Plan of RUB 2,599 million (2017: RUB 2,661 million). These contributions are included in personnel costs within cost of sales and selling, general and administrative expenses.

Note 28. Trade and Other Payables

	31 December 2018	31 December 2017	31 December 2016
Trade payables	6,160	4,640	6,381
Financial payables under a recourse factoring agreement	-	1,535	1,535
Other payables	200	129	195
Current finance lease payables	6	41	66
Total	**6,366**	**6,345**	**8,177**

No interest is charged on the outstanding trade and other payables balance. The Group has financial risk management policies in place to ensure that payables are settled within the appropriate timeframe.

The table below summarises the maturity profile of the Group's trade and other payables based on contractual undiscounted payments:

	31 December 2018	31 December 2017
Within three months	6,328	6,313
Due from three months to one year	38	32
Total payables	**6,366**	**6,345**

(in millions of Russian Roubles unless otherwise stated)

Note 29. Advances Received and Accrued Liabilities

	31 December 2018	31 December 2017
Advances received	3,907	3,182
Accruals for short-term employee benefits	1,788	1,481
Short-term employee benefit obligations	478	500
Total	**6,173**	**5,163**

Advances received represent contract liabilities according to IFRS 15. Advances received as of 31 December 2017 were recognized in revenue for the year ended 31 December 2018.

Note 30. Other Taxes Payable

	31 December 2018	31 December 2017
Value-added tax	3,098	406
Property tax	320	191
Insurance contributions	265	115
Land tax	124	124
Other taxes	113	115
Total	**3,920**	**951**

Note 31. Related Party Transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions and also key management personnel according to IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Below is information about balances to be settled and transactions with related parties during the year. "Other related parties" mainly include companies under common control:

	Revenue	Purchases of materials and services	Purchases of property, plant and equipment	Other expenses/ (income)
2018				
PAO Nizhnekamskneftekhim				
- shareholders	2	206	-	-
- associates	1,107	25	-	419
- other related parties	8,759	82,727	630	(28)
Subsidiaries				
- shareholders	-	-	-	-
- associates	-	-	-	-
- other related parties	421	211	-	-
Total	**10,289**	**83,169**	**630**	**391**
2017				
PAO Nizhnekamskneftekhim				
- shareholders	-	43	-	-
- associates	380	25	-	10
- other related parties	6,401	55,105	379	(11)
Subsidiaries				
- shareholders	-	-	-	-
- associates	-	-	-	-
- other related parties	438	172	-	(4)
Total	**7,219**	**55,345**	**379**	**(5)**

(in millions of Russian Roubles unless otherwise stated)

Note 31. Related Party Transactions (Continued)

	Loans issued	Trade and other receivables and advances paid	Provision for doubtful debts and loans issued	Trade and other payables and advances received
At 31 December 2018				
PAO Nizhnekamskneftekhim				
- shareholders	-	52	-	4
- associates	388	595	(831)	5
- other related parties	-	13,776	-	1,186
Subsidiaries				
- shareholders	-	-	-	-
- associates	-	-	-	-
- other related parties	-	30	-	1
Total	**388**	**14,453**	**(831)**	**1,196**
At 31 December 2017				
PAO Nizhnekamskneftekhim				
- shareholders	-	-	-	4
- associates	410	198	(607)	32
- other related parties	-	315	-	799
Subsidiaries				
- shareholders	-	-	-	-
- associates	-	-	-	-
- other related parties	-	28	-	2
Total	**410**	**541**	**(607)**	**837**

Related party transactions were performed on an arm's length basis. The category "Purchase of materials and services" mainly reflects purchases from related parties of the main and auxiliary raw materials, electricity and heat.

At 31 December 2018 and 31 December 2017, the Group has commitments on purchase or supply of goods or services with related parties in subsequent periods. As the prices and volumes are not fixed in the above agreements, these commitments are not subject to monetary estimation.

Transactions with Russian government entities and state companies

The Republic of Tatarstan has a significant influence on operations of the Group. While performing its activities the Group carries out operations with other Companies which are under significant influence of or are controlled by the Republic of Tatarstan or the Russian Federation. These entities include industrial, financial and credit organisations and different governmental agencies. To a significant extent related party operations are carried at arm's length or at regulated tariffs.

