Tatneft Group

IFRS CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017

Contents

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position 1
Consolidated Statement of Profit or Loss and Other Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

Note 1: Organisation 6
Note 2: Basis of presentation 6
Note 3: Summary of significant accounting policies 7
Note 4: Critical accounting estimates and judgements in applying accounting policies 16
Note 5: Adoption of new or revised standards and interpretations 19
Note 6: Cash and cash equivalents 22
Note 7: Accounts receivable 23
Note 8: Banking: Loans to customers 24
Note 9: Other financial assets 25
Note 10: Inventories 28
Note 11: Prepaid expenses and other current assets 29
Note 12: Banking: Non-current assets held for sale 29
Note 13: Property, plant and equipment 30
Note 14: Taxes 32
Note 15: Other long-term assets 34
Note 16: Debt 34
Note 17: Accounts payable and accrued liabilities 36
Note 18: Banking: Due to banks and CB RF 36
Note 19: Banking: Customer accounts 37
Note 20: Other long-term liabilities 37
Note 21: Shareholders' equity 39
Note 22: Employee benefit expenses 41
Note 23: Interest income and interest expense on non-banking activities 41
Note 24: Interest income and expense on banking activity 42
Note 25: Fee and commission income and expense on banking activity 42
Note 26: Segment information 45
Note 27: Related party transactions 46
Note 28: Contingencies and commitments 50
Note 29: Principal subsidiaries 53
Note 30: Financial risk management 54

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Tatneft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Tatneft and its subsidiaries (together – the "Group") as at 31 December 2017, and 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 financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows 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") 7,500 million, which represents 4.2% of profit before tax adjusted for non-recurring effects from provisions for impairment of financial assets.

- We conducted our audit work at 4 significant reporting units.
- The group engagement team visited Group's operations in Almetievsk, Nizhnekamsk and Moscow.
- Our audit scope addressed 98% of the Group's total assets, 94% of the Group's revenues and 94% of the Group's absolute value of underlying profit before tax.

Key audit matters

- Provision for impairment of investment in Closed Mutual Investment Rental Fund AK BARS – Gorizont.
- Provision for impairment of loans issued.

We designed our audit by determining materiality and assessing 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. 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.

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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements as a whole.

Overall group materiality	RUB 7,500 million
How we determined it	4.2% of profit before tax adjusted for non-recurring effects from provisions for impairment of financial assets.
	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. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as provisions for impairment of investments in Investment Rental Fund AK BARS – Gorizont and loans issued, and provides a more stable basis for determining materiality. We chose 4.2% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry sector and prior year approach.

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
Provision for impairment of investment in Closed Mutual Investment Rental Fund AK BARS – Gorizont *Refer to Note 9 to the consolidated financial statements* The Group records its 46% interest in the Closed Mutual Investment Rental Fund AK BARS – Gorizont (hereafter – "the Fund") within financial assets available for sale. The Fund holds investments in land located primarily in the Republic of Tatarstan. As of the reporting date, the Group has assessed the future economic benefits, which it expects to receive from investments in the Fund, calculated based on the current market value of land plots held by the Fund. The Group engaged an independent appraiser to determine the current market value of land plots as of 31 December 2017.	We utilized our valuation experts and performed the following procedures to assess the appropriateness of valuation methods used by the independent appraiser: • comparing assumptions used within the valuation models to market indicators; • performing sensitivity analysis over key assumptions (for instance dependence of market value on land category, market prices, adjusting coefficients). We have concluded that while certain alternative assumptions could be applied to current market value measurements of land, the resulting values produced by the independent appraiser fall within an acceptable range.

Key audit matter	How our audit addressed the Key audit matter
Following the valuation results, the Group recognised an impairment loss of RUB 6,647 million on its investments in the Fund (Line "Loss on impairments of property, plant and equipment and other assets" in the consolidated statement of profit or loss and other comprehensive income) for the year ended 31 December 2017. We focused on this area because of the materiality of the investments in the Fund and the significance of judgements made by management in measuring impairment of its investments in the Fund.	Based on the work performed, we did not identify any material misstatements in the amount of impairment provision recognised by the Group and disclosed in the accompanying consolidated financial statements. At the same time we note that the current market value of land held by the Fund is sensitive to the assumption of the Group's ability to transfer land from the agricultural category to the category of industrial land. If the process of land transfer to another category is not timely finalised, the current market value of land may significantly decrease resulting in the need to recognise additional impairment provisions.
Provision for impairment of loans issued	
Refer to Note 9 to the consolidated financial statements At of 31 December 2017, within other long-term financial assets the Group recognises loans issued, net of impairment provision. The Group assesses the impairment provision using management's best estimates of recoverable values. In estimating recoverable values, the Group evaluates information about each debtor's solvency, obtains experts' opinions on market values of collaterals, prepares discounted cash flow models, and analyses additional relevant information. For the year ended 31 December 2017, the Group recognised impairment provision charge of RUB 7,107 million on loans issued (Line "Loss on impairments of property, plant and equipment and other assets" in the consolidated statement of profit or loss and other comprehensive income). We focused on this matter because of the materiality of the impairment provision and the significance of judgements and estimates involved in its calculation.	We performed the following procedures to assess the appropriateness of valuation methods and methodology used in estimating recoverable values: • analysis of key assumptions used by the Group's management when estimating the current market value of property and rights of claim provided as collateral under loan agreements; • review of the mathematical accuracy of discounted cash flow models (if applicable) and analysis of key assumptions used by the Group's management in these models. We engaged our valuation experts to review the valuation of the current market value of property and rights of claim pledged as collateral with the Group for the loans issued. Based on the work performed, we did not identify any material misstatements in the amount of impairment provision recognised by the Group and disclosed in the accompanying consolidated financial statements.

How we tailored our group audit scope

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

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component teams operating under our instruction. Where the work was performed by the component team of Bank ZENIT, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

We identified the following significant reporting units where we performed full-scope audit procedures: PJSC Tatneft (parent holding company, corporate centre located in Almetievsk), JSC TANECO (oil refinery subsidiary located Nizhnekamsk), PJSC Nizhnekamskshina (tires producing subsidiary located in Nizhnekamsk) and Bank ZENIT (banking subsidiary, corporate centre located in Moscow). In addition, we performed specified audit procedures over selected financial information at a number of less significant reporting units in order to increase the level of audit comfort.

The audit work performed by the audit teams at all the components and by the corporate team enabled us to get 98% coverage of the Group's total assets, 94% coverage of the Group's revenue and 94% coverage of the Group's absolute value of underlying profit before tax.

By performing the procedures above at significant and less significant reporting units, combined with additional procedures at the Group level, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months and the year ended 31 December 2017" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and PJSC Tatneft Annual Report 2017 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2018, which are expected to be made available to us after that date.

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. We have nothing to report in this regard.

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 Maxim E. Timchenko.

AO PricewaterhouseCoopers Audit

29 March 2018

Moscow, Russian Federation

M.E. Timchenko, certified auditor (licence no. 01-000267)

AO PricewaterhouseCoopers Audit

Audited entity: PJSC Tatneft

State registration certificate № 632, issued by Ministry of Finance of the Republic of Tatarstan on 21 January 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 July 2002 under registration № 1021601623702

423450, Russian Federation, Republic of Tatarstan, Almetyevsk, Lenina str., 75

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations

TATNEFT
Consolidated Statement of Financial Position
(In millions of Russian Rubles)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	6	42,797	77,106
Banking: Mandatory reserve deposits with CB RF		1,916	1,988
Restricted cash		-	3
Accounts receivable, net	7	61,598	63,900
Banking: Loans to customers	8	44,495	69,103
Other short-term financial assets	9	68,925	57,931
Inventories	10	39,318	33,271
Prepaid expenses and other current assets	11	23,123	23,889
Prepaid income tax		1,027	1,058
Non-current assets held for sale	12	2,182	4,247
Total current assets		**285,381**	**332,496**
Long-term accounts receivable, net	7	3,439	1,807
Banking: Loans to customers	8	106,488	123,923
Other long-term financial assets	9	52,364	44,397
Investments in associates and joint ventures		658	639
Property, plant and equipment, net	13	651,460	583,614
Deferred income tax assets	14	1,502	2,043
Other long-term assets	15	6,162	5,678
Total non-current assets		**822,073**	**762,101**
Total assets		**1,107,454**	**1,094,597**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	16	39,916	19,288
Accounts payable and accrued liabilities	17	47,561	45,509
Banking: Due to banks and CB RF	18	27,971	13,935
Banking: Customer accounts	19	158,436	177,422
Taxes payable	14	27,806	23,737
Income tax payable		3,563	4,511
Other short-term liabilities		1,043	1,961
Total current liabilities		**306,296**	**286,363**
Long-term debt, net of current portion	16	6,896	34,842
Banking: Due to banks and CB RF	18	5,669	4,415
Banking: Customer accounts	19	478	3,292
Decommissioning provision, net of current portion	13	38,017	30,324
Deferred income tax liability	14	27,323	22,600
Other long-term liabilities	20	4,046	3,857
Total non-current liabilities		**82,429**	**99,330**
Total liabilities		**388,725**	**385,693**
Shareholders' equity			
Preferred shares (authorized and issued at 31 December 2017 and 2016 – 147,508,500 shares; nominal value at 31 December 2017 and 2016 – RR1.00)	21	746	746
Common shares (authorized and issued at 31 December 2017 and 2016 – 2,178,690,700 shares; nominal value at 31 December 2017 and 2016 – RR1.00)	21	11,021	11,021
Additional paid-in capital		84,437	85,224
Accumulated other comprehensive income		1,652	1,293
Retained earnings		624,254	615,477
Less: Common shares held in treasury, at cost (75,483,000 shares and 75,481,000 shares at 31 December 2017 and 2016, respectively)		(10,251)	(10,250)
Total Group shareholders' equity		**711,859**	**703,511**
Non-controlling interest	29	**6,870**	**5,393**
Total shareholders' equity		**718,729**	**708,904**
Total liabilities and equity		**1,107,454**	**1,094,597**

Approved for issue and signed on behalf of the Board of Directors on 29.03. 2018.

Maganov N.U.
CEO

Voskoboinikov V.A.
Director of International Reporting

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

TATNEFT
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(in millions of Russian Rubles)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales and other operating revenues on non-banking activities, net	26	**681,159**	**580,127**
Costs and other deductions on non-banking activities			
Operating expenses		(123,517)	(119,480)
Purchased oil and refined products		(70,984)	(80,166)
Exploration	13	(1,143)	(1,185)
Transportation		(35,925)	(30,478)
Selling, general and administrative		(48,327)	(46,754)
Depreciation, depletion and amortization	13	(24,885)	(21,626)
Loss on impairments of property, plant and equipment and other assets	9	(15,512)	(5,616)
Taxes other than income taxes	14	(194,316)	(126,590)
Maintenance of social infrastructure and transfer of social assets	13	(5,427)	(5,182)
Total costs and other deductions on non-banking activities		**(520,036)**	**(437,077)**
Gain on disposals of interests in subsidiaries and associates, net	27,29	109	1,951
Other operating income/(expenses), net		1,343	(917)
Operating profit on non-banking activities		**162,575**	**144,084**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities			
Interest, fee and commission income	24,25	30,964	7,955
Interest, fee and commission expense	24,25	(14,342)	(5,105)
Provision for loan impairment	8	(8,685)	(1,167)
Operating expenses		(7,498)	(2,258)
Loss arising from dealing in foreign currencies, net		(27)	(175)
Other operating expenses, net		(1,220)	(230)
Total net interest, fee and commission and other operating expenses and losses on banking activities		**(808)**	**(980)**
Other income/(expenses)			
Foreign exchange loss, net	30	(1,618)	(3,304)
Interest income on non-banking activities	23	6,494	5,430
Interest expense on non-banking activities, net of amounts capitalized	23	(3,095)	(3,920)
Share of results of associates and joint ventures		(10)	(339)
Total other income/(expenses)		**1,771**	**(2,133)**
Profit before income tax		**163,538**	**140,971**
Income tax			
Current income tax expense		(34,227)	(29,657)
Deferred income tax expense		(5,419)	(5,184)
Total income tax expense	14	**(39,646)**	**(34,841)**
Profit for the year		**123,892**	**106,130**
Other comprehensive income/(loss), net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		476	(1,050)
Unrealized holding gains on available-for-sale securities		133	1,338
Items that will not be reclassified to profit or loss:			
Actuarial loss on employee benefit plans	20	(250)	(634)
Other comprehensive income/(loss)		**359**	**(346)**
Total comprehensive income for the year		**124,251**	**105,784**
Profit/(loss) attributable to:			
- Group shareholders		123,139	107,389
- Non-controlling interest		753	(1,259)
		123,892	**106,130**
Total comprehensive income/(loss) attributable to:			
- Group shareholders		123,498	107,043
- Non-controlling interest		753	(1,259)
		124,251	**105,784**
Basic and diluted earnings per share (RR)			
Common	21	54.73	47.50
Preferred		54.32	47.48
Weighted average shares outstanding (millions of shares)			
Common	21	2,103	2,113
Preferred		148	148

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

TATNEFT
Consolidated Statement of Changes in Equity
(in millions of Russian Rubles)

	Attributable to Group shareholders									Non-controlling interest	Total equity
	Number of shares (thousands)	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Actuarial loss on employee benefit plans**	**Foreign currency translation adjustments**	**Unrealized holding gains on available-for-sale securities**	**Retained earnings**	**Total shareholders' equity**		
Balance at 1 January 2016	**2,270,708**	**11,767**	**85,170**	**(3,083)**	**(987)**	**2,251**	**375**	**532,821**	**628,314**	**29,344**	**657,658**
Profit for the year	-	-	-	-	-	-	-	107,389	107,389	(1,259)	106,130
Other comprehensive (loss)/income for the year	-	-	-	-	(634)	(1,050)	1,338	-	(346)	-	(346)
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(634)**	**(1,050)**	**1,338**	**107,389**	**107,043**	**(1,259)**	**105,784**
Treasury shares	(19,990)	-	-	(7,167)	-	-	-	-	(7,167)	-	(7,167)
- Acquisitions	(20,196)	-	-	(7,215)	-	-	-	-	(7,215)	-	(7,215)
- Disposals	206	-	-	48	-	-	-	-	48	-	48
Business combinations	-	-	-	-	-	-	-	-	-	7,395	7,395
Acquisition of non-controlling interest in subsidiaries	-	-	54	-	-	-	-	-	54	(229)	(175)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(29,855)	(29,855)
Dividends declared (Note 21)	-	-	-	-	-	-	-	(24,733)	(24,733)	(3)	(24,736)
Balance at 31 December 2016	**2,250,718**	**11,767**	**85,224**	**(10,250)**	**(1,621)**	**1,201**	**1,713**	**615,477**	**703,511**	**5,393**	**708,904**
Profit for the year	-	-	-	-	-	-	-	123,139	123,139	753	123,892
Other comprehensive (loss)/income for the year	-	-	-	-	(250)	476	133	-	359	-	359
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(250)**	**476**	**133**	**123,139**	**123,498**	**753**	**124,251**
Treasury shares	(2)	-	-	(1)	-	-	-	-	(1)	-	(1)
- Acquisitions	(92)	-	-	(32)	-	-	-	-	(32)	-	(32)
- Disposals	90	-	-	31	-	-	-	-	31	-	31
Business combinations	-	-	-	-	-	-	-	-	-	97	97
-Acquisition of non-controlling interest in subsidiaries (Note 29)	-	-	(787)	-	-	-	-	-	(787)	787	-
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(145)	(145)
Dividends declared (Note 21)	-	-	-	-	-	-	-	(114,362)	(114,362)	(15)	(114,377)
Balance at 31 December 2017	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,871)**	**1,677**	**1,846**	**624,254**	**711,859**	**6,870**	**718,729**

