TRANSNEFT

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENT

Independent Auditors' Report

To the Shareholders and Board of Directors of Transneft

Opinion

We have audited the consolidated financial statements of Transneft (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition of a controlling stake in PJSC "Novorossiysk Commercial Sea Port"	
Please refer to the Note 8 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In September 2018 the Group acquired 50% of the share capital of Omirico Limited which controls indirectly 50.1% of shares in PJSC "Novorossiysk Commercial Sea Port" (hereinafter – NCSP), and as a result of the acquisition the Group's effective share in Omirico Limited increased up to 100%, and the Group's effective share in NCSP increased from 37% up to 63%, which allowed the Group to obtain control over NCSP and its subsidiaries. The consideration paid amounted to USD 750 million (RUB 49,319 million as at the exchange rate of the Bank of Russia on the date of payment). NCSP's assets and liabilities in the Group's consolidated financial statements were accounted for under IFRS 3 *Business combinations* at fair value based on the independent appraiser's report. Due to inherent uncertainty involved in forecasting and discounting future cash flows, which form the basis of the assets' and liabilities' fair value, this is one of the key judgmental areas that our audit is concentrated on.	Our audit procedures included analysing whether the Group's approach towards the accounting for the acquisition of a controlling stake in NCSP is consistent with the applicable IFRS requirements. We also used our own internal valuation specialists who: — analyzed methodology used when assessing fair values of the acquired assets and liabilities for the purchase price allocation, validated accuracy of the independent appraiser's calculations; — compared assumptions used by the independent appraiser to externally derived data (exchange rates, income tax rate, price indexes, aggregative capital construction indexes handbooks, equipment suppliers and producers prices) as well as to our own assessments in relation to key inputs (expenses growth due to inflation, discount rate, etc.). We also: — analyzed whether the consideration including fair value of the investment in Omirico Limited owned by the Group at the acquisition date was assessed correctly; — validated the amount of a non-controlling interest by comparing total amount of shares issued by NCSP with the amount of shares owned by separate beneficiaries groups. We have also considered appropriateness and completeness of the disclosures in the consolidated financial statements regarding this acquisition.

Assessment of recoverable amount of property, plant and equipment	
Please refer to the Note 7 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Group has a significant property, plant and equipment balance which is material to the consolidated financial statements as at 31 December 2018. This is particularly related to Oil transportation services segment cash generating unit (hereinafter – CGU). As at the reporting date management measured the recoverable amount of the CGU by means of value in use. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which form the basis of the assessment of the recoverable amount, this is one of the key judgmental areas that our audit is concentrated on.	Our audit procedures included: — analysis of the budget upon which the forecasts are based and testing the accuracy of the data used in the discounted cash flow model (including comparison of forecast and actual oil turnovers); — analysis of the model sensitivity due to changes of key assumptions. We used our own internal valuation specialists who: — analyzed methodology used by the Group when preparing the model; — compared assumptions used by the Group to externally derived data (inflation, exchange rates and income tax rate) as well as to our own assessments in relation to key inputs (expenses growth due to inflation, discount rate, etc.) We have also considered appropriateness and completeness of the disclosures in the consolidated financial statements regarding this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's discussion and analysis of the Group's financial position and results of its operations, but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Annual report for 2018, which is 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 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 auditors' 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 engagement partner on the audit resulting in this independent auditors' report is:

Vakhidov N.U.
JSC "KPMG"
Moscow, Russia
28 March 2019

(in millions of Russian roubles, if not stated otherwise)

ASSETS

Non-current assets	Notes	31 December 2018	31 December 2017
Intangible assets	6	160,318	8,966
Property, plant and equipment	7	2,477,126	2,268,663
Available-for-sale financial assets		-	251
Investments in associates and jointly controlled entities	8	119,198	126,769
Financial assets measured at fair value through profit or loss	9	4,833	-
Receivables and prepayments, VAT assets	12	3,741	2,083
Financial assets measured at amortised cost	10	17,466	23,096
Total non-current assets		**2,782,682**	**2,429,828**
Current assets			
Inventories	11	36,383	30,662
Receivables and prepayments	12	36,714	42,400
VAT assets		42,313	35,316
Current income tax prepayments		3,225	5,697
Financial assets measured at fair value through profit or loss	9	60,407	58,859
Financial assets measured at amortised cost	10	126,177	208,768
Cash and cash equivalents	13	101,852	76,162
Total current assets		**407,071**	**457,864**
Total assets		**3,189,753**	**2,887,692**

EQUITY AND LIABILITIES

Equity	Notes	31 December 2018	31 December 2017
Share capital	14	308	308
Share premium reserve	14	93,592	58,544
Merger reserve	14	(6,072)	(13,080)
Retained earnings		1,943,965	1,803,206
Attributable to the shareholders of Transneft		**2,031,793**	**1,848,978**
Non-controlling interests		32,874	1,776
Total equity		**2,064,667**	**1,850,754**
Non-current liabilities			
Loans and borrowings	16	574,452	579,180
Deferred income tax liabilities	17	67,015	47,120
Provisions for liabilities and charges	18	125,447	126,725
Trade and other payables	19	63,419	3,458
Total non-current liabilities		**830,333**	**756,483**
Current liabilities			
Loans and borrowings	16	98,540	109,730
Provisions for liabilities and charges	18	43,317	41,468
Trade and other payables	19	152,462	129,021
Current income tax payable		434	236
Total current liabilities		**294,753**	**280,455**
Total liabilities		**1,125,086**	**1,036,938**
Total equity and liabilities		**3,189,753**	**2,887,692**

Approved on 28 March 2019 by:

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО РОССИЙСКАЯ ФЕДЕРАЦИЯ, г. МОСКВА • ТРАНСНЕФТЬ •

President N.P. Tokarev

The accompanying notes set out on pages 13 to 63 are an integral part of these consolidated financial statements

(in millions of Russian roubles, if not stated otherwise)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	20	979,958	884,337
Operating expenses net of depreciation and amortisation	21	(546,083)	(476,062)
Operating profit before amortisation and depreciation		**433,875**	**408,275**
Depreciation and amortisation		(178,610)	(152,637)
Operating profit		**255,265**	**255,638**
Other income / (expenses)		33,519	(13,686)
Share of profit from associates and jointly controlled entities	8	10,231	15,847
Profit before income tax and finance income/(costs)		**299,015**	**257,799**
Finance income	22	100,930	109,177
Finance costs	22	(122,234)	(124,809)
Profit before income tax		**277,711**	**242,167**
Income tax expense	17	(52,298)	(50,362)
Profit for the reporting year		**225,413**	**191,805**
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Currency translation differences, net of income tax		1,517	41
Total items that may be reclassified to profit or loss, net of income tax		*1,517*	*41*
Items that will not be reclassified to profit or loss			
Remeasurement of net defined benefit plan obligation, net of income tax	18	(2,287)	537
Total items that will not be reclassified to profit or loss, net of income tax		*(2,287)*	*537*
Total other comprehensive (loss)/income for the reporting year, net of income tax		**(770)**	**578**
Total comprehensive income for the reporting year		**224,643**	**192,383**
Profit attributable to			
Shareholders of Transneft		224,337	191,971
Non-controlling interests		1,076	(166)
Total comprehensive income attributable to			
Shareholders of Transneft		223,568	192,549
Non-controlling interests		1,075	(166)