The following transactions account for major part of the Group's transactions with these Companies in 2018 and 2017:

	2018	2017
Purchase of materials and services	24,894	14,315
Revenue	14,158	11,262
Other expenses, net	565	198
Purchases of property, plant and equipment and other non-current assets	230	241
Interest income on bank deposits	105	-

Balances on the above transactions are as follows:

	31 December 2018	31 December 2017
Trade and other receivables and advances paid	1,101	1,620
Provision for impairment of receivables	-	(110)
Cash and cash equivalents	29	3
Trade and other payables	301	1,622
Advances received	148	55
Loans and borrowings received	151	75

Transactions with the Republic of Tatarstan and the Russian Federation also include tax settlements disclosed in Notes 12, 21, 30.

(in millions of Russian Roubles unless otherwise stated)

Note 31. Related Party Transactions (Continued)

Directors' compensation

The remuneration paid to key management personnel for the year ended 31 December 2018 in the form of salaries and other employee benefits (including insurance contributions) amounted to RUB 207 million (for 2017: RUB 224 million).

Note 32. Segment Information

Management has determined the operating segments based on the management reports, which are primarily derived from statutory records and regularly reconciled them to IFRS consolidated financial statements. The Company's General Director, who is the chief operating decision-maker, is responsible for allocating resources and assessing performance of the operating segments using the financial information. The following criteria have been used by management for determining the operating segments and assigning the Group subsidiaries to particular segment:

- Business activities of companies;
- Product nature.

The first operating segment "Production and sales of petrochemicals" contains the results of the parent company PAO Nizhnekamskneftekhim and income from associates (Note 15). This segment derives its revenue primarily from the manufacture and sale of petrochemical products.

The second operating segment "Petrochemicals trading" includes results of OY Nizhex Scandinavia Ltd (a subsidiary of the Company). This subsidiary is primarily engaged in trading of petrochemical products. OY Nizhex Scandinavia Ltd purchases petrochemical products from the parent company and from third parties and resells the products to foreign customers.

Other principal subsidiaries (Note 33) that did not fall under the above listed operating segments are included in "All other segments".

The reportable operating segments derive their revenue primarily from the production and sale of petrochemicals and other products and services.

Management assesses the performance of operating segments based on certain measures, which are presented to the chief operating decision maker. These include internal financial information on the Group reportable operating segments presented in accordance with Russian Statutory Accounting standards (RSA) and in accordance with IFRS as adopted by EU (for OY Nizhex Scandinavia Ltd only). This internal information comprises measures such as total revenue, gross profit, operating profit and net profit. It is reconciled where applicable to the amounts reported in the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The Group's financial performance by operating segments for the year ended 31 December 2018:

	Production and sales of petrochemicals	**Petrochemicals trading**	**All other segments**	**Total**
Revenue				
External sales	184,472	5,951	3,552	193,975
Inter-segmental sales	4,428	-	4,597	9,025
Total revenue	**188,900**	**5,951**	**8,149**	**203,000**
Result				
Gross profit	46,468	404	1,540	48,412
Profit from sales	30,022	253	330	30,605
Foreign exchange gain, net	1,156	(10)	-	1,146
Interest income	639	37	22	698
Interest expense	-	(65)	(9)	(74)
Dividend income	226	-	-	226
Income tax expense	(5,960)	(45)	(56)	(6,061)
Net profit	24,252	180	158	24,590
Other information				
Depreciation	**(5,359)**	**-**	**(302)**	**(5,661)**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment Information (Continued)

The Group's financial performance by operating segments for the year ended 31 December 2017:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue				
External sales	158,525	6,608	2,529	167,662
Inter-segmental sales	3,624	-	5,426	9,050
Total revenue	**162,149**	**6,608**	**7,955**	**176,712**
Result				
Gross profit	29,677	231	1,494	31,402
Profit from sales	13,652	110	275	14,037
Foreign exchange gain, net	71	17	-	88
Interest income	961	44	15	1,020
Interest expense	-	(52)	(24)	(76)
Dividend income	172	-	-	172
Income tax expense	(6,532)	(21)	(56)	(6,609)
Net profit	23,703	81	168	23,952
Other information				
Depreciation	**(4,867)**	**-**	**(308)**	**(5,175)**

Reportable segment revenues for the year ended 31 December 2018 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	**188,900**	**5,951**	**8,149**	**203,000**
Intercompany transactions	(4,428)	-	(4,597)	(9,025)
Other adjustments	(116)	-	-	(116)
Revenue, IFRS	**184,356**	**5,951**	**3,552**	**193,859**

Reportable segment revenues for the year ended 31 December 2017 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	**162,149**	**6,608**	**7,955**	**176,712**
Intercompany transactions	(3,624)	-	(5,426)	(9,050)
Other adjustments	(34)	-	-	(34)
Revenue, IFRS	**158,491**	**6,608**	**2,529**	**167,628**

Revenue from provision of the delivery services, including transportation services, is recognised over time that such services are provided to the customer in the segment "Production and sales of petrochemicals", type of revenue "External sales".