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Operating activities			
Profit for the year		123,892	106,130
Adjustments:			
Net interest, fee and commission and other operating expenses and losses on banking activities		808	980
Depreciation, depletion and amortization	26	24,885	21,626
Income tax expense	14	39,646	34,841
Loss on impairments of property, plant and equipment, other assets and disposals of interest in subsidiaries and associates	9	15,403	3,665
Effects of foreign exchange		(504)	(1,774)
Equity investments gain net of dividends received		10	339
Change in provision for impairment of financial assets		3,462	(226)
Change in fair value of trading securities		(21)	(48)
Interest income on non-banking activities		(6,494)	(5,430)
Interest expense on non-banking activities, net of amounts capitalized		3,095	3,920
Other		(538)	(3,020)
Changes in operational working capital, excluding cash:			
Accounts receivable		1,245	(5,336)
Inventories		(5,997)	(1,412)
Prepaid expenses and other current assets		66	5,326
Trading securities		(106)	(51)
Accounts payable and accrued liabilities		(6,265)	7,417
Taxes payable		4,071	6,934
Other non-current assets		375	(519)
Net cash provided by non-banking operating activities before income tax and interest		**197,033**	**173,362**
Net interest, fee and commission and other operating expenses and losses on banking activities		(808)	(980)
Adjustments:			
Provision for loan impairment	8	8,685	1,167
Other		(1,842)	(1,235)
Changes in operational working capital on banking activities, excluding cash:			
Mandatory reserve deposits with Central Bank of Russian Federation		72	4
Due from banks		8,371	2,770
Banking loans to customers		15,861	(8,651)
Due to banks and Central Bank of Russian Federation		15,181	(506)
Banking customers accounts		(18,961)	1,083
Debt securities issued		(1,098)	(1,950)
Financial assets at fair value through profit or loss		(534)	(983)
Other assets and liabilities		(2,620)	(30)
Net cash provided by (used in) banking operating activities before income tax		**22,307**	**(9,311)**
Income taxes paid		(35,144)	(26,888)
Interest paid on non-banking activities		(160)	(807)
Interest received on non-banking activities		6,236	5,015
Net cash provided by operating activities		**190,272**	**141,371**

TATNEFT
Consolidated Statement of Cash Flows
(in millions of Russian Rubles)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Investing activities			
Additions to property, plant and equipment		(84,986)	(95,669)
Proceeds from disposal of property, plant and equipment		1,744	993
Net cash (outflow)/inflow on acquisition of subsidiaries	29	(3,300)	48,534
Proceeds from disposal of subsidiaries and associates, net of disposed cash	27	-	33,155
Purchase of available-for-sale financial assets		(32,399)	(7,566)
Purchase of held to maturity investments		(59,038)	(3,037)
Proceeds from disposal of available-for-sale financial assets		19,379	5,587
Proceeds from redemption of held to maturity investments		13,680	2,174
Proceeds from sale of non-current assets held for sale	12	901	110
Purchase of investments in associates and joint ventures	29	(738)	(6,700)
Proceeds from redemption of bank deposits		33,399	10,032
Placement of bank deposits		(994)	(40,096)
Proceeds from redemption of loans and notes receivable		1,343	6,151
Issuance of loans and notes receivable		(1,316)	(2,940)
Dividends received		-	1,521
Change in restricted cash		3	315
Net cash used in investing activities		**(112,322)**	**(47,436)**
Financing activities			
Proceeds from issuance of debt from non-banking activities	30	25,107	2,129
Repayment of debt from non-banking activities	30	(5,434)	(6,629)
Issuance of bonds	30	2,365	1,504
Redemption of bonds	30	(25,740)	(5,081)
Proceeds from subordinated debt		194	-
Dividends paid to shareholders		(108,479)	(24,717)
Dividends paid to non-controlling shareholders		(15)	(3)
Purchase of treasury shares		(32)	(7,215)
Proceeds from sale of treasury shares		31	48
Proceeds from issuance of shares by subsidiaries		18	-
Net cash used in financing activities		**(111,985)**	**(39,964)**
Net change in cash and cash equivalents		**(34,035)**	**53,971**
Effect of foreign exchange on cash and cash equivalents		(274)	(1,465)
Cash and cash equivalents at the beginning of the period		77,106	24,600
Cash and cash equivalents at the end of the period		**42,797**	**77,106**

Note 1: Organisation

PJSC Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil, refined products as well as production and marketing of petrochemicals and since October 2016, with acquisition of the controlling interest in ZENIT Banking Group (Bank ZENIT) the Group is also engaged in banking activities (see Note 29).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

As of 31 December 2017 and 2016 the government of Tatarstan controls about 36% of the Company's voting stock. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Group's suppliers and contractors.

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almetyevsk, Republic of Tatarstan, Russian Federation.

Note 2: Basis of presentation

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

These consolidated financial statements have been prepared on a historical cost basis, except for initial recognition of financial instruments based on fair value, revaluation of available-for-sale financial assets and financial instruments categorized at fair value through profit or loss.

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), and applicable accounting and reporting standards of countries outside the Russian Federation. A number of entities of the Group prepare their financial statements in accordance with IFRS. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Note 3: Summary of significant accounting policies

Functional and presentation currency. The presentation currency of the Group is the Russian Ruble.

Management has determined the functional currency for each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Ruble because the majority of Group revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Rubles. Accordingly, transactions and balances not already measured in Russian Rubles (primarily US Dollars) have been re-measured into Russian Rubles in accordance with the relevant provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates".

Under IAS 21 revenues, costs, capital and non-monetary assets and liabilities are translated at exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the reporting date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Rubles are recognized in the profit or loss for the year.

For operations of major subsidiaries located outside of the Russian Federation, that primarily use US Dollar as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Rubles are recorded in a separate component of shareholders' equity entitled foreign currency translation adjustments. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russian Federation ("CB RF"), of the Russian Ruble ("RR") to the US Dollar ("US $") at 31 December 2017 and 2016 was RR 57.60 and RR 60.66 to US $, respectively. Average rate of exchange for the years ended 31 December 2017 and 2016 were RR 58.35 and RR 67.03 per US $, respectively.

Consolidation. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to direct relevant activities of the investee that significantly affect their returns, exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets or at fair value.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the profit and loss for the year.

Inter-company transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the cost cannot be recovered.

Associates and joint ventures. Associates and joint ventures 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 and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group's share of net assets of an associate and joint ventures are recognized as follows: (i) the Group's share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates or joint ventures are recognized in profit or loss within the share of result of associates or joint ventures.

However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Note 3: Summary of significant accounting policies (continued)

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

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

Cash and cash equivalents. Cash represents cash on hand and in bank accounts and CB RF, other than mandatory reserves deposits with CB RF, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. Cash and cash equivalents are carried at amortised cost.

Restricted cash. Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statements of financial position and of the consolidated statement of cash flows and disclosed separately.

Mandatory reserve deposits with the CB RF. Mandatory reserve deposits with the CB RF represent non-interest bearing funds placed with the CB RF that are not available to finance the Group's day-to-day operations and, therefore, are not considered part of cash and cash equivalents. The amount to be deposited with the CB RF is calculated in accordance with the CB RF's regulation and depends on the volume of funds attracted by the Group from its customers and banks in the course of banking activities.

Financial assets. All financial assets are initially recognized when an entity becomes a party to the contract, they are recognized at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include cash and cash equivalents, restricted cash, mandatory reserve deposits with CB RF, banking customer loans, deposits, due from banks, securities, derivatives, precious metals, trade and other receivables, loans issued.

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss; (d) held to maturity investments. The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired 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 restrictions on the sale.

Loans and receivables. Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year. The allowance for impairment of loans and receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the loan or receivable. The losses arising from impairment are recognized as selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Note 3: Summary of significant accounting policies (continued)

Due from banks. Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost. Deposits, placed in the course of banking activities in other banks having maturity exceeding one working day from the balance sheet date are treated as amounts due from banks. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents. Due from banks are initially recognized at fair value. These balances are subsequently re-measured at amortized cost at the effective interest method and are carried net of any allowance for impairment.

Loans to customers. Loans issued in the course of banking activities that have fixed or determinable payments that are not quoted in an active market are classified as loans to customers. Loans to customers are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit and loss for the year. Coupon and interest earned on financial assets at fair value through profit or loss are reflected as interest, fee and commission income. Dividends received, all other elements of the changes in the fair value and gains or losses on derecognition are recorded in other operating income/(expenses) in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognized the cumulative gain or loss in equity is also reclassified to profit and loss for the year. Dividends on available-for-sale equity instruments are recognized in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income) is recognized in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

Held to maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Note 3: Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortized cost. Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Repurchase agreements. Repurchase agreements ("REPO") are used by the Group as an element of its treasury management and trading business in a course of its banking activities and are treated as secured financing transactions.

A REPO is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

Financial assets sold under REPO are included into financial assets at fair value through profit or loss, available-for-sale financial assets or held to maturity investments and funds received under these agreements are accounted for as amounts due to banks and CB RF and customer accounts as appropriate. Financial assets purchased under agreements to resell ("reverse repurchase") are recorded as amounts due from banks or loans to customers as appropriate. Gain/loss on the sale of the above instruments is recognized as interest income or expense on banking activities in the consolidated statement of profit or loss and other comprehensive income based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse REPO/REPO is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Financial liabilities. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, due to banks and CB RF, banking customer accounts, debt securities and bonds issued, credit facilities, subordinated debt and other borrowings.

Financial liabilities are recognized initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit and loss for the year.

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 recognized amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Due to banks and CB RF, customer accounts and subordinated debt. Amounts due to banks and CB RF, customer accounts and subordinated debt are initially recognized in accordance with the accounting policy for financial instruments and subsequently re-measured at amortized cost. Any difference between net proceeds and the redemption value of these amounts due is recognized in the consolidated statement of profit or loss and other comprehensive income over the life of related financial liability using the effective interest method.

Debt securities and bonds issued. Debt securities issued include promissory notes and certificates of deposit issued by the Group to its customers in the course of its banking activities. Bonds issued represent securities issued by the Bank that are traded and quoted in the open market. Promissory notes carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can sell at a discount in the over-the-counter market. Debt securities and bonds issued are accounted for according to the same principles used for amounts due to banks and CB RF, customer accounts and subordinated debt. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount and the amount paid is recognized as a gain or loss on redemption of debt.

Note 3: Summary of significant accounting policies (continued)

Non-current assets held for sale. A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs of disposal. If the fair value less costs of disposal of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income as other operating income/expense. Any subsequent increase in an asset's fair value less costs of disposal is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Precious metals. Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RR/US $ exchange rate effective at the date. Changes in the bid prices are recorded in other operating income/expenses from banking activities.

Inventories. Inventories of crude oil, refined oil products, materials and supplies, finished goods and other inventories are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Prepaid expenses. Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in the profit or loss for the year.

Mineral extraction tax. Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 919 and RR 857 per ton in 2017 and 2016, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US $ average exchange rate for the preceding month, taking into account the features of oil production. MET liabilities are lower for fields whose depletion rate exceeds 80% of their proved reserves as per the Russian classification of reserves and resources, as a result of using a reduction factor that depends on the level of depletion. The Company saves 3.5% at a field for each percent of depletion above the 80% threshold. In addition, lower MET is envisaged for small fields via application of a factor that characterises the volume of reserves. The amount of tax benefits for depleted and small fields is calculated using the base MET rate of RUB 559 per tonne (in 2016 - RUB 559 per tonne).

Furthermore, the zero MET tax rate is applied the production of highly viscous crude oil (with viscosity of 10,000 Megapascal second in reservoir conditions) and oil produced from Domanic productive sediments. In addition, another benefit in the form of a lower MET is available for production of highly viscous oil with viscosity in the range from 200 to 10,000 Megapascal second (in reservoir conditions) and for production of oil in the Nenets Autonomous Okrug (via application of Kkan ratio that characterises the production area and oil properties. The saving in these circumstances is calculated usung the base MET tax rate of RUB 559 per tonne (in 2016 - RUB 559 per tonne).

MET is recorded within Taxes other than income tax in the consolidated statements of profit or loss and other comprehensive income.

Value added tax. Value added tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognized in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

Note 3: Summary of significant accounting policies (continued)

Oil and gas exploration and development cost. Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs of disposal and value-in-use.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Impairment losses are recognized in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortized cost or fair value, less costs of disposal. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on straight-line basis over the period of each license validity.

Note 3: Summary of significant accounting policies (continued)

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in other income and expenses in the consolidated statement of profit or loss and other comprehensive income.

Capitalisation of borrowing costs on non-banking activities. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. 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 less any investment income on the temporary investment of those borrowings are capitalised.

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group's functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

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

Interest income on non-banking activities. Interest income on non-banking activities is recognized on a time-proportion basis using the effective interest method.

Employee benefits, post-employment and other long-term benefits. Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognized using the projected unit credit method.

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Remeasurements of the net defined benefit liability arose as the actuarial gains or losses from changes in assumptions and from experience adjustments with regard to post employment benefit plans are recognized immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognized immediately in the profit or loss for the year.

Past service costs are recognized as an expense immediately.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

Note 3: Summary of significant accounting policies (continued)

Stock-based compensation. The Company has a share-based compensation plan (the "Plan") for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards ("Awards") are issued on an annual basis to the Company's directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company's common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the weighted average daily trading price as reported on the Moscow Exchange MICEX-RTS (MOEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company's Management Committee approval.

The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to accounts payable and accrued liabilities.

The liability at 31 December 2016 is determined based on the final expected bonus payments. For the year ended 31 December 2017 the Company's Board of Directors did not approve the issuance of Awards.

Decommissioning provisions. The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group's licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group's estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognized as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognized immediately in profit and loss.

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Financial guarantee contracts issued and letters of credit. Financial guarantee contracts and letters of credit issued by the Group in the course of its banking activities are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Note 3: Summary of significant accounting policies (continued)

Income Taxes. Effective 1 January 2012, the Company has established the Consolidated Taxpayer Group which currently includes 5 companies of the Group. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

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 financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductable or taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within consolidated taxpayers group and within the individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the consolidated statement of profit or loss and other comprehensive income and taxes payable in the consolidated statement of financial position, respectively. Income tax interest expense and payable are included in interest expense in the consolidated statements of profit or loss and other comprehensive income and other accounts payable and accrued expenses in the consolidated statement of financial position, respectively.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders' meeting. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Treasury shares. Common shares of the Company owned by the Group at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when risks and rewards of ownership are transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory which are of a similar nature and value with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the consolidated statement of profit or loss and other comprehensive income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

Note 3: Summary of significant accounting policies (continued)

Recognition of interest, fee and commission income and expense on banking activities. Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Commissions and other fees are recognized when the related transactions are completed. Loan origination fees for loans issued to customers, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Other income and expenses are recognized on an accrual basis.

Once a financial asset or group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss and other comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. All other commissions are recognized when services are provided.

Transportation expenses. Transportation expenses recognized in the consolidated statements of profit or loss and other comprehensive income represent all expenses incurred by the Group to transport crude oil and other products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in selling, general and administrative expenses.

Fiduciary activities. The Group provides fiduciary services to its customers in the course of its banking activities. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets and liabilities held by the Group in its own name, but on behalf of third parties, are not reported on the consolidated statement of financial position. The Group accepts the operational risk on these activities, but its customers bear the credit and market risks associated with such operations.

Note 4: Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized 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 include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions (Note 13);
- Impairment of property, plant and equipment;
- Impairment of loans to customers on banking activities (Note 8);
- Impairment of other loans (Note 9);
- Impairment of available-for-sale equity investments (Note 9);

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

- Held-to-maturity financial assets (Note 9);
- Accounting of investments in CJSC "National Non-State Pension Fund";
- Financial instruments fair value estimation.

Estimation of oil and gas reserves. Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being written off in the profit and loss for the year.

Useful life of property, plant and equipment. Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets' useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Decommissioning provisions. Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

Sensitivity analysis for changes in discount rate:

		Impact on decommissioning provision	
	Change in	**At 31 December 2017**	**At 31 December 2016**
Discount rate	+1%	(8,457)	(6,812)
	-1%	11,148	8,954

Information about decommissioning provision is presented in Note 13.

Impairment of property, plant and equipment. At 31 December 2017 management assessed whether there is any indication of impairment of long-lived assets. Based on the stable financial performance, absence of significant adverse changes in economic and market environment and decrease in interest rates the management believes that there is no indication of impairment as of 31 December 2017.