(in millions of Russian roubles, if not stated otherwise)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Cash receipts from customers		1,060,749	948,360
Cash paid to suppliers and employees, and taxes other than income tax		(709,027)	(606,686)
Interest paid		(53,167)	(46,220)
Income tax paid		(43,858)	(52,391)
Income tax refund		307	403
VAT and other taxes refund		96,860	87,559
Other cash flows used in operating activities		(4,704)	(3,924)
Net cash flows from operating activities		**347,160**	**327,101**
Cash flows from investing activities			
Purchase of property, plant and equipment		(268,787)	(306,880)
Proceeds from sale of property, plant and equipment		813	681
Interest received		23,868	22,429
Purchase of debt securities and placement of funds on deposit accounts		(358,921)	(416,364)
Proceeds from sale of debt securities and closure of deposit accounts		447,860	500,300
Cash received from changes in the Group's structure	8	5,363	-
Acquisition of shares in subsidiaries	8	(17,301)	-
Acquisition of shares in associates and jointly controlled entities		(155)	(98,310)
Dividends received and other cash proceeds from associates and jointly controlled entities		3,418	28,485
Return and granting of borrowings		(2,439)	(4,260)
Other cash flows used in investing activities		(142)	(253)
Net cash flows used in investing activities		**(166,423)**	**(274,172)**
Cash flows from financing activities			
Repayment of loans and borrowings		(395,242)	(190,059)
Proceeds from loans and borrowings		287,262	197,020
Purchase of treasury shares	14	-	(1,106)
Sale of treasury shares	14	-	1,134
Dividends paid out	14	(58,510)	(58,159)
Other cash received from financing activities		17	22
Other cash used in financing activities		(1,047)	(35)
Net cash flows used in financing activities		**(167,520)**	**(51,183)**
Effects of exchange rate changes on cash and cash equivalents		**12,473**	**(170)**
Net increase in cash and cash equivalents		**25,690**	**1,576**
Cash and cash equivalents at the beginning of the year	13	**76,162**	**74,586**
Cash and cash equivalents at the end of the year	13	**101,852**	**76,162**

The accompanying notes set out on pages 13 to 63 are an integral part of these consolidated financial statements

(in millions of Russian roubles, if not stated otherwise)

		Attributable to the owners of Transneft								
	Note	Share capital	Share premium reserve	Merger reserve	Treasury shares	Prepaid share reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017		**308**	**52,553**	**(13,080)**	**-**	**5,991**	**1,668,788**	**1,714,560**	**1,795**	**1,716,355**
Profit for the reporting year		-	-	-	-	-	191,971	**191,971**	(166)	**191,805**
Remeasurement of net defined benefit plan obligation, net of income tax	18	-	-	-	-	-	537	**537**	-	**537**
Currency translation differences, net of income tax		-	-	-	-	-	41	**41**	-	**41**
Total comprehensive income for the reporting year		-	-	-	-	-	**192,549**	**192,549**	**(166)**	**192,383**
Transactions with owners of the Company and changes in ownership interests										
Placement of ordinary certified non-documentary shares	14	-	5,991	-	-	(5,991)	-	-	-	-
Purchase of treasury shares	14	-	-	-	(1,106)	-	-	(1,106)	-	**(1,106)**
Sale of treasury shares	14	-	-	-	1,106	-	28	1,134	-	**1,134**
Dividends : - ordinary shares	14	-	-	-	-	-	(45,508)	(45,508)	-	**(45,508)**
- preferred shares	14	-	-	-	-	-	(12,651)	(12,651)	-	**(12,651)**
Disposal of subsidiary		-	-	-	-	-	-	-	147	**147**
Total transactions with owners and changes in ownership interests		**-**	**5,991**	**-**	**-**	**(5,991)**	**(58,131)**	**(58,131)**	**147**	**(57,984)**
Balance at 31 December 2017		**308**	**58,544**	**(13,080)**	**-**	**-**	**1,803,206**	**1,848,978**	**1,776**	**1,850,754**
Balance at 31 December 2017		**308**	**58,544**	**(13,080)**		**-**	**1,803,206**	**1,848,978**	**1,776**	**1,850,754**
Adjustment on initial application of IFRS 15, net of income tax	4	-	-	-		-	(26,408)	**(26,408)**	-	**(26,408)**
Adjustment on initial application of IFRS 9, net of income tax	4	-	-	-		-	(1,474)	**(1,474)**	-	**(1,474)**
Balance at 1 January 2018		**308**	**58,544**	**(13,080)**		**-**	**1,775,324**	**1,821,096**	**1,776**	**1,822,872**
Profit for the reporting year		-	-	-	-	-	224,337	**224,337**	1,076	**225,413**
Remeasurement of net defined benefit plan obligation, net of income tax	18	-	-	-	-	-	(2,287)	**(2,287)**	-	**(2,287)**
Currency translation differences, net of income tax		-	-	-	-	-	1,518	**1,518**	(1)	**1,517**
Total comprehensive income for the reporting year		-	-	-	-	-	**223,568**	**223,568**	**1,075**	**224,643**
Transactions with owners and changes in ownership interests										
Business combination under common control	14	-	35,048	7,008	-	-	-	**42,056**	-	**42,056**
Acquisition of subsidiary with non-controlling interest	8	-	-	-	-	-	-	**-**	35,433	**35,433**
Dividends : - ordinary shares	14	-	-	-	-	-	(43,154)	**(43,154)**	(5,410)	**(48,564)**
- preferred shares	14	-	-	-	-	-	(11,773)	**(11,773)**	-	**(11,773)**
Total transactions with owners and changes in ownership interests		**-**	**35,048**	**7,008**	**-**	**-**	**(54,927)**	**(12,871)**	**30,023**	**17,152**
Balance at 31 December 2018		308	93,592	(6,072)	-	-	1,943,965	2,031,793	32,874	2,064,667

1 NATURE OF OPERATIONS

Public Joint Stock Company “Transneft” (hereinafter named the “Company”) was incorporated by the Resolution of the Council of Ministers - Russian Government dated 14.08.1993 № 810. The Company's registered office is located in Moscow, Russian Federation.

In July 2016 according to amendments made to the Civil Code of the Russian Federation, to the Unified state register of legal entities the name of the Company has been changed to Public Joint Stock Company “Transneft” (Transneft).

The Company and its subsidiaries (hereinafter - the "Group") as at 31 December 2018 operate the trunk oil pipeline system in the Russian Federation totalling 51,573 km and the oil products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 16,716 km. Its associate OOO LatRosTrans operates an oil products pipeline system in the Republic of Latvia interconnected with the general system.

During the year ended 31 December 2018, the Group transported 480 million tonnes of crude oil to domestic and export markets (as for the year ended 31 December 2017 – 478 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 39.2 million tonnes of oil products (33.1 million tonnes as for the year ended 31 December 2017).

In September 2018 the Group obtained control over PJSC NCSP (Note 8). PJSC NCSP and its subsidiaries are established and operate mainly in the territory of the Russian Federation; their main activities include stevedoring and additional port services, as well as, fleet services.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. Because the legal, tax and regulatory frameworks continue to develop and change the risk of ambiguous interpretations of their requirements exists.

The imposition of economic sanctions on Russian individuals and legal entities including the Company by the European Union, the United States of America and other countries, as well as, retaliatory sanctions imposed by the Russian government, has resulted in more volatile equity markets, and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions are difficult to determine.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

3 BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with, and fully comply with, International Financial Reporting Standards (“IFRS”).

The principal accounting policies have been consistently applied in the preparation of these consolidated financial statements to all periods presented, unless otherwise stated (see Note 4). The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Notes 4 and 5.

Certain comparative amounts have been adjusted to conform with the current year's presentation.

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries including UP Zapad-Transnefteproduct, and the Group’s presentation currency, is the national currency of the Russian Federation - Russian Rouble (“RUB”).

The official US dollar (“USD”) to Russian Rouble (“RUB”) exchange rate as determined by the Central Bank of the Russian Federation (“CBR”) was 69.4706 and 57.6002 as at 31 December 2018 and 31 December 2017, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the fair value of identifiable assets and liabilities of the subsidiary at the acquisition date, and movements in net assets since the date of the acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Business combination under common control

Business combinations under common control are accounted for using the predecessor values method from the date of combination. Under this method the acquired entities' results are included into the acquirer's financial statements from the date the transaction occurred. The assets and liabilities of the subsidiary transferred under common control are recorded at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity.

Loss of control

When control of subsidiary is lost the Group ceases recognition of its assets and liabilities, as well as, relating to subsidiary non-controlling interests and other components of equity. If the Group retain part of the investment in the former subsidiary then such investment is recognised at fair value when control ceases. Subsequently, the investment is accounted for as associate (using the equity method) or as financial asset available for sale depending on the Group's influence on the entity.

Investments in associates and jointly controlled entities

Associates are undertakings over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence occurred when the Group has the power to participate in the financial and operational policy decisions of the entity but has no control or joint control over those policies.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity, either directly or indirectly, unless lack of ability to exercise significant influence can be demonstrated clearly.

Joint control entities are companies, financial or operating policies of which are controlled by the Group as well as other members of these companies.