Reportable segment capital expenditure for the period ended 31 December 2018 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	**31,971**	**-**	**69**	**32,040**
Reclassification of advances paid for assets under construction	14,759	-	-	14,759
Interest capitalised	144	-	-	144
Reclassification of construction materials to construction in progress	1,474	-	3	1,477
Reclassification of insurance premiums and commisions for loans raising	(5,202)	-	-	(5,202)
Other adjustments	122	-	(62)	60
Capital expenditure, IFRS	**43,268**	**-**	**10**	**43,278**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment Information (Continued)

Other adjustments are related to timing differences in the dates of recognition of certain assets in RSA and IFRS (Notes 12).

Reportable segment capital expenditure for the period ended 31 December 2017 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	**29,264**	**-**	**87**	**29,351**
Reclassification of advances paid for assets under construction	1,520	-	-	1,520
Other adjustments	72	-	(61)	11
Capital expenditure, IFRS	**30,856**	**-**	**26**	**30,882**

Reportable segment operating profit for the year ended 31 December 2018 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Profit from sales	30,022	253	330	30,605
Reclassification of other income/ (expenses)	(569)	(16)	(226)	(811)
Differences in IFRS and RSA depreciation	497	-	63	560
Differences in RSA and IFRS provisions	(14)	-	-	(14)
Other adjustments	(661)	16	(50)	(695)
Operating profit, IFRS	**29,275**	**253**	**117**	**29,645**

Reclassification of other income and expenses represents reconciliation between expenses reported as "Other expenses" in RSA financial statements and IFRS consolidated operating profit.

Reportable segment operating profit for the year ended 31 December 2017 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Profit from sales	**30,288**	**110**	**275**	**30,673**
Reclassification of other income/ (expenses)	14	(1)	(94)	(81)
Differences in IFRS and RSA depreciation	415	-	70	485
Differences in RSA and IFRS provisions	(66)	-	(2)	(68)
Other adjustments	(950)	1	672	(277)
Operating profit, IFRS	**29,701**	**110**	**921**	**30,732**

Operating segment net profit for the year ended 31 December 2018 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	**24,252**	**180**	**158**	**24,590**
Reversal of RSA deferred tax	508	-	(4)	504
Differences in RSA and IFRS depreciation	497	-	63	560
Differences in RSA and IFRS provisions	(176)	-	25	(151)
Other adjustments	(692)	(79)	(43)	(814)
Net profit, IFRS	**24,389**	**101**	**199**	**24,689**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment Information (Continued)

Reportable segment net profit for the year ended 31 December 2017 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	**23,703**	**81**	**168**	**23,952**
Reversal of RSA deferred tax	124	-	-	124
Differences in RSA and IFRS depreciation	415	-	70	485
Differences in RSA and IFRS provisions	(81)	-	(6)	(87)
Other adjustments	(216)	(35)	570	319
Net profit, IFRS	**23,945**	**46**	**802**	**24,793**

Note 33. Principal Subsidiaries

		Percentage of voting interest held	
Subsidiary	**Nature of business**	**31 December 2018**	**31 December 2017**
OOO Trest TSNKHRS	General equipment repairs and construction	100.0%	100.0%
OOO RMZ-NKNK	Repairs and maintenance	100.0%	100.0%
OOO UOP Neftehim	Food supplies and catering	100.0%	100.0%
AO Polymatiz	Production of non-woven textile materials	100.0%	100.0%
OOO UETP-NKNK	Transportation of gas and derivative products via pipelines	100.0%	100.0%
OOO UAT– NKNK	Road freight transport activity	100.0%	100.0%
OOO Neftekhimik Hockey Club	Other sports activities	100.0%	100.0%
OOO Kataliz-Prom	Petrochemicals production	100.0%	100.0%
AO SOV-NKNK	Water purification	67.3%	67.3%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56.3%	56.3%
OOO NKNH–Service	Lease and management of non-residential property (own or leased)	-	100.0%

In October 2018 PAO Nizhnekamskneftekhim discontinued participation in OOO NKNH-Service due to its liquidation.