Impairment of loans to customers on banking activities. The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a significant impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Impairment of other loans. The Group also regularly reviews its other loans issued to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows for borrowers. To assess future cash flows, management of the Group analyzes the information on the debtor's solvency, requests expert estimates regarding the market value of the collateral provided, builds (where possible) models of discounted expected cash flows, requests additional information to estimate the probability of non-repayment of the relevant debt in the terms established by the contracts.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity. In making this judgement, the Group evaluates its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortised cost. Furthermore, the Group would not be able to classify any financial assets as held-to-maturity for the following two annual reporting periods.

Note 4: Critical accounting estimates and judgements in applying accounting policies (continued)

Accounting of investments in JSC "National Non-Governmental Pension Fund". As at 31 December 2017 and 2016 the Group has 74.46% and 69.82% of shares of JSC "National Non-Governmental Pension Fund". The Group does not exercises neither control nor significant influence over JSC "National Non-Governmental Pension Fund". These investments are presented within available-for-sale financial assets.

Financial instruments fair value estimation. Financial instruments that are classified at fair value through profit or loss or available-for-sale, and all derivatives are stated at fair value. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument, in exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated statement of profit or loss and other comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that they arise from a change in a factor that market participants would consider in setting a price.

Information on fair value of financial instruments where estimate is based on assumptions that do not utilize observable market prices is presented in Note 30.

Note 5: Adoption of new or revised standards and interpretations

A number of amendments to current IFRS and annual improvements became effective for the periods beginning on or after 1 January 2017 but did not have any significant impact on the Group's consolidated financial statements:

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 require disclosure of a reconciliation of movements in liabilities arising from financing activities, that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group has provided the required disclosure in these consolidated financial statements in Note 30.
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12.

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.:

IFRS 9, Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Note 5: Adoption of new or revised standards and interpretations (continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect contractual cash flows, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' contractual cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- IFRS 9 sets out special rules for measuring the loss allowance and recognising interest revenue in respect of purchased or originated assets that are credit impaired at initial recognition (purchased or originated credit impaired or "POCI" assets). At initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate (EIR). Favourable changes in lifetime expected credit losses since initial recognition of POCI assets are recognised as an impairment gain, even if the favourable changes are more than the amount previously recognised in profit or loss as impairment losses. This is a different presentation from IAS 39, under which reversals of impairment relate only to amounts previously recognised in profit or loss as impairment losses.

The main changes expected from adoption of IFRS 9 by the Group are the following:

- Current classification of the Group's financial assets will be changed into three measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. For the debt instruments the decision is to be made depending on (i) the objective of the entity's business model and (ii) either the asset's contractual cash flows represent solely payments of principal and interest.
- Current model for recognition of impairment losses will be changed into the expected credit losses (ECL) model.
- Changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income rather than profit or loss.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments in the year of the adoption of the new standard.

Based on the analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the impact from the adoption of the new standard on 1 January 2018 on the Group's consolidated financial statements could be significant primarily due to the effect of the new standard on the financial instruments held by Bank ZENIT Group. Based on the available information as at 30 September 2017 and the current status of implementation, the management of the Bank ZENIT expects that the effect of the initial application of IFRS 9 will reduce the amount of equity held by shareholders of Bank ZENIT by no more than RR 9 billion, primarily due to the application of IFRS 9 impairment requirements of transition from the model of incurred losses to the model of expected credit losses.

Note 5: Adoption of new or revised standards and interpretations (continued)

The actual effect of adoption of IFRS 9 effective 1 January 2018 may differ from the above estimates as a result of changes in the balance sheet position, market conditions and projected economic assumptions.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized 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 recognized, 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 recognized 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.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, an impact on the Group's consolidated financial statements from the adoption of the new standard on 1 January 2018 is not significant.

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.

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 judgments 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 judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation 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 judgments and estimates required by the Interpretation.

Note 5: Adoption of new or revised standards and interpretations (continued)

The Group is currently assessing the impact of new standards on its consolidated 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 the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (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). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts.
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 17, Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.
- 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).
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (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.

Note 6: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31 December 2017	At 31 December 2016
Cash on hand and in banks	29,219	40,847
Term deposits with original maturity of less than three months	11,906	22,744
Due from banks	1,672	13,515
Total cash and cash equivalents	**42,797**	**77,106**

Term deposits with original maturity of less than three months represent deposits placed in banks in the course of non-banking activities. Due from banks represent deposits with original maturities of less than three months placed in the course of banking activities in banks other than those that are part of the Group. The fair value and credit quality analysis of cash and cash equivalents is presented in Note 30.

Note 7: Accounts receivable

Short-term and long-term accounts receivable comprise the following:

	At 31 December 2017	At 31 December 2016
Short-term accounts receivable:		
Trade receivables	58,696	61,295
Other financial receivables	5,025	4,037
Other non-financial receivables	191	202
Less provision for impairment	(2,314)	(1,634)
Total short-term accounts receivable	**61,598**	**63,900**
Long-term accounts receivable:		
Trade receivables	2,055	1,581
Other financial receivables	3,165	334
Less provision for impairment	(1,781)	(108)
Total long-term accounts receivable	**3,439**	**1,807**
Total financial assets within trade and other receivables	**65,037**	**65,707**

Fair value of short-term and long-term accounts receivable is presented in Note 30.

Analysis by credit quality of trade and other receivables is as follows:

	At 31 December 2017		At 31 December 2016	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Neither past due nor impaired				
- international crude oil and oil products traders	14,188	-	17,079	-
- Russian crude oil and oil products traders	5,392	-	7,783	-
- Russian refineries	12,933	-	14,054	-
- central and eastern Europe refineries	14,383	-	11,183	-
- Russian tire dealers and automotive manufacturers	3,718	-	2,862	-
- Russian construction companies	625	-	1,172	-
- unrated	7,512	4,678	6,646	4,170
including related parties	*2,374*	*590*	*1,072*	*527*
Total neither past due nor impaired	**58,751**	**4,678**	**60,779**	**4,170**
Past due but not impaired				
- less than 90 days overdue	279	67	646	24
- 91 to 180 days overdue	45	11	42	-
- over 180 days overdue	-	26	-	46
Total past due but not impaired	**324**	**104**	**688**	**70**
Individually determined to be impaired (gross)				
- less than 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- over 180 days overdue	1,676	3,599	1,409	333
Total individually impaired	**1,676**	**3,599**	**1,409**	**333**
Less provision for impairment	(1,676)	(2,419)	(1,409)	(333)
Total	**59,075**	**5,962**	**61,467**	**4,240**

Note 7: Accounts receivable (continued)

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

	2017		2016	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment at 1 January	**(1,409)**	**(333)**	**(1,517)**	**(451)**
Provision for impairment during the year	(302)	(2,371)	(167)	(140)
Amounts written off during the year as uncollectible	-	-	165	251
Foreign exchange gain	25	-	103	-
Change in Group structure	10	285	7	7
Provision for impairment at 31 December	**(1,676)**	**(2,419)**	**(1,409)**	**(333)**

Note 8: Banking: Loans to customers

	At 31 December 2017	At 31 December 2016
Loans to legal entities	122,699	159,176
Loans to individuals	35,566	35,017
Loans to customers before impairment	**158,265**	**194,193**
Provision for impairment	(7,282)	(1,167)
Total loans to customers	**150,983**	**193,026**
Less: long term loans	(112,579)	(125,090)
Less: provision for long term loans impairment	6,091	1,167
Total short term loans to customers and current portion of long term loans to customers	**44,495**	**69,103**

In 2016 additional provision for impairment of loans to customers of RR 1,167 million was accrued since acquisition of control over Bank ZENIT in October 2016.

As at 31 December 2017 and 2016 the Group granted loans to 17 and 36 customers totalling RR 50,314 million and RR 78,955 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 December 2017 and 2016, the total amount of pledged loans to legal entities is RR 3,297 million and RR 7,246 million and loans to individuals is RR 5,985 million and RR 5,435 million respectively. The loans are pledged against the funds accounted within Due to banks and CB RF (Note 18).

The analysis of changes in provision for loan impairment for the year ended 31 December 2017 is presented in the table below:

	Loans to legal entities	Loans to individuals	Total
Provision for loan impairment at 1 January 2017	**(1,030)**	**(137)**	**(1,167)**
Net provision charge for loan impairment during the period	(8,194)	(491)	(8,685)
Loans and advances to customers written off during the period	-	41	41
Cession	2,336	26	2,362
Forex translation	167	-	167
Provision for loan impairment at 31 December 2017	**(6,721)**	**(561)**	**(7,282)**

Note 8: Banking: Loans to customers (continued)

Risk concentrations by customer industry within the customer loan portfolio are as follows:

	At 31 December 2017		At 31 December 2016	
	Carrying value	Share in customer loan portfolio, %	Carrying value	Share in customer loan portfolio, %
Trade	28,480	18.00%	37,883	19.51%
Manufacturing	24,676	15.59%	34,895	17.97%
Construction	23,996	15.16%	33,733	17.37%
Services	29,298	18.51%	33,811	17.41%
Food	3,547	2.24%	4,983	2.57%
Finance	7,907	5.00%	6,765	3.48%
Agriculture	1,187	0.75%	2,653	1.37%
Oil and gas	1,376	0.87%	1,629	0.84%
Individuals, including:	35,566	22.47%	35,017	18.03%
mortgage loans	23,347	14.75%	23,182	11.94%
consumer loans	10,634	6.72%	10,105	5.20%
car loans	999	0.63%	973	0.50%
plastic cards overdrafts	585	0.37%	638	0.33%
other	1	0.00%	119	0.06%
Other	2,232	1.41%	2,824	1.45%
Total loans to customers before impairment	**158,265**	**100%**	**194,193**	**100%**

Loans to customers' credit quality analysis is presented in Note 30.

Note 9: Other financial assets

Short-term other financial assets comprise the following:

	At 31 December 2017	At 31 December 2016
Loans and receivables:	**1,873**	**42,976**
Notes receivable	1	3
Loans (net of provision for impairment of RR 0 million and RR 5 million as of 31 December 2017 and 2016)	455	1,107
Bank deposits (net of provision for impairment of RR 5,547 million and RR 5,400 million as of 31 December 2017 and 2016)	2	32,206
Due from banks	956	3,022
REPO with banks	459	6,638
Financial assets at fair value through profit or loss:	**8,501**	**8,190**
held by the Group	6,006	8,190
pledged under sale and repurchase agreements	2,495	-
Available-for-sale financial assets:	**10,656**	**4,254**
held by the Group	6,680	4,254
pledged under sale and repurchase agreements	3,976	-
Held to maturity investments:	**47,895**	**2,511**
held by the Group	32,362	2,511
pledged under sale and repurchase agreements	15,533	-
Total short-term financial assets	**68,925**	**57,931**

Note 9: Other financial assets (continued)

Other long-term financial assets comprise the following:

	At 31 December 2017	At 31 December 2016
Loans and receivables:	**13,406**	**4,484**
Notes receivable (net of provision for impairment of RR 318 million as of 31 December 2017 and 2016)	455	455
Loans to employees (net of provision for impairment of RR 1,420 million and RR 1,476 million as of 31 December 2017 and 2016)	1,558	1,018
Other loans (net of provision for impairment of RR 7,894 million and RR 0 million as of 31 December 2017 and 2016)	10,866	2,284
Bank deposits	300	500
Due from banks	227	227
Available-for-sale financial assets	**31,049**	**31,864**
held by the Group	31,049	31,864
pledged under sale and repurchase agreements	-	-
Held to maturity investments	**7,909**	**8,049**
held by the Group	7,909	8,049
pledged under sale and repurchase agreements	-	-
Total long-term financial assets	**52,364**	**44,397**

Fair value, credit quality and maturity analysis for financial assets are presented in Note 30.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss held by the Group comprise the following:

	At 31 December 2017	At 31 December 2016
Held-for-trading:		
Russian government and municipal debt securities	1,564	1,928
Corporate debt securities	4,265	5,673
Corporate shares	177	589
Total financial assets at fair value through profit and loss	**6,006**	**8,190**

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies. These bonds mature from 2018 to 2034. The annual coupon rates on these securities range from 4.1% to 13.0%, and yields to maturity vary from 2.8% to 10.4%.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from 2018 to 2024. The annual coupon rates on these securities range from 7.3% to 11.8%, and yields to maturity vary from 6.1% to 8.5%.

Federal loan bonds consist of Russian Ruble denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as “OFZ” and Russian Federation Eurobonds. These bonds mature from 2019 to 2033. The annual coupon rates on these securities vary from 2.5% to 12.8%, and yield to maturity vary from 4.2% to 9.5%.

Corporate shares include quoted shares of Russian companies and banks.

Financial assets at fair value through profit and loss pledged under sale and repurchase agreements are comprised of the following:

Note 9: Other financial assets (continued)

	At 31 December 2017	At 31 December 2016
Held-for-trading:		
Russian government and municipal debt securities	1,022	-
Corporate debt securities	1,473	-
Total financial assets at fair value through profit and loss	**2,495**	**-**

Due to banks in amount of RR 1,795 million were collaterized by these securities.

Available-for-sale financial assets

Available for sale financial assets held by the Group comprise of the following:

	At 31 December 2017	At 31 December 2016
Russian government and municipal debt securities	1,723	543
Corporate debt securities	10,226	7,822
Corporate shares	12,824	8,150
Investment fund units	12,956	19,603
Total available-for-sale financial assets held by the Group	**37,729**	**36,118**

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies. These bonds mature from 2018 to 2032. The annual coupon rates on these securities range from 0.5% to 15%, and yields to maturity vary from 9.3% to 31.1%.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation and mature in 2020. The annual coupon rate on these securities is 8.2% and yield to maturity is 8.3%.

Federal loan bonds consist of OFZ and Russian Federation Eurobonds and mature in 2028. The annual coupon rates on these securities vary from 7.1% to 12.8%, and yield to maturity vary from 4.2% to 7.9%.

Corporate shares include quoted and unquoted shares of Russian companies and banks. At 31 December 2016 unquoted securities included investment in AK BARS Bank ordinary shares (8.6%) in the amount of RR 2,300 million. In June 2017 the Company acquired of 5 billion of AK BARS Bank’s ordinary shares with par value of RR 1 per share that were placed via additional share issuance of AK BARS Bank. As a result of this transaction, the Group’s share in AK BARS Bank increased to 17.24% (RR 7,300 million).

Investment fund units are solely presented with investment in closed mutual investment rental fund AK BARS – Gorizont. The main assets of this fund are the land plots located in Tatarstan Republic. The Group does not exercise significant influence over this investment and therefore accounts for it as an available-for-sale investment. For the year ended 31 December 2017 the Group recognized loss on impairment of investment in closed mutual investment rental fund AK BARS - Gorizont in the amount RR 6,647 million.

Available for sale financial assets pledged under sale and repurchase agreements comprise of the following:

	At 31 December 2017	At 31 December 2016
Russian government and municipal debt securities	1,052	
Corporate debt securities	2,924	-
Total available-for-sale financial assets pledged under sale and repurchase agreements	**3,976**	**-**

Due to banks in amount of RR 3,387 million were collaterized by these securities.

Note 9: Other financial assets (continued)

Held to maturity investments

Held to maturity investments held by the Group comprise of the following:

	At 31 December 2017	At 31 December 2016
Municipal debt securities	3,970	483
Corporate debt securities	36,301	10,077
Total held to maturity securities held by the Group	**40,271**	**10,560**

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation and mature from 2018 to 2025. The annual coupon rates on these securities range from 7.7% to 14.2%, and yields to maturity vary from 8.6% to 9.7%.

Corporate bonds consist of Russian Ruble, US Dollars and Euro denominated bonds and Eurobonds issued by Russian banks and companies. These bonds mature from 2018 to 2032. The annual coupon rates on these securities range from 0.5% to 13.1%, and yields to maturity vary from 2.6% to 10%.