Investments in associates and jointly controlled entities are accounted under equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Lease rights

Lease rights acquired as a result of a business combination are recognised and shown separately from goodwill if they meet the definition of intangible asset and if the fair value of the asset can be determined reliably. Such intangible assets are initially measured at fair value on the date of acquisition.

Following the initial recognition the lease rights acquired in a business combination are recognised at acquisition cost less accumulated amortisation and impairment loss determined on the same basis which was used for intangible assets acquired in the result of separate transaction.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation of intangible assets

Amortisation is based on the cost of the asset less its estimated residual value.

In relation to intangible assets other than goodwill, amortisation is accrued from the date when these assets are available for use and is recognised on the straight-line basis in the profit or loss for the period during their respective useful lives presented below:

	Years
Lease rights	up to 37
Other intangible assets	3-20

Property, plant and equipment

Property, plant and equipment are carried at initial historical cost, including, where appropriate, the net present value of the estimated dismantlement or removal cost of the asset at the end of its estimated useful life, less accumulated depreciation and impairment losses. Assets under construction are carried at historical cost and depreciated from the time the asset is available for use. Depreciation is calculated on the straight-line basis of each item of property, plant and equipment (less its realisable value) over their useful lives which are as follows:

	Years
Buildings and facilities	8-50
Crude oil pipelines and tanks	20-33
Oil product pipelines	50
Other plant and equipment	5-25

Management approves specific plans for prospective dismantlement or decommissioning of sections of pipeline and related facilities, at that time, the estimated useful life of the related asset is revised and the annual depreciation charge is amended if applicable.

Renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs, and minor renewals are expensed as incurred. Gains and losses arising from the retirements or other disposals of property, plant and equipment are included in profit (loss) for the year in the consolidated statement of profit or loss and other comprehensive income.

Crude oil and oil products used for technical operation of the pipeline network (“linefill”) owned by the Group are treated as a separate component of the pipeline class of asset and are not depreciated as their residual values exceed carrying amounts.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any additions to linefill over the year are recognised at cost, and any disposals are written off at weighted average carrying value of linefill.

Oil surpluses arising from stocktaking are recognised at market value and are recorded in inventory in the consolidated statement of financial position, and income from oil surplus is netted with other expenses which include charity expenses, made from the above specified income received, and recognised in Other expenses in the consolidated statement of profit or loss and other comprehensive income.

Disposals of oil surpluses are accounted for as revenue and included in sales in the consolidated statement of profit or loss and other comprehensive income.

The prepayments which relate to property, plant and equipment and construction in progress, as well as, inventory for construction are included in the category Assets under construction including prepayments.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant effective interest rate on the finance balance outstanding. The leased assets which assume the transfer of ownership are depreciated over their useful lives. Other leased assets are depreciated over the shorter of its useful life and the lease term.

Other lease agreements are classified as operating leases and corresponding leased assets are not recognised in the Group's consolidated statement of financial position.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Financial instruments

The Group initially applied IFRS 9 Financial instruments from 1 January 2018. The effect of initial adoption of IFRS 9 is presented below in Adoption of new accounting standards.

Financial assets – policy applicable before 1 January 2018

Financial assets and liabilities include cash and cash equivalents, available-for-sale financial assets, held-to-maturity financial assets, financial assets measured at fair value through profit or loss, receivables, borrowings, trade and other payables. These items are initially recognised at fair value adjusted for transaction costs on the date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised only when the rights to the appropriate benefits under the relevant contract are settled, lost, surrendered, or have expired. Financial liabilities are partially or fully de-recognised only when the obligation specified in the relevant contract is discharged, cancelled, or has expired.

Financial assets at fair value through profit or loss and available-for-sale financial assets are re-measured to fair value at each subsequent reporting date, other financial assets and financial liabilities are carried at amortised cost.

The fair values of financial assets and liabilities with a maturity date less than year from the reporting date, including trade and other receivables and payables, are assumed to approximate their carrying amounts unless there is an indication of impairment at the reporting date. The fair value of all other financial assets and liabilities is based on the amount receivable or payable at the expected settlement date, discounted to net present value using a rate considered appropriate for the asset or liability.

A financial asset not carried at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Besides, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20% to be significant and a period of twelve months to be prolonged.

Impairment of an equity-accounted investee is recognised in the consolidated statement of profit or loss and other comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale financial assets

Fair value of available-for-sale securities is determined using the quoted prices on active market. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Gains and losses arising from changes in the fair value of the investments classified as available-for-sale are recognised in other comprehensive income. When the investments classified as available-for-sale are sold or impaired, the fair value adjustments accumulated in other comprehensive income are included in the consolidated statement of profit or loss and other comprehensive income as a reclassification adjustment as gains and loss from the investments.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

The Group is not permitted to classify any financial assets as held to maturity during the following two financial years and reclassifies the assets of this category as available-for-sale if the Group during the current financial year has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- are close to maturity or the financial asset’s call date;
- occur after the Group has collected substantially all of the financial asset’s original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Group’s control, is non-recurring and could not have been reasonable anticipated by the Group.

Financial assets measured 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 recognised 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, and information about basis for decisions is regularly disclosed and reviewed by the management. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss for the period.

Interest income on financial assets measured at fair value through profit and loss calculated based on effective interest method as well as gains or losses on derecognition of these financial assets is recognised in the statement of profit or loss and other comprehensive income in the profit from operations with securities at fair value through profit and loss. Dividend income is recognised in profit or loss for the period when the Group’s right to receive payment is established and probability to receive dividends exist. Changes in fair value are recognised in the profit or loss from operations with securities at fair value through profit or loss in the period when changes occurred.

Loans and receivable

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Those assets are initially measured at fair value plus directly attributable transaction costs. After initial measurement loans and receivables are measured at amortised cost which is calculated based on the effective interest method less provision made for impairment.

A provision for impairment is established when there is an objective evidence that Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for the similar borrowers at the date of origination of the receivables.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following principal criteria are used to determine whether there is objective evidence that an impairment loss might have occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Financial assets – policy applicable after 1 January 2018

Classification - Financial assets

Financial assets comprise cash and cash equivalents, deposits, loans granted, trade receivables and other investments.

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL on initial recognition:

(a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables, cash and cash equivalents, loans granted and other receivables unquoted on active market and assuming receipt of fixed or determined payments are measured at amortised cost using the effective interest rate method less any impairment losses.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL on initial recognition:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of equity investments that are not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets including all derivative financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Interest income on securities at FVTPL calculated using the effective interest rate method as well as gain or loss on derecognition are recognised in profit or loss as net gain from operations with financial instruments measured at FVTPL. Dividends are recognised when the Group has the right for certain payments and there exists a probability of receipt of dividends. Fair value changes are recognised in profit or loss as net gain or loss from financial instruments measured at FVTPL in the period when they have arisen.

The Group initially measures financial assets (except a trade receivable without a significant financing component that is initially measured at the transaction price) at fair value, increased for an item not measured at FVTPL, by the amount of transaction costs that are directly attributable to its acquisition or issue.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, Including any interest or dividend income, are recognised in profit or loss statement.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain and loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss until the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The adoption of IFRS 9 as at 1 January 2018 for classification of financial assets did not have significant effect on accounting of trade receivables and debt investments and equity investments.

As at 1 January 2018 the Group classified in accordance with IFRS 9 part of loans to related parties amounting to RUB 13,590 to the category measured at fair value through profit or loss as cash flows from these loans are not solely payments of principal and interest of the outstanding balance, which resulted in recognition of fair value loss in the amount of RUB 1,173. Accordingly all gains and losses from changes in the loans fair value will be recognised in profit or loss.

As at 1 January 2018 the Group had equity investments which were classified as available-for-sale under IAS 39. In accordance with the Group's estimate the fair value of these investments does not differ significantly from their carrying value and, therefore, under IFRS 9 the Group classified these investments as measured through profit or loss. Accordingly, all gains and losses from changes in the investments' fair value will be recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Impairment – financial assets and contract assets

The Group recognises loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Trade and other receivables including contract assets

The expected credit losses will be calculated based on actual historical credit loss experience taking into account the economic environment expected by the Group during the receivables lifetime using the probability of credit loss.

The application of IFRS 9's impairment requirements as at 1 January 2018 resulted in increase of impairment loss recognised under IAS 39 for RUB 503 (including RUB 59 of loans to related parties accounted for at amortised cost).