All the consolidated subsidiaries included in the consolidated financial statements of the Group are incorporated and operate in the Russian Federation, except for Oy Nizhex Scandinavia Ltd ("Nizhex"), which is incorporated and operates in Finland.

Note 34. Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Fair value measurements are analysed by level in the fair value hierarchy as follows: level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement.

(in millions of Russian Roubles unless otherwise stated)

Note 34. Fair Value of Financial Instruments (Continued)

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The Group does not use non-recurring fair value measurements.

Financial instruments carried at fair value. Equity securities are recorded in the consolidated statement of financial position at the fair value through profit or loss and included in level 3 of the fair value hierarchy (Note 16). Trade receivables under a recourse factoring agreement are measured at fair value through other comprehensive income and are included in level 2 of the fair value hierarchy (Note 20).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. The carrying amount of loans issued approximates their fair values and belongs to level 2 of the fair value hierarchy, and trade and other receivables belong to level 3 of the fair value hierarchy (Notes 16 and 20).

Liabilities carried at amortised cost. The carrying amount of trade payables approximates their fair values and belongs to level 2 of the fair value hierarchy (Note 28). The fair value of loans and borrowings received (Note 25) and financial payables under a recourse factoring agreement (Note 28) are included in level 2 of fair value hierarchy.

Note 35. Commitments

Investment commitments

Contractual commitments for future acquisition of property, plant and equipment amounted to RUB 92,080 million at 31 December 2018 (31 December 2017: RUB 5,575 million). The Group is planning to finance its capital commitments using the Group's own funds and borrowings.

Operating lease commitments

The future minimum lease expenses under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Due within one year	146	164
One to five years	409	363
Due thereafter	1,458	1,386
Total	**2,013**	**1,913**

The Group leases, in particular, land plots through operating lease agreements with the State. The lease agreements can be renewed upon their expiration. Lease payments depend on land plots area and location. The above agreements do not result in any significant obligations for the Group apart from lease payments.

Social commitments

The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The social sphere programmes financed by the Group, as well as local social programmes, bring benefits to the community at large and are not normally restricted to the Group's employees. These contributions are expensed as incurred.

Letters of credit

At 31 December 2018, the Group has unsecured uncovered letters of credit for RUB 70 million (31 December 2017: RUB 445 million).

Note 36. Contingent Liabilities

Legal proceedings

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In 2017, the Company was involved in legal proceedings with the Russian Central Bank to invalidate the agreements entered into by the Company with third parties in 2016 on debt assignment under loan agreements with PAO Tatfondbank for the total amount of RUB 4,000 million and to enforce implications of invalidated transactions. The Arbitrazh Court of the Republic of Tatarstan by its decision dated 11 August 2017 satisfied the claims, and the rulings issued by the appellate court upheld the court's decision. The court orders were appealed in the cassation court, the motions were satisfied, resolutions of the appellate court were overturned. The case was submitted to the appeal court for a new consideration. The appellate court upheld the court's decision again. The court orders were again appealed in the cassation court, the motions were again satisfied and resolutions of the appellate court were overturned. The case was submitted to another appeal court for a new consideration. Resolutions of the appellate court of 4 February 2019 satisfied the Company's appeals, and decisions of the Arbitrazh Court of the Republic of Tatarstan were revoked. PAO Tatfondbank and OOO Novaya Neftekhimia, insolvency administrators, have similar claims against the Company. The Arbitrazh Court of the Republic of Tatarstan dismissed the claim initiated by OOO Novaya Neftekhimia, an insolvency administrator, for recovery of funds. The case initiated by PAO Tatfondbank as an insolvency administrator was suspended until the court orders under the claim from OOO Novaya Neftekhimia become effective. If the outcome of legal proceedings is unfavourable for the Company, it will incur liabilities under the loan agreements to PAO Tatfondbank, including interest. Also, the right of claim will arise for a similar amount to third parties that are undergoing bankruptcy procedures. At the issue date of the consolidated financial statements the Company assesses the risk of unfavourable outcome as possible.