Held to maturity investments pledged under sale and repurchase agreements comprise of the following:

	At 31 December 2017	At 31 December 2016
Municipal debt securities	2,191	
Corporate debt securities	13,342	-
Total held to maturity securities pledged under sale and repurchase agreements	**15,533**	**-**

Due to banks in amount of RR 14,575 million were collaterized by these securities.

Note 10: Inventories

	At 31 December 2017	At 31 December 2016
Materials and supplies	13,692	9,696
Crude oil	8,745	9,996
Refined oil products	12,541	9,087
Petrochemical supplies and finished goods	4,340	4,183
Other	-	309
Total inventories	**39,318**	**33,271**

Note 11: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 31 December 2017	At 31 December 2016
Prepaid export duties	3,003	4,490
VAT recoverable	6,817	5,375
Advances	10,534	11,475
Prepaid transportation expenses	1,247	1,679
Other	1,522	870
Prepaid expenses and other current assets	**23,123**	**23,889**

Note 12: Banking: Non-current assets held for sale

	2017	2016
At 1 January	**4,247**	**-**
Additions as a result of acquisition of subsidiary	-	4,347
Addition by taking possession of collateral	2,231	217
Impairment	(1,105)	(159)
Reclassifications	(2,294)	-
Disposal as a result of sale	(897)	(158)
At 31 December	**2,182**	**4,247**

As at 31 December 2017 and 2016 non-current assets held for sale include real estate which the Group received in the course of its banking activities by taking possession of collateral held as security for loans and receiving other property. The carrying amount of non-current assets held for sale will be recovered through a sale transaction.

The property in the amount of RR 897 million has been converted into cash during the year ended 31 December 2017 with a gain of RR 4 million.

Note 13: Property, plant and equipment

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construction in progress	Total
Cost					
As of 31 December 2015	**359,901**	**186,248**	**147,972**	**135,723**	**829,844**
Additions	19	-	1	92,780	92,800
Disposals	(497)	(1,358)	(524)	(1,995)	(4,374)
Changes in Group structure (Note 29)	(58,426)	(3,257)	(20,776)	(230)	(82,689)
Transfers	36,742	15,869	4,852	(57,463)	-
Changes in decommissioning provision	(6,253)	-	-	-	(6,253)
As of 31 December 2016	**331,486**	**197,502**	**131,525**	**168,815**	**829,328**
Depreciation, depletion and amortisation					
As of 31 December 2015	**171,366**	**32,194**	**68,506**	**-**	**272,066**
Depreciation charge	10,723	4,693	7,900	-	23,316
Disposals	(370)	(831)	(453)	-	(1,654)
Changes in Group structure (Note 29)	(29,214)	(2,078)	(16,722)	-	(48,014)
As of 31 December 2016	**152,505**	**33,978**	**59,231**	**-**	**245,714**
Net book value					
As of 31 December 2015	**188,535**	**154,054**	**79,466**	**135,723**	**557,778**
As of 31 December 2016	**178,981**	**163,524**	**72,294**	**168,815**	**583,614**
Cost					
As of 31 December 2016	**331,486**	**197,502**	**131,525**	**168,815**	**829,328**
Additions	-	-	-	88,514	88,514
Disposals	(697)	(599)	(954)	(1,760)	(4,010)
Changes in Group structure	-	214	(647)	5	(428)
Transfers	46,438	(1,045)	15,015	(60,408)	-
Changes in decommissioning provision	5,101	-	-	-	5,101
As of 31 December 2017	**382,326**	**196,072**	**144,939**	**195,168**	**918,505**
Depreciation, depletion and amortisation					
As of 31 December 2016	**152,505**	**33,978**	**59,231**	**-**	**245,714**
Depreciation charge	11,328	4,852	7,440	-	23,620
Disposals	(610)	(123)	(924)	-	(1,657)
Changes in Group structure	-	25	(657)	-	(632)
Transfers	5,133	(4,968)	(165)	-	-
As of 31 December 2017	**168,356**	**33,764**	**64,925**	**-**	**267,045**
Net book value					
As of 31 December 2016	**178,981**	**163,524**	**72,294**	**168,815**	**583,614**
As of 31 December 2017	**213,970**	**162,308**	**80,014**	**195,168**	**651,460**

Within construction in progress there are advances for construction of RR 10,047 million and RR 7,329 million at 31 December 2017 and 2016, respectively.

Note 13: Property, plant and equipment (continued)

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2018 and 2044. The economic lives of many of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group's second largest field, Novo-Elkhovskoe, was extended through 2026. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

Management plans to request the extension of the licenses that have not yet been extended. The Group's current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group's reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

At 1 January 2016	**7,045**
Additions	3,076
Reclassification (to)/from development assets	6,948
Charged to expense	-
At 31 December 2016	**17,069**
Additions	2,091
Reclassification (to)/from development assets	(640)
Charged to expense	-
At 31 December 2017	**18,520**

For the years ended 31 December 2017 and 2016, operating and investing cash flows used for exploration and evaluation activities amounted to RR 1,143 million and RR 2,091 million and RR 1,185 million and RR 3,076 million, respectively.

Social assets. During the years ended 31 December 2017 and 2016 the Group transferred social assets with a net book value of RR 9 million and RR 264 million, respectively, to local authorities. At 31 December 2017 and 2016 the Group held social assets with a net book value of RR 6,025 million and RR 5,954 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 5,418 million and RR 4,918 million for the years ended 31 December 2017 and 2016, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

Note 13: Property, plant and equipment (continued)

Decommissioning provisions.

The following tables summarize the Group's decommissioning provisions and decommissioning costs activities:

	2017	2016
Balance, beginning of period	**30,406**	**33,417**
Unwinding of discount	2,603	3,271
New obligations	1,905	770
Release of existing obligations	(31)	(29)
Changes in estimates	3,196	(7,023)
Balance, end of period	**38,081**	**30,406**
Less: current portion of decommissioning provisions (Note 17)	(64)	(82)
Long-term balance, end of period	**38,017**	**30,324**

In 2017 and 2016 the Group recorded the change in estimate for oil and gas properties decommissioning primarily due to the change in discount rate and expected long-term inflation rate.

Key assumptions used for evaluation of decommissioning provision were as follows:

	At 31 December 2017	At 31 December 2016
Discount rate	7.70%	8.56%
Inflation rate	4.00%	4.30%

Note 14: Taxes

Income tax expense comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax expense	(34,227)	(29,657)
Deferred income tax expense	(5,419)	(5,184)
Income tax expense for the year	**(39,646)**	**(34,841)**

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% to income before income taxes:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income taxes	163,538	140,971
Theoretical income tax expense at statutory rate	(32,708)	(28,194)
Increase due to:		
Non-deductible expenses, net	(7,076)	(5,484)
Unrecognized deferred tax assets	-	(1,163)
Other	138	-
Income tax expense	**(39,646)**	**(34,841)**

At 31 December 2017 no provision has been made for taxable temporary differences on RR 39,570 million (2016: RR 35,385 million) of undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 2,363 million (2016: RR 2,191 million) if they were remitted as dividends.

Note 14: Taxes (continued)

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following:

	At 31 December 2017	At 31 December 2016
Tax loss carry forward	3,517	3,736
Decommissioning provision	7,603	6,065
Prepaid expenses and other current assets	166	304
Long-term investments	74	85
Other	2,001	886
Deferred income tax assets	**13,361**	**11,076**
Property, plant and equipment	(36,681)	(29,145)
Inventories	(1,914)	(1,896)
Accounts receivable	(494)	(413)
Long-term investments	(11)	(166)
Other liabilities	(82)	(13)
Deferred income tax liabilities	**(39,182)**	**(31,633)**
Net deferred tax liability	**(25,821)**	**(20,557)**

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	At 31 December 2017	At 31 December 2016
Deferred income tax asset	1,502	2,043
Deferred income tax liability	(27,323)	(22,600)
Net deferred tax liability	**(25,821)**	**(20,557)**

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

Tax losses carry forward. At 31 December 2017, the Group had recognized deferred income tax assets of RR 3,517 million (RR 3,736 million at 31 December 2016) in respect of unused tax loss carry forwards of RR 17,587 million (RR 18,680 million at 31 December 2016). Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The ten year expiry period for tax loss carry-forwards no longer applies. The amendments also set limitation on utilisation of tax loss carry forwards that will apply during the period from 2017 to 2020. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Mineral extraction tax	186,585	119,393
Property tax	5,896	5,623
Penalties and interest	123	-
Other	1,712	1,574
Total taxes other than income taxes	**194,316**	**126,590**

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a benefit of approximately RR 30.4 billion and RR 23.2 billion for the years ended 31 December 2017 and 2016, respectively.

Note 14: Taxes (continued)

At 31 December 2017 and 2016 taxes payable were as follows:

	At 31 December 2017	At 31 December 2016
Mineral extraction tax	20,030	14,652
Value Added Tax	2,789	2,707
Export duties	1,344	1,277
Property tax	774	1,128
Other	2,869	3,973
Total taxes payable	**27,806**	**23,737**

Note 15: Other long-term assets

Other long-term assets are as follows:

	At 31 December 2017	At 31 December 2016
Prepaid computer programs	1,321	1,721
Precious metals	248	974
Prepaid license agreements	7	11
Other long-term assets	4,586	2,972
Total other long-term assets	**6,162**	**5,678**

Note 16: Debt

	At 31 December 2017	At 31 December 2016
Short-term debt		
Bonds issued	6,836	3,903
Debt securities issued	3,330	4,894
US $2.0 billon 2010 credit facility	-	830
US $75 million 2011 credit facility	1,508	2,001
US $144.5 million 2011 credit facility	2,917	3,584
EUR 55 million 2013 credit facility	2,364	2,925
RR 40,000 million 2017 credit facility	20,955	-
Other debt	2,006	695
Total short-term debt	**39,916**	**18,832**
Current portion of long-term debt	-	456
Total short-term debt, including current portion of long-term debt	**39,916**	**19,288**
Long-term debt		
Bonds issued	906	28,795
Subordinated debt	4,492	4,497
Debt securities issued	98	-
Other debt	1,400	2,006
Total long-term debt	**6,896**	**35,298**
Less: current portion of long-term debt	-	(456)
Total long-term debt, net of current portion	**6,896**	**34,842**

Fair value of debt is presented in Note 30. Maturity and currency analysis of debt is presented in Note 30. Debt issued to related parties is presented in Note 27.

Note 16: Debt (continued)

Credit facilities. In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit facility for up to US $2 billion arranged by Barclays Bank PLC, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ LTD, Citibank N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tons of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The facility was fully repaid in June 2017.

In November 2011, TANECO entered into a US $75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In November 2011, TANECO entered into a US $144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In May 2013, TANECO entered into a Euro 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. In accordance with credit facility terms repayment of the debt is performed in USD. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. In May 2016 this credit facility was assigned to Citibank Europe plc, UK Branch with credit facility details remaining.

In December 2017 the Company entered into revolving credit facility with differentiated interest rates for up to RR 40,000 million. The credit facililty is arranged by Sberbank and expires in 2020. In December 2017 the Company received a loan under this credit facility at rates ranging from 6.91% to 7.44% per annum which matures in 2018.

Bonds issued. At 31 December 2017 and 2016 bonds issued are bonds denominated in Russian Rubles issued by Bank ZENIT that mature between 2018 and 2025. At 31 December 2017 and 31 December 2016 the annual coupon rates on these securities range from 8.5% to 10.75% and 8.5% to 12.5% respectively, and yields to maturity vary from 7.9% to 9.69% and from 7.5% to 12.3% respectively. The majority of bonds allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer at any time with the consent of the bond holder, may purchase / repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase / repayment of the bonds does not constitute an early redemption.

Subordinated debt. At 31 December 2017 and 2016 subordinated debt is presented with three subordinated loans raised by Bank ZENIT. Subordinated loans bear interest at rates ranging from 6.5% to 8.81% and mature from 2019 to 2024 at 31 December 2017 and at rates ranging from 6.4% to 7.1% and mature from 2019 to 2024 at 31 December 2016.
In relation to two of subordinated loans maturing in 2021 and 2024 bearing an interest rate of 8.81% the Group is obliged to comply with certain financial covenants. At 31 December 2017 the Group was in compliance with these covenants.

In September 2015 Bank ZENIT received Federal government bonds (OFZ) under the loan agreement with the Deposit Insurance Agency (DIA) in the amount of RR 9,933 million. Federal government bonds received from the Deposit Insurance Agency is accounted as off-balance sheet item. The funding increased capital (calculated in accordance with the requirements of the CBR) and step up lending to companies operating in priority sectors of economy, small and medium-sized businesses, as well as mortgage lending.

Debt securities issued. At 31 December 2017 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles and US Dollars with effective interest rates from 1.4% to 10.05% and from 1.4% to 2% respectively. Maturity dates of these promissory notes vary from 2018 to 2028. At 31 December 2016 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles, US Dollars and Euro with effective interest rates from 3.99% to 10.73%, from 2% to 5.99% and from 1.65% to 2.8% respectively. Maturity dates of these promissory notes varied from 2017 to 2028.

Note 16: Debt (continued)

As at 31 December 2017 and 2016 non-interest-bearing promissory notes of the aggregate nominal value of RR 505 million and RR 915 million respectively were issued by the Group for settlement purposes and mature primarily on demand.

Note 17: Accounts payable and accrued liabilities

	At 31 December 2017	At 31 December 2016
Trade payables	22,366	25,575
Dividends payable	6,032	149
Other payables	3,400	430
Total financial liabilities within trade and other payables	**31,798**	**26,154**
Salaries and wages payable	3,374	4,555
Advances received from customers	8,003	10,361
Current portion of decommissioning provisions (Note 13)	64	82
Other accounts payable and accrued liabilities	4,322	4,357
Total non-financial liabilities	**15,763**	**19,355**
Accounts payable and accrued liabilities	**47,561**	**45,509**

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2017 and 2016 is presented in Note 30.

Note 18: Banking: Due to banks and CB RF

	At 31 December 2017	At 31 December 2016
Term deposits from other banks	5,994	11,810
Term deposits from CB RF	6,826	6,080
REPO	19,757	-
Correspondent accounts and other banks' overnight deposits	1,063	460
Total due to banks and CB RF	**33,640**	**18,350**
Less: long term due to banks and CB RF	(5,669)	(4,415)
Total short term of due to banks and CB RF	**27,971**	**13,935**

Included in amounts due to banks as at 31 December 2017 and 2016 are RR 16,514 million and RR 12,510 million of correspondent accounts and term deposits from three Russian banks, which individually exceeded 5% of the Bank ZENIT equity. Term deposits from the CB RF mature from 5 March 2018 to 18 September 2020. The interest rates on term deposits from CB RF range from 6.5% to 10.75%. As at 31 December 2017 and 2016 term deposits in the amount of RR 8,157 million and RR 10,974 million are collateralized with loans to customers in the amount of RR 9,282 million and RR 12,669 million discussed in Note 8.

As at 31 December 2017 RR 19,757 million of due to banks was received under sale and repurchase agreements, fair value of securities pledged amounts to 22,004 million (Note 9).

Note 19: Banking: Customer accounts

	At 31 December 2017	At 31 December 2016
State and public organizations		
Current / settlement accounts	612	739
Term deposits	639	4,457
Other legal entities		
Current / settlement accounts	19,963	21,022
Term deposits	27,390	44,640
Individuals		
Current / settlement accounts	12,489	11,578
Term deposits	97,821	98,278
Total customer accounts	**158,914**	**180,714**
Less: long-term customer accounts	(478)	(3,292)
Total short-term customer accounts	**158,436**	**177,422**

Within customer accounts at 31 December 2017 and 2016 there are RR 8,171 million and RR 31,432 million of current/settlement accounts and term deposits from 3 and 11 customers respectively, which individually exceeded 5% of the Bank ZENIT equity.