Debt securities

The Group analysed the changes in credit risk by tracking published external credit ratings.

To determine whether the credit risk has increased significantly as at 1 January 2018 which has not been recognised in published credit ratings the Group considered all quantitative and qualitative information available, including change in bond yields, CDS prices (if available), information from media and legal information about issuers, and additionally performed an analysis based on the Group's experience and an internal expert estimate of credit risk.

The default probabilities during 12 months after the reporting date and term of financial instruments are based on historical data provided by rating agency Standard&Poors for each credit rating, and are checked taking into account current bond yields and current CDS prices. Loss given default applied by the Group is determined based on presumed recovery rate.

Deposits, cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank deposits on demand and highly liquid investments with maturities with three months or less at acquisition date and which are subject to insignificant risk of fair value changes.

As at the reporting date deposits and cash equivalents are mainly held with largest banks which have external credit ratings supplied by rating agency Moody's and other rating agencies and adjusted to the Moody's rating scale from Baa3 to Ba2.

The estimated impairment on deposits and cash and cash equivalents was calculated based on the 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its deposits, cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group used a similar approach for assessment of ECLs for deposits, cash and cash equivalents to those used for debt securities.

The application of IFRS 9 impairment requirements as at 1 January 2018 resulted in an increase in impairment of deposits recognised under IAS 39 by RUB 166.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification - Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group's classification of financial liabilities as at 1 January 2018 did not have any material impact on the consolidated financial statements.

Loans and borrowings

Loans and borrowings are recognised initially at the fair value of cash proceeds which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, loans and borrowings are carried at amortised cost, using the effective interest rate method; any difference between the fair value (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives

Derivatives are initially recognised at fair value, relevant transaction expenses are recognised as profit or loss when incurred. Following initial recognition derivatives are measured at fair value with appropriate changes recognised directly in profit or loss for the period.

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the difference between the fair value at initial recognition and the transaction price is accounted for as follows:

(a) in profit or loss if the fair value of the quoted price is confirmed for identical assets or liabilities in an active market (accounted for Level 1) or based on a valuation method, which uses only data from observable markets;

(b) as deferred loss or income to defer recognition of the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the difference as the deferred gain or loss over the life of the financial instrument, but not later than the time when the estimate of its fair value can be made on fully observable market data, or the date of termination.

The Group has established a system of control in relation to the fair value measurement. Within this framework, the Group regularly checks significant unobservable inputs and valuation adjustments. In estimating the fair value of the asset or liability Group applies, as much as possible, observable market data. Fair value estimates are different levels of the fair value hierarchy depending on the input data used in the relevant assessment methods:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the initial data used to estimate the fair value of the asset or liability can be attributed to different levels of the fair value hierarchy, the fair value generally refers to the level of the hierarchy, which corresponds to the original data of the lowest level, are essential for the entire evaluation.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Transition

The Group applied IFRS 9 retrospectively; the Group also applied exemption allowing not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the previous carrying amount of financial instruments and their carrying amounts in accordance with IFRS 9 were recognised in the retained earnings as at 1 January 2018.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

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. 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 recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

VAT assets

VAT assets relate to VAT incurred on capital construction, operating and export activities, oil transportation to Russian oil-processing plants. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Income tax

Income tax has been provided for in the consolidated financial statements in accordance with legislation enacted at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss in the statement of profit or loss and other comprehensive income except if it is recognised directly in other comprehensive income or equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity or other comprehensive income.

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 for using the balance sheet liability method and is recognised for tax loss carried forward and temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

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

Provisions (including dismantlement provision)

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

Provisions are estimated and remeasured at each reporting date, and are included in the consolidated financial statements at their expected net present values using the discount rate appropriate to the liability with consideration to the economic environment of the Russian Federation.

Changes in provisions resulting from the passage of time are reflected as financial items in the consolidated financial statement of profit or loss and other comprehensive income. Changes in provisions resulting from changes in the discount rate and other changes in provisions, related to a change in the expected pattern or estimated cost of settlement of the obligation, are treated as a change in an accounting estimate in the period of the change by adjusting the corresponding asset or expense.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension activities

The State pension fund of the Russian Federation

The Group makes contributions to the State pension fund of the Russian Federation. Contributions to the State pension fund are recognised as expenses when accrued.

Pension liabilities

In addition to contributions to the State pension fund, the Group sponsors defined benefit plans for the majority of its employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present (discounted) value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present (discounted) value of economic benefits, consideration is given to every minimum funding requirements that apply to every plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on the settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income for the period.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Group operates its pension obligations, which are non-state pension provision (hereinafter - NPO), compulsory pension insurance (hereinafter - OPS), through its subsidiary JSC "NPF "TRANSNEFT".

Insurance contracts

JSC "NPF "TRANSNEFT" assigns to insurance contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) and agreement for provision of OPS when significant insurance risk is transferred to JSC "NPF "TRANSNEFT". JSC "NPF "TRANSNEFT" does not apply for additional financing of NPO to employers-investors and for additional insurance contributions to previous insurer in case of unfavorable events such as decline in investments and increase in longevity. JSC "NPF "TRANSNEFT" defines insurance contracts in accordance with IFRS 4 *Insurance contracts* as a contract under which one party (the insurer or JSC "NPF "TRANSNEFT") accepts significant insurance risk from another party entered into agreement for pension provision when this risk arises from uncertainty connected with payment of pension and deviation of actual repayments from forecasted mortality tables.

Investment contracts

JSC «NPF «TRANSNEFT» recognizes as investment contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) when these contracts contain financial risk without significant insurance risk. All investment contracts contain discretionary participation feature and JSC «NPF «TRANSNEFT» recognizes them in accordance with IFRS 4 *Insurance Contracts*.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and measurement of pension liabilities

JSC «NPF «TRANSNEFT» uses IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to measure its obligations under insurance contracts for NPO and investment contracts with discretionary participation feature. In accordance with IAS 37 the amount of provision recognised is the best estimate of expenditure required to settle the present obligation at the end of the reporting period. The provision in accordance with IAS 37 is adjusted to risk and uncertainty. This also responds to IFRS 4 *Insurance Contracts requirements*.

In accordance with IFRS 4 *Insurance Contracts* JSC «NPF «TRANSNEFT» reviews the relevance of liabilities to estimate whether there are enough pension assets to fulfill JSC «NPF «TRANSNEFT»'s liabilities under insurance contracts for OPS. The relevance check is based on assumptions for mortality, pension increase, forecast of future contributions, discount rate in the period of accumulation, discount rate in the period of payments and investment returns rate which are the best estimate as at the end of the reporting period.

Asset management agreements

For the investments into financial instruments made by the Group via the asset management agreements, there is no transfer of risk and benefits related to change in fair value of the investments. Thus, these financial instruments are recognised by the Group.

Site restoration provision

The Group periodically evaluates its obligations under environmental regulations, including as discussed below for the remediation of oil spillage. As obligations are determined, they are recognised as expenses immediately unless they mitigate or prevent future environmental contamination, in which case they are capitalised.

At the date of spillage the Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment. The Group recognises the estimated recoveries under applicable insurance policies, when it is virtually certain that reimbursement will be received.

Revenue recognition

The Group has initially applied IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The effect of initially applying IFRS 15 is described in Adoption of new standards.

The Group currently carries out the following activities: services for transportation of oil and oil products, export sales of crude oil, stevedoring, additional port services and fleet services.

Revenue from transportation services is recognised when the services are provided as evidenced by the delivery of crude oil or oil products to the owner or the owner's customer in accordance with the contract.

Revenue from oil and oil products sales is recognised upon shipment of goods to the customer, when the goods cease to be under physical control of the Group and risks of ownership have been transferred to the buyer.

Revenue from stevedoring services, additional port services and fleet services is recognised at the transaction price, which is the amount of consideration the Group expects to be entitled in exchange for the promised goods or services that will be transferred to the customer, excluding amounts collected on behalf of third parties. The Group renders services under fixed-price contracts. Revenue from services is recognised in the reporting period when the services are rendered. Revenue is recognised as services are rendered. In cases where contracts include several performance obligations, the transaction price is allocated to each remaining performance obligation based on the separate transaction price. Contracts with customers do not have a significant financing component. Receivables are recognised when a service is rendered, as this is the point in time, when the right for consideration is unconditional, as only the passage time is required before payment of that consideration is due. Contract liabilities include advances received from customers.