Tax contingencies in the Russian Federation

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made. Under certain circumstances reviews may cover longer periods. Management of the Group's companies has implemented internal controls, including control over pricing, to comply with tax legislation. Management considers that the Group's companies have no grounds to calculate and recognise contingent tax liabilities in their consolidated financial statements.

Environmental matters

The Group is subject to extensive controls and regulations from federal, regional and local government bodies relating to environmental protection. The Group's operations involve the discharge of materials and contaminants into the environment and the disturbance of land that could potentially impact flora and fauna, and give rise to other environmental concerns.

The Group's management believes that the Group's production technologies are in compliance with all the applicable environmental legislation in the Russian Federation and the Group does not have any significant environmental liabilities. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise its equipment to meet more stringent standards.

Note 37. Financial Risk and Capital Management

Capital management

The Group manages its capital structure to achieve the optimum structure of equity and debt capital in order to ensure that the Group's companies will be able to continue as a going concern while maximising the return to the shareholders. On a regular basis, the Group's management reviews financial indicators related to return on equity, long-term financial sustainability and financial leverage based on profit and credit portfolio information received from the Group's companies.

When necessary, the Group's companies prepare a forecast balance sheet. This practice allows for control of the fulfilment of requirements to debt and equity ratio. In particular, this procedure is a rule for those companies of the Group that are subject to capital structure requirements imposed by covenants under loan agreements.

The Group's overall strategy for managing capital remains unchanged from 2017.

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

The capital structure of the Group consists of borrowings, which include non-current and current loans and borrowings disclosed in Note 25, less cash and cash equivalents disclosed in Note 23, and equity attributable to the shareholders of the parent company as disclosed in the consolidated statement of financial position. The debt to equity ratio at the year-end was as follows:

	31 December 2018	31 December 2017
Borrowings	33,585	522
Cash and cash equivalents	(30,986)	(24,373)
Net debt	**2,599**	**(23,851)**
Equity attributable to shareholders of the parent company	**157,965**	**133,219**
Net debt to equity attributable to shareholders of the parent company ratio	**1.65%**	**-**

The Group's companies are in strict compliance with the capital requirements established by the legislation of the Russian Federation:

- The minimum required charter capital for a public company is RUB 100,000. The minimum required charter capital for a non-public company is RUB 10,000.
- If the value of the company's net assets remains lower than its share capital at the end of the reporting year following the second reporting year or each consecutive reporting year, subsequent to which the company's net assets value fell below its charter capital, then the company shall, no later than six months after the end of the corresponding reporting year, be required to take one of the following decisions:
  - reduce its charter capital to the amount that would not exceed its net assets;
  - liquidate the company.

The share capital of the Group's companies is in line with the regulatory criteria established by Russian Law.

Under the terms of signed loan agreements the Group shall comply with certain covenants and limitations, including requirements to meet certain financial ratios. In 2018 and 2017, the Group's companies complied with all externally imposed capital requirements and other financial indicators. These are set out in the loan agreements of the Group's companies based on which they are required to maintain a ratio of net debt to EBITDA at a level prescribed by the agreement.

Major categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings (Note 25), finance leases (Note 27 and 28), and trade and other payables (Note 28). The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables (Note 20), investments in securities and other financial assets (Note 16) and cash and cash equivalents (Note 23).

	Notes	31 December 2018	31 December 2017
Financial assets			
Financial assets at amortised cost			
Cash and cash equivalents	23	30,986	24,373
Trade and other receivables	20	6,937	6,115
Loans issued	16	501	526
Deposits	16	15,000	-
Total assets at amortised cost		**53,424**	**31,014**
Financial assets at fair value through profit and loss			
Equity securities	16	1,178	-
Financial assets at fair value through other comprehensive income			
Equity securities	16	-	1,242
Trade receivables under a recourse factoring agreement	20	-	1,535
Total financial assets at fair value through other comprehensive income		**-**	**2,777**
Total financial assets		**54,602**	**33,791**
Financial liabilities at amortised cost			
Loans and borrowings	25	33,585	522
Trade and other payables	28	6,360	6,304
Finance lease liabilities	26, 28	7	43
Dividends payable		17	23
Total financial liabilities		**39,969**	**6,892**

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

Key financial risk factors and risk management system

The Group's activities expose it to the following financial risks: market risk (including interest risk and currency risk), credit risk, liquidity risk and operational risk.