Risk concentrations by customer industry within customer accounts are as follows:

	At 31 December 2017		At 31 December 2016	
	Carrying value	Share in customer loan portfolio, %	Carrying value	Share in customer loan portfolio, %
Individuals	110,310	69.41%	109,856	60.79%
Finance	11,709	7.37%	34,953	19.34%
Oil and gas	2,575	1.62%	3,193	1.77%
Trade	6,051	3.81%	7,358	4.07%
Services	13,165	8.28%	8,368	4.63%
Manufacturing	7,581	4.77%	5,176	2.86%
Construction	5,257	3.31%	6,456	3.57%
Other	2,266	1.43%	5,354	2.97%
Total customer accounts	**158,914**	**100%**	**180,714**	**100%**

Note 20: Other long-term liabilities

Other long-term liabilities are as follows:

	At 31 December 2017	At 31 December 2016
Pension liability	4,040	3,856
Other long-term liabilities	6	1
Total other long-term liabilities	**4,046**	**3,857**

Pension liabilities

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the JSC "National Non-Governmental Pension Fund" (the Fund). In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Note 20: Other long-term liabilities (continued)

Principal actuarial assumptions are as follows:

	At 31 December 2017	At 31 December 2016
Discount rate	7.38%	8.33%
Rate of increase in salary levels	6.01%	7.23%
Actuarial rate of NPF	3.0%	3.0%
Statutory insurance contributions rate	30.77%	31.73%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognized in the consolidated statement of financial position.

Amounts recognized in the consolidated statement of financial position:

	At 31 December 2017	At 31 December 2016
Present value of defined benefit obligation	5,717	5,442
Less: Fair value of plan assets	(1,677)	(1,586)
Net defined benefit liability	**4,040**	**3,856**

Change in the defined benefit obligation amount:

	2017	2016
Defined benefit obligation at beginning year	5,442	5,834
Effect of exchange rate changes	(11)	(38)
Current service cost	119	151
Interest cost	340	566
Benefits paid	(455)	(604)
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	(77)	775
Actuarial losses arising from changes in demographic assumptions	295	11
Actuarial losses/(gains) – Experience	64	(95)
Disposal of subsidiaries (Note 29)	-	(1,158)
Defined benefit obligation at the end of the year	**5,717**	**5,442**

The amounts recognized in profit or loss are as follows:

	2017	2016
Service cost	119	151
Net interest expense	208	376
Remeasurement losses/(gains):		
Actuarial (gains)/losses arising from changes in financial assumptions	(20)	141
Actuarial losses arising from changes in demographic assumptions	54	3
Actuarial gains – Experience	(29)	(125)
Disposal of subsidiaries (Note 29)	-	(711)
Total included in ‘employee benefits expense’	**332**	**(165)**

The amounts recognized in other comprehensive income are as follows:

	2017	2016
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	(57)	634
Actuarial losses arising from changes in demographic assumptions	241	8
Actuarial losses – Experience	77	30
Effect of exchange rate changes	(11)	(38)
Total included in other comprehensive income	**250**	**634**

Note 20: Other long-term liabilities (continued)

Reconciliation of the opening and closing balances of plan assets' fair value:

	2017	2016
Plan assets at beginning of year	1,586	1,963
Interest income	132	190
Contributions	136	183
Benefits paid	(193)	(305)
Actuarial gain	16	2
Disposal of subsidiaries (Note 29)	-	(447)
Plan assets at year end	**1,677**	**1,586**

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

Plan assets structure:

	At 31 December 2017	At 31 December 2016
Russian corporate bonds and equity securities of Russian issuers	57.99%	49.36%
Russian government and regions bonds	17.83%	11.86%
Bank deposits	21.97%	27.87%
Foreign government securities	2.11%	6.61%
Other	0.1%	4.3%
Total plan assets	**100%**	**100%**

Based on Group's best estimate expected contributions to be paid during the next annual reporting period are RR 668 million.

Note 21: Shareholders' equity

Authorized share capital. At 31 December 2017 and 2016 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. All issued shares are fully paid. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

Golden share. Tatarstan holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law.

The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers (see also Note 1).

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Note 21: Shareholders' equity (continued)

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2017 and 2016, the Company had a statutory current profit of RR 100,022 million and RR 104,824 million, respectively.

In December 2017 the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2017 in the amount of RR 27.78 per preference and ordinary share. Dividends were paid in the fourth quarter of 2017 and first quarter 2018. In June 2017 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2016 in the amount of RR 22.81 per preference and ordinary share. In June 2016 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2015 in the amount of RR 10.96 per preference and ordinary share.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2017	**Year ended 31 December2016**
Profit attributable to Group shareholders	123,139	107,389
Common share dividends	(106,900)	(23,116)
Preferred share dividends	(7,462)	(1,617)
Income available to common and preferred shareholders, net of dividends	**8,777**	**82,656**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,103	2,113
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,251	2,261
Basic and diluted earnings per share (RR)		
Common	54.73	47.50
Preferred	54.32	47.48

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 15 million and RR 3 million at 31 December 2017 and 2016, respectively.

Note 22: Employee benefit expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	31,135	29,569
Statutory insurance contributions	8,872	8,656
Share-based Awards granted to directors and employees (Note 3)	-	1,215
Pension costs – defined benefit plans (Note 20)	332	(165)
Other employee benefits	1,390	2,043
Total employee benefit expense	**41,729**	**41,318**

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and maintenance of social infrastructure and transfer of social assets, other expenses and operating expenses on banking activities in the consolidated statements of profit or loss and other comprehensive income.

Note 23: Interest income and interest expense on non-banking activities

Interest income on non-banking activities comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income from loans and receivables	6,319	5,084
Unwinding of the present value discount of long-term financial assets	175	346
Total interest income	**6,494**	**5,430**

Interest expense on non-banking activities comprises the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Bank loans	425	564
Unwinding of the present value discount of decommissioning provision	2,603	3,271
Unwinding of the present value discount of long-term financial assets and liabilities	67	85
Total interest costs recognized in profit or loss	**3,095**	**3,920**

Note 24: Interest income and expense on banking activity

	Year ended 31 December:	
	2017	**2016**
Interest income		
Interest income on assets recorded at amortized cost:		
Loans to customers	22,644	5,804
Due from banks	1,820	645
Held to maturity investments	1,209	209
Correspondent accounts	40	6
Total interest income on financial assets recorded at amortized cost	**25,713**	**6,664**
Interest income on assets at fair value through profit or loss		
Financial assets held-for-trading	528	147
Total interest income on assets at fair value through profit or loss	**528**	**147**
Interest income on assets at fair value through OCI		
Available for sale financial assets	1,080	243
Total interest income on assets at fair value through OCI	**1,080**	**243**
Total interest income	**27,321**	**7,054**
Interest expense		
Interest expense on liabilities recorded at amortized cost:		
Term deposits of individuals	(5,771)	(1,988)
Term deposits of legal entities	(2,674)	(1,430)
RUR-denominated bonds issued	(2,011)	(1,032)
Subordinated debt	(921)	(399)
Term placements of banks	(1,736)	(425)
Debt securities issued	(117)	(105)
Interest expense on liabilities recorded at amortized cost	**(13,230)**	**(5,379)**
Total interest expense	**(13,230)**	**(5,379)**
Net interest income	**14,091**	**1,675**

Note 25: Fee and Commission Income and Expense on banking activity

	Year ended 31 December:	
	2017	**2016**
Settlement transactions	2,048	479
Cash transactions	607	170
Operations with foreign currencies	396	100
Guarantees issued	319	80
Transactions with securities	24	6
Asset management	12	4
Other	237	62
Total fee and commission income	**3,643**	**901**
Settlement transactions	(797)	(221)
Cash transactions	(124)	(35)
Transactions with securities	(65)	(19)
Operations with foreign currencies	(21)	(8)
Commission on guarantees received	(8)	(1)
Other	(97)	(20)
Total fee and commission expense	**(1,112)**	**(304)**
Net fee and commission income	**2,531**	**597**

Note 26 Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group's business activities are conducted predominantly through four main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of transfer of crude oil to refinery and other goods and services provided to other operating segments,
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires,
- Banking segment includes operations of Banking Group ZENIT.

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income taxes and non-controlling interest not including interest income, expense, and gains from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2017, revenues of RR 72,733 million or 11% and of RR 71,616 million or 11% of the Group's total sales and operating revenues is derived from two external customers.

For the year ended 31 December 2016, revenues of RR 79,257 million or 14% of the Group's total sales and operating revenues is derived from one external customer.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment. Management does not believe the Group is dependent on any particular customer.

Note 26: Segment information (continued)

Segment sales and other operating revenues. Reportable operating segment sales and other operating revenues are stated in the following table:

	Year ended 31 December 2017	Year ended 31 December 2016
Exploration and production		
Domestic own crude oil	91,781	86,486
CIS own crude oil	20,781	16,572
Non-CIS own crude oil	244,947	173,371
Other	4,131	4,601
Intersegment sales	113,245	94,592
Total exploration and production	**474,885**	**375,622**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	418	14,498
Refined products	126,576	123,743
Total Domestic sales	126,994	138,241
CIS sales		
Refined products	12,267	6,979
Total CIS sales(1)	12,267	6,979
Non-CIS sales		
Crude oil purchased for resale	7,289	7,165
Refined products	102,809	81,608
Total non-CIS sales(2)	110,098	88,773
Other	7,670	7,008
Intersegment sales	1,031	2,271
Total refining and marketing	**258,060**	**243,272**
Petrochemicals		
Tires – domestic sales	35,655	32,861
Tires – CIS sales	8,648	8,443
Tires – non-CIS sales	2,255	1,709
Petrochemical products and other	3,091	2,250
Intersegment sales	973	929
Total petrochemicals	**50,622**	**46,192**
Banking		
Interest income	27,321	7,054
Fee and commission income	3,643	901
Total banking	**30,964**	**7,955**
Total segment sales	**814,531**	**673,041**
Corporate and other sales	12,841	12,833
Elimination of intersegment sales	(115,249)	(97,792)
Total sales and other operating revenues	**712,123**	**588,082**

(1) - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).
(2) - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands and United Kingdom based traders and Poland based refineries.

Note 26: Segment information (continued)

Segment earnings.

	Year ended 31 December 2017	Year ended 31 December 2016
Segment earnings		
Exploration and production	172,731	146,618
Refining and marketing	15,969	13,899
Petrochemicals	2,409	1,463
Banking	(3,155)	(980)
Total segment earnings	**187,954**	**161,000**
Corporate and other	(26,187)	(17,896)
Other income/(expenses)	1,771	(2,133)
Profit before income tax	**163,538**	**140,971**

For the year ended 31 December 2017 corporate and other loss includes loss on recognition of impairment of investment in closed mutual investment rental fund AK BARS - Gorizont (Note 9), impairment of loans issued and allowance for doubtful account accrual. For the year ended 31 December 2016 corporate and other loss includes loss on deconsolidation of subsidiaries (Note 29), gain on disposal of interest in associate and impairment of bank deposits (Note 30).

Segment assets.

	At 31 December 2017	At 31 December 2016
Assets		
Exploration and production	340,525	300,673
Refining and marketing	366,804	356,191
Petrochemicals	26,820	29,977
Banking	251,444	298,025
Corporate and other	121,861	109,731
Total assets	**1,107,454**	**1,094,597**

As of 31 December 2017 and 31 December 2016 corporate and other includes RR 33,496 million and RR 27,471 million of property, plant and equipment, RR 23,556 million and RR 25,216 million of available-for-sale investments, RR 23,994 million and RR 0 million of investments held to maturity and RR 12,208 million and RR 50,762 million of bank deposits, respectively.

The Group's assets and operations are primarily located and conducted in the Russian Federation.

Segment depreciation, depletion and amortisation and additions to property, plant and equipment.

	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation, depletion and amortization		
Exploration and production	13,850	11,848
Refining and marketing	8,434	7,120
Petrochemicals	1,781	1,852
Banking	244	56
Corporate and other	576	750
Total segment depreciation, depletion and amortization	**24,885**	**21,626**
Additions to property, plant and equipment		
Exploration and production	41,313	47,694
Refining and marketing	39,246	34,433
Petrochemicals	2,428	1,193
Banking	2,489	-
Corporate and other	8,117	3,273
Total additions to property, plant and equipment	**93,593**	**86,593**

Note 26: Segment information (continued)

For the years ended 31 December 2017 and 2016 additions to property, plant and equipment of exploration and production segment are shown net of RR (5,101) million and RR 6,253 million, respectively, associated with changes in the decommissioning provision.

Note 27: Related party transactions

Parties are generally considered to be related if the parties 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions are entered into in the normal course of business with associates, joint ventures, government related companies, key management personnel and other related parties. These transactions include sales and purchases of refined products, purchases of electricity, transportation services and banking transactions. The Group enters into transactions with related parties based on market or regulated prices.

Associates, joint ventures and other related parties

The amounts of transactions for each period with associates, joint ventures and other related parties are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Revenues and income		
Sales of refined products	11	975
Other sales	255	1,019
Interest income	139	2,113
Costs and expenses		
Other services	896	1,231
Other purchases	574	5,055

On 17 March 2016 the Group acquired a 25% minus 1 share voting interest in Nizhnekamskneftekhim for total cash consideration of RR 19,850 million which was paid in December 2015. 26 December 2016 the Group sold its share in Nizhnekamskneftekhim for RR 32,000 million, received in December 2016. RR 9,800 million gain on sale is presented within gain on disposals of interests in subsidiaries and associates of consolidated statement of profit or loss and other comprehensive income. During 2016 the Group received dividends from Nizhnekamskneftekhim in the amount of RR 1,521 million net of RR 227 million income tax withheld at source. Also in October 2016 the Group increased its share in PJSC Bank ZENIT and, as a result, obtained control. Starting October 2016 the Group consolidates PJSC Bank ZENIT as subsidiary (Note 29).

Note 27: Related party transactions (continued)

At 31 December 2017 and 2016 the outstanding balances with associates, joint ventures and other related parties were as follows:

	At 31 December 2017	At 31 December 2016
Assets		
Accounts receivable	534	675
Loans to customers	20	-
Other financial assets		
Financial assets at fair value through profit and loss	-	146
Other loans receivable	-	361
Prepaid expenses and other current assets	553	469
Due from related parties short-term	**1,107**	**1,651**
Long-term accounts receivable	280	142
Loans to customers	21	-
Other financial assets		
Available-for-sale	3,400	3,758
Other loans receivable	2,443	2,022
Due from related parties long-term	**6,144**	**5,922**
Liabilities		
Accounts payable and accrued liabilities	(169)	(47)
Customer accounts	(1,711)	(812)
Due to related parties short-term	**(1,880)**	**(859)**
Customer accounts	(165)	
Debt		
Other debt	-	(33)
Due to related parties long-term	**(165)**	**(33)**

Note 27: Related party transactions (continued)

Russian Government bodies and state organizations

At 31 December 2017 and 2016 the outstanding balances with Russian Government bodies and state organizations were as follows:

	At 31 December 2017	At 31 December 2016
Assets		
Cash and cash equivalents	12,678	19,899
Banking: Mandatory reserve deposits with CB RF	1,916	1,988
Accounts receivable	2,306	1,720
Loans to customers	2,415	2,279
Other financial assets		
Bank deposits	1	409
Available-for-sale	8,006	1,452
Held to maturity	37,795	571
Financial assets at fair value through profit and loss	5,095	3,138
Other loans receivable	120	290
Prepaid expenses and other current assets	6,579	9,052
Due from related parties short-term	**76,911**	**40,798**
Long-term accounts receivable	1,086	-
Loans to customers	1,991	-
Other financial assets		-
Available-for-sale	10,680	5,027
Held to maturity	6,781	3,453
Other loans receivable	174	238
Advances for construction	3,510	-
Due from related parties long-term	**24,222**	**8,718**
Liabilities		
Accounts payable and accrued liabilities	(873)	(961)
Banking: Due to banks and CB RF	(4,771)	(4,700)
Banking: Customer accounts	(2,418)	(4,061)
Debt		
Other debt	(21,580)	(3)
Due to related parties short-term	**(29,642)**	**(9,725)**
Debt		
Subordinated debt	(2,141)	(2,140)
Other debt	(13)	-
Banking: Due to banks and CB RF	(2,055)	(9,624)
Due to related parties long-term	**(4,209)**	**(11,764)**

Note 27: Related party transactions (continued)

The amounts of transactions for each period with Government bodies and state organizations are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Sales of crude oil	-	567
Sales of refined products	11,093	10,501
Other sales	4,476	3,994
Interest income	4,132	585
Interest expense	1,484	460
Purchases of refined products	34,461	21,941
Purchases of electricity	14,384	12,897
Purchases of transportation services	26,729	22,272
Other services	4,426	3,943
Other purchases	1,340	1,735

In April 2016 the Group purchased 20 million treasury shares from the company related to Russian Government bodies and state organizations in the amount RR 7,168 million.