The Group also renders services for technological connection to the trunk pipeline system and expansion of the throughput capacity of the trunk pipelines. These services are provided in accordance with contracts for technological connection and agreements for setting of long-term (agreed) tariffs for oil and oil products transportation via active parts of trunk pipelines, respectively. Pipeline facilities constructed under such agreements (contracts) become property of the Group.

Under previously effective IAS 18 *Revenue* revenue from provision of oil and oil products transportation services in accordance with long-term (agreed) tariffs was recognised as revenue from transportation of oil and oil products during the term of these tariffs.

Under the previously effective IFRIC 18 *Transfer of Assets from Customers* revenue from the provision of services for technological connection to the trunk pipeline system was recognised as other revenue as costs were incurred for construction of assets financed in accordance with such agreements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due to the adoption of the requirements of the new IFRS 15 *Revenue from Contracts with Customers* starting from the financial statements as for the three months ended 31 March 2018 revenue from the provision of oil and oil products transportation services at long-term (agreed) tariffs and revenue from the provision of services for technological connection to the trunk pipeline system are recognised based on the useful life of the facilities financed from cash received under the respective agreements. Services for technological connection are not considered separate performance obligation in accordance with IFRS 15.

In accordance with IFRS 15 *Revenue from Contracts with Customers* payments received under long-term (agreed) tariffs or as advance payments, before the period of their recognition as revenue are recognised as contract liabilities. The group allocates a significant financing component to these contract liabilities, wherein respective interest is included in the cost of a qualified asset when the appropriate capitalisation criteria are met.

The Group adopted IFRS 15 only to contracts which were not yet completed as at 1 January 2018. In relation to contracts already completed at this date the exemption provided by the standard was applied allowing not to recalculate such contracts. The Group adopted IFRS 15 retrospectively recognising the combined effect of the first adoption at the date of initial application from 1 January 2018. Thus, the Group has not adopted the IFRS 15 requirements to comparative period which was presented in the statements in accordance with IAS 18 and IFRIC 18.

Capitalisation of borrowing costs

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 exchange differences are capitalised as part of qualifying assets to the extent of the interest rate difference between borrowing costs that would be incurred if the entity borrowed funds in Russian roubles, 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.

Share capital and dividends

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

Dividends are recognised as a liability and deducted from other comprehensive income on the date on which they are approved at the annual general shareholders meeting. Dividends proposed at any time, and those approved between the reporting date and the date of issuing the consolidated financial statements, are disclosed in the consolidated financial statements.

Adoption of new standards

A number of new Standards became effective during the year ended 31 December 2018. Two new standards - IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* - were applied to these consolidated financial statements.

(in millions of Russian roubles, if not stated otherwise)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The effect of adoption of IFRS 15 and IFRS 9 on the Group's consolidated financial statements as at 1 January 2018 together with the adjustments in accordance with IAS 23, which were recognised in the second quarter of 2018, is disclosed in the table below:

	As at 31 December 2017 as reported	Effect of adoption of IFRS 15	Effect of adoption of IFRS 9	As at 31 December 2017 (recalculated)
Assets				
Property, plant and equipment	2,268,663	5,450	-	2,274,113
Available-for-sale financial assets	251	-	(251)	-
Financial assets at fair value through profit or loss	-	-	12,366	12,366
Financial assets at amortised cost	23,096	-	(13,148)	9,948
Other non-current assets	137,818	-	-	137,818
Total non-current assets	**2,429,828**	**5,450**	**(1,033)**	**2,434,245**
Receivables and prepayments	42,400	1,371	(444)	43,327
Financial assets at fair value through profit or loss	58,859	-	302	59,161
Financial assets at amortised cost	208,768	-	(667)	208,101
Other current assets	147,837	-	-	147,837
Total current assets	**457,864**	**1,371**	**(809)**	**458,426**
Total assets	**2,887,692**	**6,821**	**(1,842)**	**2,892,671**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	1,803,206	(26,408)	(1,474)	1,775,324
Other equity	45,772	-	-	45,772
Attributable to the shareholders of Transneft	**1,848,978**	**(26,408)**	**(1,474)**	**1,821,096**
Non-controlling interest	1,776	-	-	1,776
Total equity	**1,850,754**	**(26,408)**	**(1,474)**	**1,822,872**
Non-current liabilities				
Deferred income tax liabilities	47,120	(6,602)	(368)	40,150
Contract liabilities	-	39,831	-	39,831
Other non-current liabilities	709,363	-	-	709,363
Total non-current liabilities	**756,483**	**33,229**	**(368)**	**789,344**
Total current liabilities	**280,455**	**-**	**-**	**280,455**
Total liabilities	**1,036,938**	**33,229**	**(368)**	**1,069,799**
Total equity and liabilities	**2,887,692**	**6,821**	**(1,842)**	**2,892,671**

New standards and interpretations to financial statements not yet adopted

A number of new Standards, amendments to Standards and Interpretations become effective for annual periods from 1 January 2019, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 Lease

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

In accordance with the Group's preliminary assessment the effect of changes in the accounting policy for leases of non-current assets and liabilities will not be significant as at 1 January 2019. The actual impact of adoption of this standard as at 1 January 2019 may differ because accounting policies will be amended accordingly while the Group prepares its first financial statements including the date of the first application.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach with no restatement of comparative information.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards;
- Amendments to References to Conceptual Framework in IFRS Standards;
- IFRS 17 Insurance Contracts.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Should the useful life of the crude oil and oil product pipelines increase by 10 years, the profit for the year ended 31 December 2018 would be RUB 9,152 higher as a result of decrease of depreciation expense.

Impairment testing of investment in associates and jointly controlled entities

Further information is disclosed in Note 8.

Fair value of assets and liabilities at acquisition of subsidiaries

Further information is disclosed in Note 8.

(in millions of Russian roubles, if not stated otherwise)

6 INTANGIBLE ASSETS

	Goodwill	Lease rights	Other, including prepayments	Total
Net book value at 1 January 2018	**-**	**-**	**8,966**	**8,966**
Cost	-	-	11,056	**11,056**
Accumulated amortisation and impairment provision	-	-	(2,090)	**(2,090)**
Acquisition of subsidiaries (Note 8)	52,972	86,447	4,134	**143,553**
Amortisation	-	(325)	(5,278)	**(5,603)**
Transfers from property, plant and equipment	-	-	6,788	**6,788**
Additions (including prepayments)	-	-	7,497	**7,497**
Disposals: cost	-	-	(991)	**(991)**
Disposals: accumulated amortisation and impairment provision	-	-	108	**108**
Net book value at 31 December 2018	**52,972**	**86,122**	**21,224**	**160,318**
Cost	52,972	86,447	28,484	**167,903**
Accumulated amortisation and impairment provision	-	(325)	(7,260)	**(7,585)**

(in millions of Russian roubles, if not stated otherwise)

7 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
Net book value at 31 December 2017	**162,366**	**911,460**	**704,542**	**126,837**	**363,458**	**2,268,663**
Cost	222,879	1,413,725	1,315,052	126,837	363,458	3,441,951
Accumulated depreciation and impairment provision	(60,513)	(502,265)	(610,510)	-	-	(1,173,288)
Effect of adoption of IFRS 15 (Note 4)	-	-	-	-	5,450	5,450
Net book value at 1 January 2018	**162,366**	**911,460**	**704,542**	**126,837**	**368,908**	**2,274,113**
Depreciation	(8,802)	(53,429)	(117,165)	-	-	(179,396)
Additions (including prepayments)	-	-	-	9,112	282,037	291,149
Transfers to intangible assets	-	-	-	-	(6,788)	(6,788)
Transfers from assets under construction	15,840	84,598	162,071	-	(262,509)	-
Change in impairment provision	(38)	52	(365)	-	(31)	(382)
Net change in dismantlement provision (Note 18)	-	(354)	-	-	-	(354)
Acquisition of subsidiaries (Note 8)	42,327	2,417	50,454	269	6,529	101,996
Disposals: cost	(896)	(2,449)	(12,677)	(1,163)	(23)	(17,208)
Disposals: accumulated depreciation and impairment provision	676	2,381	10,939	-	-	13,996
Net book value at 31 December 2018	**211,473**	**944,676**	**797,799**	**135,055**	**388,123**	**2,477,126**
Cost	280,112	1,497,989	1,514,535	135,055	388,123	3,815,814
Accumulated depreciation and impairment provision	(68,639)	(553,313)	(716,736)	-	-	(1,338,688)