Monitoring and assessment of potential risks is performed by Group's companies management and at the parent company's level based on the management information regularly received from the Group's companies which contains both planned and actual data. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group's interest rate risk arises from current and non-current borrowings at floating interest rates.

Interest rate risk management is performed by diversification of credit portfolio by lenders and interest rate types.

The table below details the Group's sensitivity to increase or decrease of the floating rate by 100 basis points, which is used when reporting interest rate risk internally to the Group's key management and represents management's assessment of the reasonably possible change in interest rates. The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

	Profit (after taxation) and equity	
	2018	**2017**
EURIBOR	144	3
Total	**144**	**3**

If interest rates at 31 December 2018 had been 100 basis points (2017: 100 basis points) lower, with all other variables held constant, profit after tax for the year and equity would have been RUB 144 million (2017: RUB 3 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 100 basis points (2017: 100 basis points) higher, with all other variables held constant, profit after tax for the year and equity would have been RUB 144 million (2017: RUB 3 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group performs transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group does not use any derivative financial instruments to manage its currency risk. The Group mitigates its currency risk exposure through the diversification of sales between external and domestic markets and diversified rouble and foreign currency borrowings, based on foreign exchange rate movements.

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

The carrying amount of financial assets and liabilities of the Group denominated in foreign currency at the reporting date was as follows:

	31 December 2018	31 December 2017
Assets		
Trade and other receivables	**4,125**	**4,211**
- US Dollar	2,746	2,584
- Euro	1,379	1,627
Cash	**13,841**	**19,511**
- US Dollar	10,089	17,910
- Euro	3,752	1,601
Total assets	**17,966**	**23,722**
Liabilities		
Loans and borrowings received	**18,390**	**447**
- US Dollar	330	258
- Euro	18,060	189
Finance lease liabilities	**-**	**34**
- US Dollars	-	34
Trade and other payables	**1,733**	**1,586**
- US Dollar	785	666
- Euro	948	920
Total liabilities	**20,123**	**2,067**
Total net position	**(2,157)**	**21,655**
- US Dollar	**11,720**	**19,536**
- Euro	**(13,877)**	**2,119**

Had the US Dollar and Euro strengthened or weakened by 20% at 31 December 2018 (31 December 2017: 20%) against the Russian rouble, with all other variables held constant, profit after tax as of the year-end would have been lower/higher by the following:

Changes in exchange rate:	**Profit (after taxation) and equity**	
	2018	**2017**
US dollar	1,875	3,126
Euro	(2,220)	339

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to the credit risk in relation to its operating activities (primarily, trade receivables) and financing activities, including deposits with banks and financial institutions, foreign currency transactions and other financial instruments. Although the collection of receivables could be influenced by economic factors, management believe that there is no significant risk of loss to the Group beyond the ECL allowance already recorded. The Group is not economically dependent on a limited number of customers because of the existence of a liquid market.

The management believes that the Group has no significant concentrations of credit risk.

The Group applies two approaches allowed by IFRS 9 to assessment of its ECL; 1) general model is applied for loans, deposits, other cash and cash equivalents, all other receivables and long-term trade receivables; ii) simplified model is applied for short-term trade receivables.

The general approach is based on a three-stage model for ECL measurement:

- Stage 1 – For financial assets with low credit risk since initial recognition, and the credit risk has not increased significantly since initial recognition, i.e. Less than 30 days past due, the allowance for credit losses is set up based on 12-month expected credit losses.
- Stage 2 – Credit risk has increased significantly since initial recognition, i.e. the financial asset is past due for 30 to 90 days, the credit rating has decreased by 2 levels against the previous reporting sate, there is debt or counterparty restructuring, etc., the asset is not yet credit impaired, but the allowance for credit losses is set up based on lifetime expected credit losses.
- Stage 3 – The financial asset is credit impaired, i.e. it is past due more tnan 90 days, it has a default level of long-term credit rating, there are ongoing legal disputes, counterparties are in crisis, then the allowance for credit losses is set up based on lifetime expected credit losses. The consequence of an asset being in Stage 3 is that the Group ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

The general model has three options for assessing expected credit losses depending on the impairment stage: (i) internal rating system; (ii) external rating system (Standard & Poor's [S&P], Fitch, Moody's); (iii) professional judgement. Risk assessment using the option of the internal rating system takes into account counterparty reliability depending on the delay periods, SPARK indices, payment history and other indications (legal proceedings, change of management, beneficiaries, type of financial stability). The internal rating is not applied to individuals. When external ratings are used to determine the credit risk, the Group uses statistical data on defaults and recoveries published by any of the following international agencies – Standard & Poor's [S&P], Fitch, Moody's. For cash on settlement accounts, the Group assesses counterparties using ratings assigned to them by international agencies (or the national rating is used, if international ratings are not available). When neither of the rating systems allows assessing credit risks without additional analysis, then professional judgement is applied.