Compensation to key management personnel

As of 31 December 2017 and 2016 total remuneration, including pension cost, for key management personnel was RR 903 million and RR 1,677 million, respectively.

For the year ended 31 December 2016, the Company issued 2.1 million Awards to key management personnel, which were settled at a price of RR 252.81 per Award. The amount of related compensation expense recognized in selling, general and administrative expenses of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 was RR 534 million. For the year ended 31 December 2017 the Company's Board of Directors did not approve the issuance of Awards to key management personnel.

At 31 December 2017 and 2016 key management personnel customer accounts in Bank ZENIT amounted to RR 26,312 million and RR 21,667 million, respectively.

Note 28: Contingencies and commitments

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. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The Russian economy showed signs of recovery in 2017, after the economic downturn of 2015 and 2016. The Russian economy is negatively impacted by a fluctuation of oil prices and ongoing political tensions.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Capital commitments. As of 31 December 2017 and 31 December 2016 the Group has outstanding capital commitments of approximately RR 42,758 million and RR 46,176 million, respectively, mainly for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2018 and 2020.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 16).

Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December 2017	At 31 December 2016
Less than one year	160	481
More than one year and less than five years	97	1,115
More than five years	45	21
Total operating lease commitments	**302**	**1,617**

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual commitments represent the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, certain part of Group's import letters of credit are collateralised with cash deposits or collateral pledged to the Group and accordingly the Group normally assumes minimal risk.

Note 28: Contingencies and commitments (continued)

Outstanding credit related commitments are as follows:

	At 31 December 2017	At 31 December 2016
Loan commitments	26,421	24,885
Guarantees issued	14,525	15,211
Import letters of credit	1,676	1,082
Total credit related commitments before impairment	**42,622**	**41,178**
Less: allowance for credit related commitment impairment	(66)	(988)
Less: client funds held as security for guarantees issued	(658)	(354)
Less: client funds held as security for import letter of credit	(250)	(751)
Total credit related commitments	**41,648**	**39,085**

Taxation. The Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of the legislation, as applied to the transactions and activities, may be challenged by the tax authorities. The tax authorities may take a different position in their interpretation of the legislation, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Tax authorities have completed the tax review of the Company's consolidated taxpayers group for the 2013 and 2014. The results of this review did not have a material effect on the Group's results of operations or cash flows.

Tax authorities are currently reviewing the operations of the Company and its subsidiaries for the years ended 31 December 2013 and 2014. While the results of that review have not been finalized, management expects the ultimate outcome will not have a material effect on the Group's results of operations or cash flows.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. This legislation allows tax authorities to assess additional taxes for controllable transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation. The Group believes that its interpretation of the new legislation is appropriate and the Group's tax position will be sustained.

Environmental contingencies. The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and the Group's policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

Note 28: Contingencies and commitments (continued)

Legal contingencies. The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Social commitments. The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Transportation of crude oil. The Group transports substantially all of the crude oil that it sells in export and local markets through trunk pipelines in Russia that are controlled by Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil pipelines. The Group's crude oil is blended in the Transneft pipeline system with other crude oil of varying qualities to produce an export blend commonly referred to as Urals. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme or the impact of it on the Group's business is not currently determinable.

Ukrtatnafta. In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of 27 November 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest. Ukraine filed a request for annulment of the award in the Court of Appeal in Paris, France (seat of arbitration), which on 29 November 2016 rejected the request for annulment. In March 2017 Ukraine filed a cassation appeal against the Paris Court of Appeal decision of 29 November 2016 rejecting its request for annulment. Tatneft filed a motion with the Court of Cassation to exclude Ukraine's cassation appeal from the Cassation Court docket without prejudice due to Ukraine's failure to perform the decision of the Court of Appeal requiring Ukraine to compensate Tatneft's legal expenses in relation to the appeal and commence performance of the tribunal's award. On 9 November 2017, Tatneft's motion was granted.

At this time, it is not clear whether and when the cassation appeal will be heard. Filing of the cassation appeal does not preclude Tatneft from commencing enforcement of the award. Accordingly, Tatneft has commenced recognition and enforcement procedures in relation to this arbitration award in the USA, England and the Russian Federation. In March 2017, Tatneft filed a petition to recognize and enforce the award in the U.S. District Court for the District of Columbia, which is now pending and is subject to various procedural actions by Tatneft and Ukraine. On 19 March 2018, the U.S. District Court for the District of Columbia denied Ukraine's challenge to the U.S. court's jurisdiction, Ukraine's motion to stay the enforcement proceedings pending the outcome of the French proceedings and Ukraine's motion for jurisdictional discovery. The District Court will now consider whether there are any grounds to refuse enforcement of the arbitration award in the United States.

In April 2017, Tatneft filed an application for recognition of the award and permission to enforce the award in the High Court of England and Wales. In May 2017, the High Court approved Tatneft's application to enforce the award, however the order granting Tatneft's application and the enforcement procedure are subject to challenge by Ukraine. Ukraine has challenged the jurisdiction of the English courts to consider Tatneft's petition for recognition and enforcement of the award and a hearing on this threshold issue is scheduled in the High Court of England and Wales for the end of June 2018.

On 27 June 2017 the Arbitration Court of the City of Moscow terminated the proceedings in relation to Tatneft's application for recognition and enforcement of the award due to Ukraine's alleged jurisdictional immunity and lack of effective jurisdiction of the Arbitration Court of the City of Moscow to consider the application. On 22 August 2017, the Arbitration Court of the Moscow District overturned this ruling. Tatneft's petition for enforcement of the award was returned to the Arbitration Court of the City of Moscow for further consideration. Several hearings took place in 2017-2018. The next hearing at the Arbitration Court of the City of Moscow is scheduled for 24 April 2018.

Note 28: Contingencies and commitments (continued)

On 23 March 2016 Tatneft commenced court proceedings in England against Gennady Bogolyubov, Igor Kolomoisky, Alexander Yaroslavsky and Pavel Ovcharenko. Tatneft alleges that in 2009 those individuals fraudulently diverted to themselves sums owed to Tatneft for oil it had supplied to Kremenchug refinery (Ukrtatnafta). Tatneft claims damages of US$ 334.1 million plus interest. On 8 November 2016, the High Court refused the claim. On 23 November 2016, Tatneft requested from the Court of Appeals permission to appeal the judgement of 8 November 2016. Tatneft's appeal was heard by the Court of Appeals at the end of July 2017. On October 18 the Court of Appeals found that Tatneft’s claim should not have been dismissed by the High Court and that the case may proceed to trial. The date for the trial has not yet been established. The application of the defendants to the Supreme Court of the United Kingdom to appeal the decision of the Court of Appeals was denied by the Supreme Court on 13 March 2018.

Libya. As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this consolidated financial statements. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

As of 31 December 2017 the Group had approximately RR 5,759 million of assets associated with its Libyan operations of which RR 5,545 million is related to capitalized exploration costs, RR 210 million of inventories and RR 4 million of cash. As of 31 December 2016 the Group had approximately RR 5,752 million of assets associated with its Libyan operations of which RR 5,532 million is related to capitalized exploration costs, RR 210 million of inventories and RR 10 million of cash.

Note 29: Principal subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2017. The subsidiaries as listed below (except for Nizhnekamskshina) have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. Nizhnekamskshina has share capital consisting of ordinary and preference shares. 85% of voting right are held by the Group, and 15% of voting rights are held by non-controlling interests. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

		At 31 December 2017		At 31 December 2016	
Name of entity	Principal activity	% of ownership Interest held by the Group	% of ownership Interest held by the NCI	% of ownership Interest held by the Group	% of ownership Interest held by the NCI
Bank ZENIT	Banking operations	71.89	28.11	50	50
Tatneft Europe AG	Export oil sales	100	-	100	-
TANECO	Oil refinery	100	-	100	-
Nizhnekamskshina	Tires production	82	18	82	18
Nizhnekamskiy zavod shin CMK	Tires production	100	-	100	-
Trade House Kama	Tires sales	100	-	100	-
Tatneft AZS-Centr	Oil products sales	100	-	100	-
Tatneft AZS-Zapad	Oil products sales	100	-	100	-

Note 29: Principal subsidiaries (continued)

In June 2016, the Group increased its equity share in Bank ZENIT through a subscription to the bank's additional share issuance for a cash consideration of RR 6,700 million. As a result of the transaction the Group increased its share in Bank ZENIT from 24.56% to 48.79% as of 30 June 2016. The Group continued to exercise significant influence and applied the equity method of accounting for its investment in Bank ZENIT.

In October 2016, as a result of the mandatory offer procedure in accordance with the Federal Law "On Joint Stock Companies", the Group acquired additional 1.64% interest in Bank ZENIT for cash consideration of RR 327 million increasing its interest to 50.43% and, as a result, obtained control over Bank ZENIT in October 2016.

At 31 December 2016 the Group had finalized purchase price allocation and in accordance with IFRS 3 "Business Combinations" recognized the acquired assets and liabilities at fair value. The fair values of assets and liabilities acquired are based on discounted cash flow models and market quotes.

Purchase consideration of RR 7,605 includes cash for the 1.64% interest in Bank ZENIT acquired in October 2016 in the amount of RR 327 million and fair value of previously held 48.79% interest accounted for using the equity method in the amount of RR 7,278. As a result of the Group obtaining control over Bank ZENIT, the Group's previously held 48.79% interest was remeasured to fair value, resulting in a loss of RR 2,746 recognized in share of results of associates and joint ventures in the statement of profit or loss and other comprehensive income for year ended 31 December 2016.

In June 2017 the Group acquired an additional issuance of 14 billion ordinary shares of its consolidated subsidiary PJSC Bank ZENIT with par value of RR 1 per share. The additional shares issuance was placed via closed subscription in favour of Tatneft. As a result of this transaction, after giving effect to Bank ZENIT new share issuance, the Group's share in Bank ZENIT increased from 50.43% to 71.8992%. The difference between fair value of consideration paid and carrying value of minority interest of RR 787 million has been charged to additional paid-in-capital within shareholders' equity.

Gain attributable to total non-controlling interest for the year ended 31 December 2017 is RR 753 million, of which RR 577 million is attributed to Bank ZENIT. Loss attributable to total non-controlling interest for the year ended 31 December 2016 is RR 1,259 million, of which RR 790 million is attributed to Bank ZENIT. As of 31 December 2017 and 2016 accumulated non-controlling interest in Bank ZENIT was RR 7,973 million and RR 6,605 million respectively.

On 1 January 2016 several entities of the Group ceased to meet the power criteria for consolidation under IFRS 10 "Consolidated financial statements" and were deconsolidated as of that date. The Group did not have any direct or indirect ownership in the deconsolidated entities but exercised control over them in prior years. Deconsolidation resulted in one-off loss on disposal in amount of RR 8,745 million recorded within gains/(losses) on disposals of interest in subsidiaries and associates in the consolidated statement of profit or loss and other comprehensive income. Non-controlling interest in the consolidated statement of financial position as at 31 December 2016 decreased by RR 29,878 million.

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (Loss)
Year ended 31 December 2017						
Bank ZENIT Group	123,503	129,344	211,321	13,148	35,414	1,146
Nizhnekamskshina PJSC	1,135	4,195	6,789	-	16,652	167
Total	**124,638**	**133,539**	**218,110**	**13,148**	**52,066**	**1,313**
Year ended 31 December 2016						
Bank ZENIT	152,090	145,708	231,257	53,837	7,955	(2,086)
Nizhnekamskshina	2,413	3,652	4,034	3,584	15,407	(287)
Total	**154,503**	**149,360**	**235,291**	**57,421**	**23,362**	**(2,373)**

Note 30: Financial risk management

Financial risk management objectives and policies.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's

Note 30: Financial risk management (continued)

financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.
The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2017.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	21,748	4,255	3,216	29,219
Term deposits with original maturity of less than three months	11,906	-	-	11,906
Due from banks	1,501	171	-	1,672
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	1,916	-	-	1,916
Accounts receivable				
Trade receivables	34,733	23,934	408	59,075
Other financial receivables	5,751	14	6	5,771
Banking: Loans to customers	136,085	13 958	940	150,983
Other financial assets				
Bank deposits	302	-	-	302
Due from banks	330	1285	27	1,642
Notes receivable	456	-	-	456
Loans to employees	1,558	-	-	1,558
Other loans	10,769	552	-	11,321
Financial assets at fair value through profit or loss	6,147	2,354		8,501
Available-for-sale financial assets	37,681	3,520	503	41,705
Held to maturity investments	48,831	6,974	-	55,805
Total financial assets	**319,714**	**57,018**	**5,100**	**381,832**
Financial liabilities				
Trade and other financial payables				
Trade payables	21,543	352	471	22,366
Dividend payable	6,032	-	-	6,032
Other payables	3,312	88	-	3,400
Debt				
Bonds issued	7,742	-	-	7,742
Subordinated debt	2,161	2,331	-	4,492
Debt securities issued	1,491	1,937	-	3,428
Credit facilities	20,955	6,789	-	27,744
Other debt	1,556	1,486	364	3,406
Banking: Due to banks and CB RF	31,233	1,758	649	33,640
Banking: Customer accounts	125,344	27 208	6 362	158,914
Other short-term liabilities	256	-	-	256
Total financial liabilities	**221,625**	**41,949**	**7,846**	**271,420**
Net balance sheet position	**98,089**	**15,069**	**(2,746)**	**110,412**

Note 30: Financial risk management (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as of 31 December 2016.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	21,348	13,628	5,871	40,847
Term deposits with original maturity of less than three months	22,744	-	-	22,744
Due from banks	13,496	6	13	13,515
Restricted cash	3	-	-	3
Banking: Mandatory reserves with CB RF	1,988	-	-	1,988
Accounts receivable				
Trade receivables	32,805	27,214	1,448	61,467
Other financial receivables	4,240	-	-	4,240
Banking: Loans to customers	173,725	18,568	733	193,026
Other financial assets				
Bank deposits	32,706	-	-	32,706
Due from banks	6,758	2,621	508	9,887
Notes receivable	458	-	-	458
Loans to employees	1,018	-	-	1,018
Other loans	3,391	-	-	3,391
Financial assets at fair value through profit or loss	6,168	2,005	17	8,190
Available-for-sale financial assets	32,596	3,489	33	36,118
Held to maturity investments	3,847	6,713	-	10,560
Total financial assets	**357,291**	**74,244**	**8,623**	**440,158**
Financial liabilities				
Trade and other financial payables				
Trade payables	24,302	941	332	25,575
Dividend payable	149	-	-	149
Other payables	404	26	-	430
Debt				
Bonds issued	32,698	-	-	32,698
Subordinated debt	2,060	2,437	-	4,497
Debt securities issued	2,265	2,629	-	4,894
Credit facilities	-	6,415	2,925	9,340
Other debt	1,951	750	-	2,701
Banking: Due to banks and CB RF	10,989	653	6,708	18,350
Banking: Customer accounts	142,404	29,724	8,586	180,714
Other short-term liabilities	1,398	-	-	1,398
Total financial liabilities	**218,620**	**43,575**	**18,551**	**280,746**
Net position	**138,671**	**30,669**	**(9,928)**	**159,412**

For the year ended 31 December 2017 the Group recognized RR 10,257 million and RR 11,875 million foreign exchange gains and losses respectively in the consolidated statement of profit or loss and other comprehensive income (for the year ended 31 December 2016: RR 17,170 million and RR 20,474 million, respectively).