(in millions of Russian roubles, if not stated otherwise)

7 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
Net book value at 1 January 2017	**143,074**	**863,023**	**612,408**	**121,354**	**406,560**	**2,146,419**
Cost	196,539	1,339,231	1,136,478	121,354	406,560	3,200,162
Accumulated depreciation and impairment provision	(53,465)	(476,208)	(524,070)	-	-	(1,053,743)
Depreciation	(7,323)	(48,084)	(96,297)	-	-	(151,704)
Additions (including prepayments)	-	-	-	5,972	293,832	299,804
Transfers from assets under construction	28,731	105,720	202,483	-	(336,934)	-
Change in impairment provision	(1,784)	(8,638)	(13,111)	-	-	(23,533)
Net change in dismantlement provision (Note 18)	-	95	-	-	-	95
Disposals: cost	(607)	(22,683)	(10,798)	(489)	-	(34,577)
Disposals: accumulated depreciation and impairment provision	275	22,027	9,857	-	-	32,159
Net book value at 31 December 2017	**162,366**	**911,460**	**704,542**	**126,837**	**363,458**	**2,268,663**
Cost	222,879	1,413,725	1,315,052	126,837	363,458	3,441,951
Accumulated depreciation and impairment provision	(60,513)	(502,265)	(610,510)	-	-	(1,173,288)

Property, plant and equipment and assets under construction are shown net of impairment provision amounting to RUB 27,271 as at 31 December 2018 (RUB 26,889 as at 31 December 2017).

Linefill represents RUB 104,377 of crude oil and RUB 30,678 of oil products as at 31 December 2018 (as at 31 December 2017 – RUB 102,506 of crude oil and RUB 24,331 of oil products).

During the year ended 31 December 2018, borrowing costs in the amount of RUB 9,298 were capitalised as part of cost of assets under construction (for the year ended 31 December 2017 – RUB 3,459) including interests to be capitalised in the amount of RUB 9,298 (for the year ended 31 December 2017 – RUB 3,755) less amount to be excluded from capitalised borrowing costs in the amount of RUB 0 (for the year ended 31 December 2017 – RUB 296) as disclosed in Note 22.

Due to a decline in 2017 of oil transportation turnover the Group tested for impairment its assets relating to the oil transportation segment as separate cash generating unit (CGU). As a result of the test the Group recognised impairment loss of CGU in the amount of RUB 25,569. The recoverable value of the CGU amounting to RUB 2,071,404 was determined as value in use equal to present value of future cash flows. For calculation of value in use the following assumptions were made – the forecast period of 5 years, discount rate of 12%.

Should the oil transportation turnover change for +0.5%/-0.5% the recoverable value of the CGU calculated as at 31 December 2017 would change in the amount of RUB + 25,604 and – 25,604 accordingly.

Impairment loss was recognised in Other income / (expenses) in the consolidated statement of profit or loss and other comprehensive income.

While analyzing impairment as at 31 December 2018 the Group concluded there was no additional impairment as well as no need to reverse the recognised impairment loss.

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In March 2018 Transneft became the owner of 100% of shares of CPC Company and CPC Investments Company (Notes 14, 26). The main asset of CPC Investments Company is the loan granted to JSC CPC-R for construction of oil pipeline system of the Caspian Pipeline Consortium (hereinafter – CPC). CPC Company is the owner of 7% of ordinary shares of JSC CPC-R and JSC CPC-K and the relevant quota for the right of use of the oil pipeline system CPC. Thus, Transneft has become indirectly the owner of a 7% control stake in JSC CPC-R and JSC CPC-K. Taking into account that 24% of ordinary shares of JSC CPC-R and JSC CPC-K are held in trust by the Company and considering that shareholders and trustees in the boards of JSC CPC-R and JSC CPC-K from Transneft are presented by the same individuals at the reporting date the Group classified JSC CPC-R and JSC CPC-K as associates accounted for using the equity method.

The Transneft's receipt of ownership of 100% of shares of CPC Company and CPC Investments Company was recognised as a business combination under common control using predecessor accounting. Respectively, the assets and liabilities of the combined companies CPC Company and CPC Investments Company were recognised in the consolidated financial statements at their carrying amounts, which were calculated at the date of acquisition for the IFRS statements. The difference between the carrying value of the Group's share of net assets of these companies and share premium reserve from the placement of ordinary registered uncertified shares of Transneft was recognised as merger reserve.

The summarised information about the financial position of CPC Investments Company is presented below:

	At acquisition date
Cash	4,982
Loan granted to JSC CPC-R	13,526
Other assets	7
Deferred tax liabilities	(1,337)
Other liabilities	(1)
Total net assets	**17,177**

The summarised information about financial position of JSC CPC-R and JSC CPC-K is presented below:

	At acquisition date
Current assets	20,101
incl. cash	*3,381*
Non-current assets	408,126
Current liabilities	(85,897)
incl. financial liabilities	*(66,485)*
Non-current liabilities	(186,157)
incl. financial liabilities	*(147,440)*
Total net assets	**156,173**
Share of net assets (7%)	**10,932**
Goodwill in the predecessor's accounting	**13,523**
Carrying value of the share	**24,455**

In September 2018 the Group acquired 50% of the share capital of Omirico Limited which controls indirectly 50.1% of shares in PJSC NCSP, and as a result of the acquisition the Group's share in Omirico Limited increased to 100%. The consideration paid amounted to 750 mln USD (RUB 49,319 as at the exchange rate of the Bank of Russia on the date of payment). As a result of the acquisition, the Group's effective share in PJSC NCSP increased from 37% to 63%, which allowed the Group to obtain control over PJSC NCSP and its subsidiaries. The Group also obtained control over NFT LLC, 50% of which is held by PJSC NCSP and 50% was controlled by the Group earlier.

The Russian Government holds a golden share in PJSC NCSP which allows the government to veto the shareholders' decisions concerning amendments to the charter, liquidation, corporate restructuring, changes of share capital, significant transactions and interested-party transaction. The Group PJSC NCSP is the leading port operator in Russia that combines stevedore companies carrying out different activities including transshipment of oil and oil products. The Group's main subsidiaries are located in the eastern sector of the Black sea, in the Leningrad and Kaliningrad Regions and are listed below:

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Main activities	Country of incorporation
LLC Primorsk Trade Port (PTP)	Cargo handling services	Russia
LLC Novorossiysk Grain Terminal	Cargo transportation	Russia
JSC Novoroslesexport	Cargo handling services	Russia
LLC IPP	Cargo handling services	Russia
JSC Novorossiysk Ship Repair Yard	Cargo handling services	Russia
LLC Baltic Stevedore Company	Stevedoring activities	Russia
JSC Fleet of Novorossiysk Commercial Sea Port	Auxiliary sea transport activities	Russia
JSC SoyuzFlot Port (SFP)	Auxiliary sea transport activities	Russia

The summarised information about acquired assets and liabilities is presented below:

	Acquisition date
Intangible assets	90,512
Property, plant and equipment	90,348
Receivables and prepayments	5,426
Inventories	1,909
Cash and cash equivalents	32,018
Loans and borrowings	(96,048)
Deferred tax liabilities	(22,691)
Payables and other liabilities	(3,046)
Other assets and liabilities, net	(329)
Total identifiable net assets	**98,099**
Non-controlling interest	(35,433)
Consideration paid	(49,319)
Fair value of the previously held share at the date of acquisition	(66,319)
Goodwill	**52,972**

The fair value of the previously held by the Group 50% share of Omirico Limited was estimated based on the market price of this deal, while the fair value of the directly held by the Group 10.52% share of PJSC NCSP was estimated based on market quotes of the shares of PJSC NCSP. As a result of the remeasurement, the gain amounting to RUB 25.4 billion was recognised in Other income/(expense) of the consolidated financial statement of profit or loss and other comprehensive income.

Had PJSC NCSP been consolidated from 1 January 2018, the consolidated revenue of the Group for the year ended 31 December 2018 would have increased by RUB 42.7 billion, and consolidated profit by RUB 5.1 billion. When assessing these figures the Group assumed that the fair value adjustments made at the date of acquisition would have been the same if the acquisition date was 1 January 2018.