The simplified model is used to determine at each reporting date whether it is necessary to recognise impairment of trade receivables. The model involves using the matrix of allowances for assessing expected credit losses. The rates of allowances are determined as the ratio of outstanding trade receivables at the default stage to uncollected revenue depending on the number of days of days overdue for groups of customer segments by geographic region.

Expected credit losses are calculated by multiplying the probability of default (PD), exposure at default (EAD) and loss given default (LGD). For the Group, LGD is deemed 100%. The probability of default (PD) is calculated using the methodology developed by the Group (described above).

Calculations of loss allowances for expected credit losses for all financial assets reflect the probability weighted outcomes, time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions and forecasts of future conditions.

At the reporting date, the maximum exposure to credit risk by classes of financial assets is the carrying value of each class of financial assets.

The Group's exposure to credit risk for financial assets is shown below:

General model:

Days overdue	**Current other receivables (EAD)**	**% of credit losses (PD)**	**Expected credit losses (ECL)**
Current (not past due)	122	0,001%	**-**
0 to 29 days (inclusive)	35	3%	**1**
More than 90 days	67	100%	**67**
Total	**224**		**68**

Simplified model:

Days overdue	**Current trade receivables (EAD)**	**% of credit losses (PD)**	**Expected credit losses (ECL)**
Current (not past due)	6,682	0,001%	1
0 to 29 days (inclusive)	61	5%	**3**
30 to 60 days (inclusive)	34	23%	**7**
61 to 90 days (inclusive)	26	42%	**11**
More than 90 days	489	100%	**489**
Total	**7,292**		**511**

Credit risk is managed at the Group level. The following ratings have been assigned to Groups' financial assets:

- Rating A – over one year history of business relations, no creditworthiness difficulties;
- Rating B – over one year history of business relations, potential creditworthiness difficulties are anticipated;
- Rating C – other organisations, credit worthiness difficulties are possible.

At 31 December 2018 and 31 December 2017 all financial assets, except cash and cash equivalents, equity securities are rated "A".

The analysis of credit quality of banks, where the Group has account balances, is presented below. The analysis is based on rating agencies data.

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

		31 December 2018		31 December 2017	
Rating	**Rating agency**	**Cash and cash equivalents**	**Financial assets**	**Cash and cash equivalents**	**Financial assets**
ruA+	Expert RA	-	-	24,115	-
ruA-	Expert RA	30,626	15,000	-	-
Aa3	Moody's	236	-	102	-
BB-	Fitch	94	-	-	-
B1	Moody's	-	-	4	-
Ba1	Moody's	-	-	149	-
Ba2	Moody's	29	-	-	-
Other	Other	1	-	3	-
Total		**30,986**	**15,000**	**24,373**	**-**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its financial liabilities as they become due. Notes 25 and 28 analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the notes are the contractual undiscounted cash flows. The Group is managing its liquidity position. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate resources available to meet its payment obligations.

Operational risk

Operational risk is the risk that the Group incurs financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents.

The Group maintains insurance cover for major production assets including insurance cover for damage related to explosion or environmental damage arising from accidents at the Group's property or related to the Group's operations. The Group does not have coverage for business interruption. Management believes that the existing level of insurance coverage addresses all major risks, which could have a material effect on the Group's operations and consolidated financial position.

To reduce adverse effect of the risks, the Group enters into agreements with insurance companies only meeting certain criteria, including certain requirements to reinsurance quality.

In accordance with statutory requirements the Group insures third party liability for potential claims that can result from accidents at the Group's production facilities.

Note 38. Events after the Reporting Date

On 6 March 2019, the Board of Directors recommended paying dividends of RUB 36,495 million, based on the share price of RUB 19.94. This decision is subject to approval at the Annual General Shareholders' Meeting on 12 April 2019.