The following table presents sensitivities of profit and loss and equity to changes in US Dollar exchange rates applied at the end of the reporting period relative to Russian Ruble:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
US Dollar strengthening by 10%	1,501	1,200	3,067	2,453
US Dollar weakening by 10%	(1,501)	(1,200)	(3,067)	(2,453)

Note 30: Financial risk management (continued)

b) Interest rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Non-banking operations interest rate risk management

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

Banking operations interest rate risk management

The majority of the Group's interest rate sensitive banking financial assets and liabilities are at fixed rates. Therefore, the Group's interest rate risk arises primarily from unmatched positions on maturities of assets and liabilities carried at fixed rates.

Management of interest rate risk is performed through analysis of the structure of assets and liabilities by re- pricing dates. Interest rates that are contractually fixed on both assets and liabilities may be renegotiated before any new credit tranche is issued to reflect current market conditions. All new credit products and transactions are assessed in respect of interest rate risk upfront, prior to starting these transactions.

Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority of the Group's assets and liabilities are relatively short-term and that provides the Group with a certain level of flexibility to react to changing market conditions.

The Group's overall interest rate risk is monitored by Assets and liabilities committee ("ALCO") which reviews the structure of assets and liabilities, current and projected interest rates. Treasury departments are responsible for day-to-day management of the interest rate mismatch, preliminary approval of interest rates on projected transactions, preparation and submission for approval suggestions on acceptable interest rate levels by instrument and duration. Risk management departments review current interest rate gaps and assess resulting effects of interest rate risk on the Group's interest margin and economic capital.

The Group's approach to interest rate risk assessment is based on advisory materials of the Basel Committee on Banking Supervision, CB RF regulations and IFRS. The methodology is designed based on the current experience of mathematical simulation models of interest rate sensitive assets and liabilities and dynamics of interest rates using the series models, which consider major statistical regularities.

An automated procedure of interest rate risk assessment designed in accordance with the above methodology uses scenario simulation of fluctuations of interest rate sensitive assets and liabilities depending on the model of volume and term structure of assets and liabilities. The new methodology provides that interest rate risk, with adequacy confirmed by results of back-testing, is assessed as Value at Risk ("VaR") estimation with 99 percent confidence level for a one-year holding period. The given VaR-estimation of the Group interest rate risk includes the risk of new interest rate, basis risk, yield curve risk and optional risk.

The quantitative estimation of interest rate risk is carried out using stress-models which quantify the change in net interest margin due to fluctuations of interest rate sensitive assets and liabilities. For this purpose the Group identifies interest rate sensitive assets and liabilities and assesses the level of interest rate sensitivity by each asset or liability. The analysis is made by currencies on an annual horizon and is based on certain assumptions in respect of expected fluctuations of interest rates and most sensitive stress scenario. The results are used for on-going interest margin monitoring and regulation and are included in the quarterly report on the Group's consolidated risks.

Note 30: Financial risk management (continued)

Interest rate risk analysis on banking and non-banking operations of the Group

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years	Non-sensitive	Total
31 December 2017								
Total financial assets	77,018	34,751	37,788	20,230	53,781	56,817	101,447	381,832
Total financial liabilities	65,755	82,390	50,466	6,847	5,512	3,489	56,961	271,420
Net interest sensitivity gap	**11,264**	**(47,639)**	**(12,678)**	**13,383**	**48,269**	**53,328**	**44,486**	**110,412**
31 December 2016								
Total financial assets	43,011	66,740	63,016	25,130	75,899	40,544	125,818	440,158
Total financial liabilities	33,040	73,097	53,797	11,847	15,040	32,371	61,554	280,746
Net interest sensitivity gap	**9,971**	**(6,357)**	**9,219**	**13,283**	**60,859**	**8,173**	**64,264**	**159,412**

The table below summarises the effective average year end interest rates, by major currencies (US Dollars, Russian Rubles), for financial instruments outstanding as of 31 December 2017 and 2016. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	At 31 December 2017		At 31 December 2016	
	Russian Ruble	US Dollar	Russian Ruble	US Dollar
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	7.31%	0.76%	2.00%	0.13%
Term deposits	7.39%	-	10.34%	-
Due from banks	7.40%	-	10.30%	2.50%
Banking: Loans to customers	11.71%	6.91%	12.48%	6.64%
Other financial assets				
Bank deposits	13.00%	-	10.83%	6.50%
Due from banks	8.18%	1.14%	12.90%	4.00%
Notes receivable	0.10%	-	0.10%	-
Loans to employees	3.19%	-	3.19%	-
Other loans	8.32%	-	3.75%	6.20%
Financial assets at fair value through profit or loss	9.31%	6.44%	10.81%	5.62%
Available-for-sale financial assets	8.31%	8.10%	9.84%	6.70%
Held to maturity investments	9.33%	8.92%	6.52%	6.51%
Financial liabilities				
Debt				
Bonds issued	9.90%	-	11.33%	-
Subordinated debt	7.10%	8.80%	11.90%	7.95%
Debt securities issued	5.40%	1.90%	8.65%	4.00%
Credit facilities	7.17%	3.10%	-	2.93%
Other debt	1.90%	2.90%	4.77%	2.61%
Banking: Due to banks and CB RF	7.90%	2.50%	10.10%	2.09%
Banking: Customer accounts	7.40%	1.70%	10.15%	2.62%

Note 30: Financial risk management (continued)

The following table presents a sensitivity analysis of interest rate risk on banking and non-banking financial assets and liabilities:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Impact on profit before tax	**Impact on equity**	**Impact on profit before tax**	**Impact on equity**
Increase by 100 basis points	(659)	(527)	(951)	(761)
Decrease by 100 basis points	659	527	951	761

c) Commodity and financial instruments price risk

Commodity price risk management

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. The Group's overall strategy in production and sales of crude oil and related products is centrally managed. Substantially all the Group's crude oil export sales to Europe are sold under long-term contracts.

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position. Actual results, and the impact on the Group's operations and financial position, may differ from management's estimates of potential scenarios.

Financial instruments price risk management

Financial instruments price risk is the risk that movements in market prices resulting from factors associated with an issuer of financial instruments (specific risk) and general changes in the market prices of financial instruments (general risk) will affect the fair value or future cash flows of a financial instrument and, as a result, the Group's profitability.

Financial instruments price risk for financial instruments held within the Group's financial assets at fair value through profit or loss is managed: (a) through maintaining a diversified structure of portfolios; and (b) by setting position limits (i.e. limits restricting the total amount of an investment or maximum mismatch between respective assets and liabilities) as well as stop-loss and call-level limits, in addition to these, the Group sets limits on a maximum duration of debt financial instruments. When necessary the Group establishes margin and collateral requirements.

Financial instruments price risk is managed primarily through daily mark-to-market procedures, sensitivity analysis and control of limits established for various types of financial instruments.

Note 30: Financial risk management (continued)

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as of 31 December 2017 and 2016 are as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Fixed income securities price risk	105	84	153	122
Total price risk	**105**	**84**	**153**	**122**

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Non-banking activities credit risk management

Credit risk arises from cash and cash equivalents, bank deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of provision for impairment. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Company performs an ongoing assessment and monitoring of the risk of default. In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

Banking activities credit risk management

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector are described in the Credit Policies, which are approved by Management Boards, and are reviewed on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group is generally exposed to credit risk through its financial assets and contingent liabilities. The Group's maximum exposure to credit risk, ignoring the fair value of any collateral, is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

In accordance with the Group's collateral policies and procedures the Group may securitize its loans by multi-collateral, i.e. to take different types of collateral in order to secure the same loan, in these cases the value of collateral taken by the Group may exceed amounts lent to the customer. Therefore, maximum credit risk exposure on such loans is limited to the amount of loan balances outstanding at reporting dates.

For risk management purposes, credit risk arising from positions held-for-trading and other financial instruments at fair value through profit and loss is managed and reported as a market (financial instruments prices) risk.

Note 30: Financial risk management (continued)

In order to optimize the decision-making process on taking credit risk the Group established several credit committees with different levels of responsibilities. Credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

	Maximum exposure allowed to be approved
Assets and Liabilities Management Committee	More than RR 600 million
Credit committee	RR 600 million
Credit committee on small and medium business borrowers	RR 100 million
Credit committee on retail lending	RR 14 million

Exposure to credit risk is managed through regular analysis of the ability of borrower and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees. The Group implements a continuous monitoring system of risk factors on substandard loans.

Internal instructions to assess potential borrowers are developed and applied for each segment of lending activities including lending to legal entities, individuals, small and medium-size enterprises and certain others.

The decision making process within the Group is designed to ensure a thorough risk assessment is performed before any credit risk is taken and on all transactions submitted for approval. Therefore, an initiator of the transaction prepares a resume with a description of the suggested project, ensures (where appropriate) that an independent assessment of the collateral and its quality is performed and forwards all transaction related documentation to the risk management department, which is responsible for the independent risk assessment of the project itself, the transaction structure and the assessment of the adequacy of limits, terms and conditions associated with the transaction. The risk management department formulates its own conclusion on the project, which is submitted for approval along with all other transaction related documents.

The core procedure to assess credit risk associated with corporate lending is the analysis of corporate borrowers' financial statements for the latest available four quarters, their market position, business developments, organizational and functional structure, business cycle and cash flows, transparency of shareholders (owners) as well as reputational risks of the borrowers.

Underwriting procedures with respect to individual borrowers are built to minimize internal costs in order to maximize financial results taking into account potential risks. These procedures are based on certain rating techniques such as scoring methods that allow the minimization of credit risks both on a separate loan and on a portfolio basis. The rating accounts for the financial position of an individual borrower as well as the specifics of each credit product. However, the portion of loans to individuals issued purely using scoring models is still insignificant.

The majority of loans to individuals are approved by specialized credit committees winch include transaction initiators and representatives of units responsible for risk assessment, control and monitoring. Such underwriting procedures allow a flexible combination of formalized techniques and non-formalized knowledge of experts which is adequate for the current retail lending operations and provide a good basis for further development of retail business.

The Group securitizes its credit risk exposure by taking guarantees and collateral.

If a guarantee is taken the Group assesses a guarantor's financial stability and business profile in a similar manner to the assessment of a borrower described above.

The assessment of collateral is performed internally by special divisions responsible for collateral assessment and control. They use several methodologies developed for each type of collateral. Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

Collateral is not generally held over amounts due to banks, except where securities are held as a part of reverse re-purchase and sale transactions.

Note 30: Financial risk management (continued)

The Group measures and monitors credit risk on corporate portfolios by individual corporate exposure and estimates quantitative parameters of credit risk such as expected and unexpected losses on credit exposures. These calculations are based on internal ratings of creditworthiness assigned to each corporate borrower. The internal rating system is regularly updated and developed. The information accumulated over tins period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability. While the revision of a recovery number in classes of corporate borrowers is performed the historical data on losses is taken into consideration. In the final calculations of losses on loans, liquid and reliable collateral is considered.

The Group uses the following rating categories for the analysis of credit quality of loans to customers:

- Rating I - standard quality transaction: low probability of default on the transaction due to stable financial position of the borrower allowing generation of cash flows sufficient for meeting requirements of analyzed transaction;
- Rating II - stable quality transaction: average probability of default due to acceptable quality of the borrower’s cash flows, however, the borrower’s financial position and its performance against business plans require closer monitoring;
- Rating III - middle and low quality transaction: middle and high probability of default because of non-stable financial position of the borrower, or the lack of or poor quality of collateral; and
- Rating IV - non-recoverable loans which may be collected through legal procedures, claims to guarantors or realization of collateral but expected results of these collection procedures are uncertain.

The Group does not enter into transactions with an initial rating of III or IV.

Procedures on subsequent monitoring of credit risk include:

- analysis of actual exposures versus established limits;
- control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- review of corporate borrowers’ quarterly financial statements and, where appropriate. actual performance versus business plans;
- control over existence and valuation of collateral taken;
- monitoring of business, economic and political events in order to assess whether these events can negatively affect (a) an industry or a region where the Group’s corporate borrowers operate; (b) the reputation of these corporate borrowers and of the Group itself;
- monitoring of macroeconomic parameters in order to assess adequacy of risk assessment associated with corporate lending portfolios and to validate scoring models used for retail lending programs; and
- portfolio analyses showing trends in default rates, concentrations/diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

Attention is paid to improve efficiency of distressed debt collection and to protect the Group against illegal actions. Distressed debt collection procedures are initiated if loans are overdue by more than 30 days. These procedures include the Group’s proprietary techniques and the best practices of international and Russian banks in this area such as debt restructuring, searching for evading debtors and their property, claims to property and earnings and actions against lending fraud. Debt collection procedures are performed on the basis of current Russian legislation and international standards in close interaction with legal and law enforcement authorities.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group applies the same credit policies in making conditional obligations as it does for off-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Note 30: Financial risk management (continued)

The Group also uses several types of limits on amounts due from other banks such as maximum credit exposure on counterparty and on a group of transactions with tins counterparty including lending, purchase and sale of securities, currency and other financial assets if these transactions may cause a credit risk. In order to establish these limits the Group uses credit quality assessment procedures similar to the ones applicable to corporate borrowers discussed above.

For more detailed analyses please refer to https://www.zenit.ru/rus/about_bank/disclosure/financial-statements/

Credit risk analysis on banking and non-banking operations of the Group

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2017:

	Maximum exposure to credit risk	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents	42,797	-	42,797	-	42,797
Restricted cash	-	-	-	-	-
Banking: Mandatory reserves with CB RF	1,916	-	1,916	-	1,916
Accounts receivable	64,846	-	64,846	-	64,846
Banking: Loans to customers	150,983	-	150,983	(141,716)	9,267
Other financial assets	121,289	-	121,289	(11,751)	109,538
Total balance sheet credit risk	**381,831**		**381,831**	**(153,467)**	**228,364**
Loan commitments	26,421	-	26,421	(1,294)	25,127
Guarantees issued	13,801	-	13,801	(2,934)	10,867
Import letters of credit	1,426	-	1,426	(551)	875
Total off-balance sheet credit risk	**41,648**	**-**	**41,648**	**(4,779)**	**36,869**
Total credit risk	**423,479**	**-**	**423,479**	**(158,246)**	**265,233**

The following table represents aggregate amounts affecting overall credit risk of the Group as of 31 December 2016:

	Maximum exposure to credit risk	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and cash equivalents	77,106	-	77,106	-	77,106
Restricted cash	3	-	3	-	3
Banking: Mandatory reserves with CB RF	1,988	-	1,988	-	1,988
Accounts receivable	65,707	-	65,707	-	65,707
Banking: Loans to customers	193,026	-	193,026	(162,258)	30,768
Other financial assets	102,328	-	102,328	(6,639)	95,689
Total balance sheet credit risk	**440,158**	**-**	**440,158**	**(168,897)**	**271,261**
Loan commitments	24,885	-	24,885	(2,094)	22,791
Guarantees issued	13,869	-	13,869	(5,431)	8,438
Import letters of credit	331	-	331	(161)	170
Total off-balance sheet credit risk	**39,085**	**-**	**39,085**	**(7,686)**	**31,399**
Total credit risk	**479,243**	**-**	**479,243**	**(176,583)**	**302,660**

Note 30: Financial risk management (continued)

The table below shows credit quality by class of loans to customers as of 31 December 2017:

	Loans to legal entities	Loans to individuals	Total
Neither past due nor impaired			
- rating I	76,256	23,473	99,729
- rating II	6,085	10,082	16,167
- rating III	5	19	24
- rating IV	-	15	15
Total neither past due nor impaired	**82,346**	**33,589**	**115,935**
Past due but not impaired			
- less than 30 days overdue	9	49	58
- 30 to 90 days overdue	52	41	93
- 91 to 180 days overdue	-	47	47
- 181 to 360 days overdue	-	52	52
- more than 360 days overdue	-	470	470
Total past due but not impaired	**61**	**659**	**720**
Individually impaired			
- not overdue	38,734	-	38,734
- less than 30 days overdue	29	98	127
- 30 to 90 days overdue	48	81	129
- 91 to 180 days overdue	49	94	143
- 181 to 360 days overdue	788	104	892
- more than 360 days overdue	645	940	1,585
Less: provision for impairment	(6,721)	(561)	(7,282)
Total loans to customers	**115,979**	**35,004**	**150,983**

The table below shows credit quality by class of loans to customers as of 31 December 2016:

	Loans to legal entities	Loans to individuals	Total
Neither past due nor impaired			
- rating I	111,316	31,615	142,931
- rating II	17,139	541	17,679
- rating III	-	875	875
- rating IV	-	272	272
Total neither past due nor impaired	**128,455**	**33,302**	**161,757**
Past due but not impaired			
- less than 30 days overdue	285	27	312
- 30 to 90 days overdue	4	40	44
- 91 to 180 days overdue	15	93	108
- 181 to 360 days overdue	2	137	139
- more than 360 days overdue	3	275	278
Total past due but not impaired	**309**	**572**	**880**
Individually impaired			
- not overdue	27,012	-	27,012
- less than 30 days overdue	68	53	121
- 30 to 90 days overdue	233	81	314
- 91 to 180 days overdue	524	186	710
- 181 to 360 days overdue	335	274	609
- more than 360 days overdue	2,104	686	2,790
Less: provision for impairment	(1,030)	(137)	(1,167)
Total loans to customers	**158,009**	**35,017**	**193,026**

The Group uses the following rating categories for the analysis of credit quality of assets other than loans to customers and accounts receivable:

- investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB- for Standard and Poor's Rating, respectively;
- non-investment (speculative) grade ratings classification referred to as Ba1 to C for Moody's Investment Services, as BB- to B- for Fitch Rating and as BB- to D for Standard and Poor's Rating, respectively.