The estimate of the non-controlling interest was made based on the proportionate shares of their holders in the recognised identifiable net assets of the Group PJSC NCSP in accordance with their fair value as at 30 September 2018.

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	*Market and cost approach:* The valuation model considers factual market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. *Income approach*: Land plots with a direct access to the sea which are used for stevedoring were treated as relatively vacant and valued using discounted cash flows method, "greenfield" concept. This method assumes calculation of present value of expected cash flows generated by the land plots exploitation net of capital expenses necessary to start up stevedoring services and net of any other cash flows generated by other assets.
Intangible assets	*The multi-period excess earnings method*: The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the rights to use pier facilities and a complex contract for towing services. *Income approach*: Land plots with a direct access to the sea which are used for stevedoring were treated as relatively vacant and valued using discounted cash flows method, "greenfield" concept. This method assumes calculation of present value of expected cash flows generated by the land plots exploitation net of capital expenses necessary to start up stevedoring services and net of any other cash flows generated by other assets.

In December 2017 the Group acquired 25% share in share capitals of AO Ust-Luga Oil and Sandmark Operations Limited for a total consideration of RUB 38,160. Taking into account the key decision making process the Group classified these investments as jointly controlled entities and accounts for them using the equity method in the financial statements. AO Ust-Luga and Sandmark Operations Limited present a common business for transhipment of oil products in Ust-Luga port where AO Ust-Luga is the owner of production complex and capacities for transhipment of oil products and carries out operating activities, and Sandmark Operations Limited acts as a counterparty for contracts with clients and accompanies them receiving agent commission.

Summarised financial information of AO Ust-Luga Oil and Sandmark Operations Limited as well as its reconciliation with the carrying value of the Group's investment is presented below:

	At acquisition date
Current assets	3,940
incl. cash and cash equivalents	*929*
Non-current assets	42,390
Current liabilities	6,440
incl. current financial liabilities	*4,630*
Non-current liabilities	617
incl. non-current financial liabilities	-
Net assets	39,273
Share of net assets	**9,818**
Goodwill	28,342
Carrying value of the investment	**38,160**

In March 2017 the Group acquired 57.41% share in the closed combined mutual investment fund Gazprombank - Finansoviy (hereinafter - the "Fund") for a total consideration of RUB 60 billion. Given the structure of the Fund's ownership and the decision-making procedure for key issues, as well as, existence of a co-investor with a significant share the Group classified the Fund as a jointly controlled entity and accounts for it using the equity method. The main purpose of the Fund is to receive income from investing the assets constituting the Fund.

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information about the Fund and its reconciliation with the carrying value of the Group's investment is presented below:

	Date of acquisition
Current assets	104,515
incl. cash	*104,515*
Current liabilities	-
Non-current liabilities	-
incl. financial liabilities	-
Total net assets	104,515
Share of net assets	**60,000**
Carrying value of the share	**60,000**

The summarised information concerning financial results and financial position of associates and jointly controlled entities is presented below:

		Share		Carrying value	
	Country of opeartions	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Jointly controlled entities:					
JSC CPC-R and JSC CPC-K	Russia, Kazakhstan	7%	-	29,621	-
PJSC NCSP (Omirico Limited)	Russia	-	36%	-	34,073
NFT LLC*	Russia	-	50%	-	2,411
Gazprombank-Finansoviy	Russia	57%	57%	45,848	48,657
AO Ust-Luga Oil and Sandmark Operations Limited	Russia	25%	25%	40,490	38,160
OOO NTK	Russia	26%	26%	1,551	1,511
Other associates and jointly controlled entities	Misc.	Misc.	Misc.	1,688	1,957
Total				**119,198**	**126,769**

* direct share

The carrying amount of investment in associates and jointly controlled entities in amount of RUB 119,198 as at 31 December 2018 (RUB 126,769 - at 31 December 2017) is shown net of impairment provision of RUB 0 as at 31 December 2018 (RUB 23,456 - at 31 December 2017) as the Group concluded there were no evidence of impairment during 2018.

As at 31 December 2017 the value of the Group's direct share in PJSC NCSP (10.52%) calculated based on MICEX market quotes amounted to RUB 15,905.

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information about financial results and financial performance of associates and jointly controlled entities is presented below:

31 December 2018	JSC CPC-R and JSC CPC-K	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank-Finansoviy	Other	Total
Current assets	24,708	14,567	120,109*	14,052	173,436
incl. cash and cash equivalents	*4,932*	*10,088*	*46*	*2,429*	*17,495*
Non-current assets	467,309	42,656	-	21,883	531,848
Current liabilities	(129,442)	(3,441)	(37,247)	(11,752)	(181,882)
incl. current financial liabilities	*(101,705)*	*(1,033)*	*(35,913)*	*(627)*	*(139,278)*
Non-current liabilities	(132,613)	(632)	(3,000)	(19,833)	(156,078)
incl. non-current financial liabilities	*(56,549)*	*-*	*(3,000)*	*(18,785)*	*(78,334)*
Net assets	229,962	53,150	79,862	4,350	367,324
Share of net assets	**29,621**	**13,699**	**45,848**	**1,688**	**90,856**
Goodwill	-	28,342	-	-	28,342
Carrying value of the investment	**29,621**	**42,041**	**45,848**	**1,688**	**119,198**

* mainly presented by financial instruments

31 December 2017	PJSC NCSP (Omirico Limited), NFT LLC	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank-Finansoviy	Other	Total
Current assets	24,041	6,709	147,405*	16,889	195,044
incl. cash and cash equivalents	7,626	1,954	-	4,084	13,664
Non-current assets	200,126	57,382	-	15,674	273,632
Current liabilities	(14,941)	(7,066)	(2,031)	(14,292)	(38,330)
incl. current financial liabilities	(11,853)	5,067	-	(10,773)	(17,559)
Non-current liabilities	(90,239)	(638)	(60,618)	(13,613)	(165,108)
incl. non-current financial liabilities	(57,058)	-	-	(13,166)	(70,224)
Net assets	118,987	56,837	84,756	4,658	265,238
Share of net assets	**37,308**	**11,329**	**48,657**	**1,957**	**99,251**
Goodwill	8,639	28,342	-	-	36,981
Impairment	(9,463)	-	-	-	(9,463)
Carrying value of the investment	**36,484**	**39,671**	**48,657**	**1,957**	**126,769**

* mainly presented by financial instruments

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information about the Group's share in the profit and other comprehensive income of associates and jointly controlled entities is presented below:

Year ended 31 December 2018	JSC CPC-R and JSC CPC-K	PJSC NCSP (Omirico Limited), NFT LLC	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank -Finansoviy	Other	Total
Revenue	103,907	45,851	25,514	-	54,058	229,330
Interest expense	(14,235)	(3,371)	(32)	-	(672)	(18,310)
Current income tax expense	(4,515)	(3,442)	(4,993)	-	(574)	(13,524)
Profit / (loss)	38,759	20,648	22,581	(4,794)	(82)	77,112
Total comprehensive income / (loss)	38,759	20,648	22,581	(4,794)	(82)	77,112
Share of comprehensive income / (loss)	**2,713**	**4,464**	**5,685**	**(2,752)**	**121**	**10,231**
Share of profit/(loss) from associates and jointly controlled entities	**2,713**	**4,464**	**5,685**	**(2,752)**	**121**	**10,231**
Cash proceeds including dividends received	**-**	**-**	**(3,314)**	**(58)**	**(530)**	**(3,902)**

Year ended 31 December 2017	PJSC NCSP (Omirico Limited), NFT LLC	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank-Finansoviy	Other	Total
Revenue	54,848	4,996	-	55,442	115,286
Interest expense	(4,230)	(36)	(3,973)	(127)	(8,366)
Current income tax expense	(6,834)	(793)	-	(312)	(7,939)
Profit	20,495	3,519	24,778	1,331	50,123
Total comprehensive income	20,495	3,519	24,778	1,331	50,123
Share of comprehensive income	9,744	915	14,224	427	25,310
Impairment loss	(9,463)	-	-	-	(9,463)
Share of profit from associates and jointly controlled entities	**281**	**915**	**14,224**	**427**	**15,847**
Cash proceeds including dividends received	**(1,878)**	**(1,107)**	**(25,567)**	**(306)**	**(28,858)**

Because of the significant revenue decline of NFT LLC during 2017 as compared to the prior year mainly caused by significant decline of cargo turnover and tariffs, the Group tested for impairment its investment in NFT LLC accounted for using equity method, and recognised impairment loss amounting to RUB 9,463 which was included in Share of profit from associates and jointly controlled entities in the consolidated statement of profit or loss and other comprehensive income. The estimate of investment's recoverable amount of RUB 2,387 was calculated using its value in use with the following assumptions – forecast period of 4 years, industry specific discount rate of 11.2%, terminal growth rate after forecast period of 1.9%.