Note 30: Financial risk management (continued)

The table below shows credit quality of assets other than loans to customers and accounts receivable as of 31 December 2017:

	Investment grade rating	Non-investment grade rating	Unrated	Total
Cash and cash equivalents				
Cash on hand and in banks	3,114	9,188	16,917	29,219
Term deposits	8,012	3,859	35	11,906
Due from banks	-	1,672	-	1,672
Restricted cash	-	-	-	-
Banking: Mandatory reserves with CB RF	-	-	1,916	1,916
Other financial assets				
Bank deposits	-	1	301	302
Due from banks	-	1,613	-	1,613
Notes receivable	-	-	456	456
Other loans	-	-	3,260	3,260
Financial assets at fair value through profit or loss	1,952	3,191	3,358	8,501
Available-for-sale financial assets	4,360	12,509	11,870	28,739
Held to maturity investments	21,681	29,924	4,200	55,805
Past due but not impaired	-	-	-	-
Individually impaired				
Other financial assets				
Bank deposits	-	-	5,547	5,547
Due from banks	-	30	-	30
Notes receivable	-	-	318	318
Loans to employees	-	-	2,978	2,978
Other loans			15,955	15,955
Financial assets at fair value through profit or loss	-	-	298	298
Available-for-sale financial assets	-	318	19,602	19,920
Held to maturity investments	-	-	-	-
Less: provision for impairment	-	(348)	(22,114)	(22,462)
Total credit risk	**39,119**	**61,957**	**64,897**	**165,973**

Note 30: Financial risk management (continued)

The table below shows credit quality of assets other than loans to customers and accounts receivable as of 31 December 2016:

	Investment grade rating	Non-investment grade rating	Unrated	Total
Cash and cash equivalents				
Cash on hand and in banks	16,014	948	23,885	40,847
Term deposits	-	13,585	9,159	22,744
Due from banks	2,066	-	11,449	13,515
Restricted cash	-	3	-	3
Banking: Mandatory reserves with CB RF	-	-	1,988	1,988
Other financial assets				
Bank deposits	-	32,206	500	32,706
Due from banks	3,447	5,000	1,440	9,887
Notes receivable	-	-	458	458
Other loans	-	-	3,391	3,391
Financial assets at fair value through profit or loss	1,900	3,528	2,762	8,190
Available-for-sale financial assets	2,743	3,208	27,876	33,827
Held to maturity investments	3,774	4,632	2,153	10,559
Past due but not impaired	-	-	-	-
Individually impaired				
Other financial assets				
Bank deposits	-	5,400	-	5,400
Due from banks	-	-	-	-
Notes receivable	-	-	318	318
Loans to employees	-	-	2,494	2,494
Financial assets at fair value through profit or loss	-	-	23	23
Available-for-sale financial assets	-	3,585	-	3,585
Held to maturity investments	-	602	-	602
Less: provision for impairment	-	(7,287)	(1,827)	(9,114)
Total credit risk	**29,944**	**65,410**	**86,069**	**181,423**

Within short term bank deposits there are RR 5,400 million of deposits placed with Tatfondbank. Starting from 15 December 2016 a three-month moratorium on satisfying claims of creditors was imposed on Tatfondbank. DIA has been authorized to perform duties of a temporary administration for a period of six months. Subsequently, in March 2017, by the order of CB RF the license to conduct banking operations was withdrawn from Tatfondbank. At 31 December 2017 and 2016 the Group created a provision for impairment of deposits placed with Tatfondbank in the amount of RR 5,400 million.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Non-banking operations liquidity risk management

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

Note 30: Financial risk management (continued)

Banking operations liquidity risk management

It is unusual for banks ever to be completely matched on maturities of assets and liabilities since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The Group's approach to liquidity management is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both ordinary and stressed conditions, without incurring unacceptable losses or damaging the Group's reputation.

The Group endeavors to maintain a stable and diversified funding base including core corporate and individual customer accounts; short-, medium- and long-term loans from other banks; promissory notes and bonds issued. On the other hand, the Group tends to keep diversified portfolios of liquid and highly liquid assets in order to be able to settle unforeseen liquidity requirements in an efficient and timely manner.

Key parameters in liquidity risk management such as the structure of assets and liabilities, composition of liquid assets and acceptable liquidity risks are established by ALCO. ALCO sets and reviews limits on liquidity gaps which are assessed on the basis of liquidity stress-tests in regard to medium- and long-term liquidity. These tests are performed using the following information:

- current structure of assets and liabilities including any known renewal arrangements as at the date of the respective test;
- amounts, maturity and liquidity profiles of transactions projected by business units;
- current and projected characteristics of liquid assets which include, apart from cash and cash equivalents, amounts due from other banks and certain financial assets held-for-trading: and
- relevant external factors.

The resulting models allow for the assessment of future expected cash flows due to projected future business and different crisis scenarios. While managing liquidity risk treasury departments of the Group distinguish liquidity required within a current business day and term liquidity with a 1-year horizon. For managing current liquidity (with a 1-day horizon) the following methods are used:

- reallocation of cash between accounts with other banks;
- collection of information from business and other supporting units on large transactions (both proprietary and customer based);
- purchase and sale of certain financial assets in liquid portfolios;
- accelerating closure of trade positions;
- estimation of minimum expected cash inflow during a business day; and
- daily control over the balance of cash and estimated liabilities to be settled on demand.

For managing term liquidity treasury departments of the Group use liquidity graphs that reflect volume and time of liquidity mismatches (surpluses or deficiencies). These liquidity graphs, in essence, present projected cash flows estimated with due regard for expected maturities of assets and liabilities. The Group sets limits on acceptable accumulated liquidity mismatches which are calculated by using the following instruments:

- discounts to assets are applied to recognize market risk in case of accelerated realization of respective assets; and
- models showing cash flow fluctuations due to accelerated settlement of liabilities.

In the normal course of business, liquidity reports covering the current and projected structure of assets and liabilities as well as future expected cash flows are submitted to ALCO once every two weeks. Decisions on liquidity management made by ALCO are implemented by treasury departments within their duties and responsibilities, in addition to this, ALCO reviews and approves model of maturity for the minimum required daily balances of current accounts by currencies on the basis of analysis of historical dynamics.

Note 30: Financial risk management (continued)

Liquidity analysis for banking and non-banking operations of the Group

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2017:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Trade and other financial payables					
Trade payables	22,366	-	-	-	22,366
Dividend payable	6,032	-	-	-	6,032
Other payables	3,400	-	-	-	3,400
Debt					
Bonds issued	8,369	-	-	-	8,369
Subordinated debt	528	2,588	2,955	2,102	8,173
Debt securities issued	3,364	84	24	4	3,476
Credit facilities	28,349	-	-	-	28,349
Other debt	2,039	15	1,597	-	3,651
Banking: Due to banks and CB RF	29,695	344	5,575	20	35,634
Banking: Customer accounts	170,337	2,600	224	-	173,161
Other short-term liabilities	256	-	-	-	256
Credit related commitments (Note 28)	12,924	6,381	6,647	469	26,421
Total	**287,659**	**12,012**	**17,022**	**2,595**	**319,288**

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as of 31 December 2016:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Trade and other financial payables					
Trade payables	25,575	-	-	-	25,575
Dividend payable	149	-	-	-	149
Other payables	430	-	-	-	430
Debt					
Bonds issued	9,471	8,734	13,866	23,146	55,217
Subordinated debt	223	224	3,940	1,552	5,939
Debt securities issued	4,713	94	36	29	4,872
Credit facilities	9,781	-	-	-	9,781
Other debt	1,224	219	1,173	625	3,241
Banking: Due to banks and CB RF	5,551	9,369	6,240	-	21,160
Banking: Customer accounts	200,234	8,728	8,183	-	217,145
Other short-term liabilities	1,398	-	-	-	1,398
Credit related commitments (Note 28)	26,127	5,465	6,231	1,262	39,085
Total	**284,876**	**32,833**	**39,669**	**26,614**	**383,992**

Note 30: Financial risk management (continued)

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that Group has the ability to assess at the measurement date. For the Group, Level 1 inputs include held-for-trading financial assets that are actively traded on markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Group's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	At 31 December 2017				At 31 December 2016			
	Fair value				Fair value			
	Level 1	Level 2	Level 3	**Carrying value**	Level 1	Level 2	Level 3	**Carrying value**
Financial assets at fair value through profit or loss	8,096	-	405	**8,501**	7,759	-	431	**8,190**
Available-for-sale financial assets	16,944	8,998	15,763	**41,705**	9,509	2,300	24,309	**36,118**
Investment property			871	**871**	-	-	877	**877**
Total	**25,040**	**8,998**	**17,039**	**51,077**	**17,268**	**2,300**	**25,617**	**45,185**

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2017 and 2016:

	Fair value hierarchy	**Valuation technique and key input data**
Available-for-sale financial assets	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach Publicly available information, comparable market prices
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the year ended 31 December 2017 (2016: none).

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

Note 30: Financial risk management (continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	At 31 December 2017				At 31 December 2016			
	Fair value			Carrying value	Fair value			Carrying value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets								
Cash and cash equivalents								
Cash on hand and in banks	-	29,219	-	29,219	-	40,847	-	40,847
Term deposits	-	11,906	-	11,906	-	22,744	-	22,744
Due from banks	-	1,672	-	1,672	-	13,515	-	13,515
Restricted cash	-	-	-	-	-	3	-	3
Banking: Mandatory reserve deposits with CB RF	-	-	1,916	1,916	-	-	1,988	1,988
Accounts receivable								
Trade receivables	-	-	59,075	59,075	-	-	61,467	61,467
Other financial receivables	-	-	5,771	5,771	-	-	4,240	4,240
Banking: Loans to customers	-	-	150,983	150,983	-	-	193,026	193,026
Other financial assets								
Bank deposits	-	302	-	302	-	32,706	-	32,706
Due from banks	-	1,642	-	1,642	-	9,887	-	9,887
Notes receivable	-	-	456	456	-	-	458	458
Loans to employees	-	-	1,558	1,558	-	-	1,018	1,018
Other loans	-	-	11,321	11,321	-	-	3,391	3,391
Held to maturity investments	55,805	-	-	55,805	10,560	-	-	10,560
Total financial assets	**55,805**	**44,741**	**231,080**	**331,626**	**10,560**	**119,702**	**265,588**	**395,850**
Trade and other financial payables								
Trade payables	-	-	22,366	22,366	-	-	25,575	25,575
Dividend payable	-	-	6,032	6,032	-	-	149	149
Other payables	-	-	3,400	3,400	-	-	430	430
Debt								
Bonds issued	7,742	-	-	7,742	32,698	-	-	32,698
Subordinated debt	-	-	4,492	4,492	-	-	4,497	4,497
Debt securities issued	-	-	3,428	3,428	-	-	4,894	4,894
Credit facilities	-	-	27,744	27,744	-	-	9,340	9,340
Other debt	-	-	3,406	3,406	-	-	2,701	2,701
Due to banks and CB RF	-	33,640	-	33,640	-	18,350	-	18,350
Customer accounts	-	158,914	-	158,914	-	180,714	-	180,714
Other liabilities	-	-	256	256	-	-	1,398	1,398
Total financial liabilities	**7,742**	**192,554**	**71,124**	**271,420**	**32,698**	**199,064**	**48,984**	**280,746**

Note 30: Financial risk management (continued)

The carrying amounts of financial assets and liabilities carried at amortized cost approximates their fair values. The fair values in Level 2 fair value hierarchy were estimated using the discounted contractual cash flows and observable interest rates for identical instruments. The fair values in Level 3 fair value hierarchy were estimated using the discounted cash flows and observable interest rates for similar instruments with adjustment to credit risk and maturity.

Reconciliation of liabilities arising from financing activities of the Group

	Liabilities arising as a result of financial activities			
	Short-term and long-term debt	**Bonds issued**	**Subordinated debt**	**Total**
At 31 December 2016	**12,041**	**32,698**	**4,497**	**49,236**
Cash flow movement, including:				
Proceeds from issuance of debt	25,107	-	-	25,107
Repayment of debt	(5,434)	-	-	(5,434)
Issuance of bonds	-	2,365	-	2,365
Redemption of bonds	-	(25,740)	-	(25,740)
Interest accrued	425	2,011	921	3,357
Interest paid	(160)	(2,011)	(921)	(3,092)
Financial expenses:				
Foreign currency profit	(504)	-	(298)	(802)
Other non-cash flows	(325)	(1,581)	293	(1,613)
At 31 December 2017	**31,150**	**7,742**	**4,492**	**43,384**

Management of Capital

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group defines capital under management as equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2017 was RR 711,859 million (2016: RR 703,511 million). The Group manages capital for banking and non-banking operations separately.

Non-banking operations capital management

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

	Year ended 31 December 2017	**Year ended 31 December 2016**
Consolidated total borrowings excluding borrowings of Bank ZENIT:	**31,410**	**12,301**
- Credit facilities	27,744	9,340
- Other debt	3,406	2,701
- Notes payable	260	260
Consolidated shareholders' equity	**711,859**	**703,511**
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders' equity)	**4%**	**2%**

Banking operations capital management

The Group's policy on capital management is to maintain a strong capital base in order to support further business development of the Group and to satisfy requirements set by regulatory authorities.

The Group has been developing procedures for the economic capital calculation on the basis of best international risk management practices.

The CB RF establishes and controls capital adequacy requirements.

The Group also monitors capital requirements set by the CB RF for credit institutions. Under the current capital requirements banks have to maintain a ratios of capital to risk-weighted assets ("statutory capital ratios") above the prescribed minimum levels. The CB RF sets the following mandatory capital ratios requirements for core capital, Tier 1 and total capital: 4.5%, 6% and 8% respectively. As of 31 December 2017 and during the period from Bank ZENIT acquisition till 31 December 2017 the Group complied with the statutory requirements related to the capital ratio.

In September 2015 Bank ZENIT received five subordinated loans totalling RR 9,933 million from DIA within the Russian Federation Government programme for additional capitalisation of Russian banks. Under the terms of these subordinated loan agreements DIA paid these loans by securities (OFZ of five series), that should be returned upon maturity of the subordinated loans. These subordinated loans mature from January 2025 to November 2034 and bear interest equal to OFZ coupon rate plus 1%. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" if securities are loaned under an agreement to return them to the transferor, they are not derecognized because the transferor retains substantially all the risks and rewards of ownership. Accordingly, the obligation to return the securities should not be recognized. Therefore, OFZ and the subordinated loan received from DIA are not recognized within assets and liabilities in the consolidated statement of financial position. In accordance with the Bank of Russia's Regulation No. 395-P these subordinated loans accounted for in capital adequacy ratio calculation in accordance with Bank of Russia's Regulation No. 395-P.