(in millions of Russian roubles, if not stated otherwise)

9 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value hierarchy of the financial assets at fair value through profit or loss is presented below:

Financial instrument		
Level 1	**31 December 2018**	**31 December 2017**
Corporate bonds	19,074	31,455
Municipal bonds	138	342
Federal government bonds (OFZ)	32,399	26,392
Corporate Eurobonds	-	637
Securities	-	33
	51,611	**58,859**
Level 2		
Corporate bonds	8,513	-
	8,513	**-**
	60,124	**58,859**

Financial assets at fair value through profit or loss are financial instruments assigned for trading purposes. Financial assets at fair value through profit or loss are neither overdue nor impaired.

The bond issuers were mainly presented by companies controlled by or under significant influence of the state as at 31 December 2018 and 31 December 2017 (95% and 88% accordingly).

Interest rates of the bonds as at 31 December 2018 were in range from 3.0% to 9.9% (as at 31 December 2017 – from 2.0% to 12.7%). Interest rates of the bonds issued by companies which were under control or significant influence of the state as at 31 December 2018 were in range from 3.0% to 9.9% (as at 31 December 2017 – from 2.0% to 12.7%).

The Group classified these financial assets as current assets due to its ability to sell the assets before maturity.

Financial instrument	12 months and less	1 to 2 years	2 to 5 years	Over 5 years	Total
Corporate bonds	13,517	3,836	6,594	3,640	**27,587**
Municipal bonds	-	-	138	-	**138**
Government bonds (OFZ)	10,723	8,763	7,163	5,750	**32,399**
	24,240	**12,599**	**13,895**	**9,390**	**60,124**

Level 3	**31 December 2018**			
	Maturity	**Currency**	**Amount at the issue (purchase) date**	**Carrying amount**
Long-term financial assets				
Loans granted to related parties	December 2021	RUB	4,571	4,582
Securities			-	251
Total non-current financial assets				**4,833**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	RUB	411	283
Total current financial assets				**283**
				5,116

The fair value of loans granted to related parties is calculated based on expected cash flows using average market interest rates in bank loans for comparable period and in the same currency. Should interest rates increase/(decrease) by 1% with other data left unchanged, fair value of these loans would (decrease)/increase by RUB 11 and RUB 12 respectively as at the reporting date.

(in millions of Russian roubles, if not stated otherwise)

10 FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at 31 December 2018:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	Shareholders' agreement	USD	2,931	4,133
Deposits	August 2021	USD	12,505	13,331
Other financial assets	-	RUB	2	2
			15,438	**17,466**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	5,166	7,233
Eurobonds	During the year after the reporting date	USD	111	124
Deposits	During the year after the reporting date	USD	80,617	83,853
		RUB	33,181	33,784
		Other	1,138	1,183
			120,213	**126,177**

As at 31 December 2017:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	February 2019 – May 2029	USD	13,452	17,842
	December 2021 – March 2027	RUB	5,133	5,252
Other financial assets	-	RUB	2	2
			18,587	**23,096**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	1,788
		RUB	-	492
Eurobonds	During the year after the reporting date	USD	14,722	13,638
Deposits	During the year after the reporting date	USD	161,576	161,107
		RUB	31,215	31,735
Other financial assets	During the year after the reporting date	RUB	8	8
			207,521	**208,768**

As at 31 December 2018 and 31 December 2017 financial assets measured at amortised cost were not past due.

As at 31 December 2018 and 31 December 2017 the significant amount of deposits (97% and 80% respectively) were placed with banks which were under control or significant influence of the state.

Interest rates of the deposits denominated in the US Dollars and Russian roubles as at 31 December 2018 were in the range from 2.5% to 7.6% (as at 31 December 2017 – from 1.0% to 8.1%). As for the deposits placed with banks controlled by or under significant influence of the state interest rates ranged from 2.5% to 7.6% as at 31 December 2018 (from 1.0% to 8.1% as at 31 December 2017).

Most of issuers of afore-mentioned notes and bonds as at 31 December 2018 and 31 December 2017 were organisations which were controlled or significantly influenced by the state (93% and 75% respectively).

Interest rates of the notes and bonds ranged from 3.9% to 6.6% as at 31 December 2018 (ranged from 3.4% to 8.1% as at 31 December 2017). As for the notes and bonds issued by companies which were controlled by or were under significant influence of the state interest rates ranged from 3.9% to 6.6% as at 31 December 2018 (ranged from 3.9% to 8.1% as at 31 December 2017).

As at 31 December 2017 in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* these notes were classified as loans and receivables and bonds as investments held till maturity and the Group does not intend to dispose these notes prior to the maturity date.

(in millions of Russian roubles, if not stated otherwise)

11 INVENTORIES

	31 December 2018	31 December 2017
Materials and supplies	25,753	26,149
Sundry goods for resale	10,630	4,513
	36,383	**30,662**

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 767 as at 31 December 2018 (as at 31 December 2017 – RUB 692). Materials are primarily used for repairment and maintenance of pipeline equipment.

12 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

	31 December 2018	31 December 2017
Long-term receivables		
Financial assets		
Other long-term receivables	3,740	2,080
Non-financial assets		
Long-term VAT	1	3
Total long-term receivables	**3,741**	**2,083**
Short-term receivables		
Financial assets		
Trade receivables	27,773	21,963
Other receivables	47,994	36,640
less: provision for impairment	(48,462)	(27,287)
Total financial assets in short-term receivables	**27,305**	**31,316**
Non-financial assets		
Prepayments, advances and other non-financial receivables	9,409	11,084
Total short-term receivables	**36,714**	**42,400**

As at 31 December 2018 other accounts receivable included interest receivable related to temporarily available cash balances with banks as well as receivables related to insurance, agency agreements, prepayment for taxes other than income tax and other receivables.

The movement in the allowance for impairment in respect of trade and other receivables is presented in the table below. Comparative amounts for 2017 represent the allowance for impairment accounted for under IAS 39:

	2018		2017	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January in accordance with IAS 39	**5,062**	**22,225**	**707**	**22,884**
Initial adoption of IFRS 9	107	337	-	-
As at 1 January in accordance with IFRS 9	**5,169**	**22,562**	**707**	**22,884**
Changes in the Group's structure	191	21,393	-	-
Impairment loss	255	621	4,704	432
Amounts written off in trade and other receivables	(268)	(1,158)	(314)	(211)
Reversal of provision	(92)	(211)	(35)	(880)
As at 31 December	**5,255**	**43,207**	**5,062**	**22,225**

Management determines the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

(in millions of Russian roubles, if not stated otherwise)

12 RECEIVABLES AND PREPAYMENTS, VAT ASSETS (continued)

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2018 and 31 December 2017:

	31 December 2018		31 December 2017	
Outstanding period	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	733	149	107	61
More than 90 days but less than 365 days	121	38	72	98
Over 365 days	99	121	73	253
	953	**308**	**252**	**412**

Management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections or other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

Breakdown of accounts receivable by currency is presented in the tables below:

	31 December 2018			31 December 2017		
Currency	Trade receivables	Other receivables	Total receivables	Trade receivables	Other receivables	Total receivables
RUB	4,653	4,504	9,157	1,218	14,233	15,451
USD	16,706	266	16,972	14,677	169	14,846
Other	1,159	17	1,176	1,006	13	1,019
	22,518	**4,787**	**27,305**	**16,901**	**14,415**	**31,316**

13 CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Balances in RUB	67,598	60,584
Balances in USD	33,392	13,549
Balances in Euro	698	817
Balances in other currencies	164	1,212
	101,852	**76,162**

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established qualifications required by law. As at 31 December 2018 and 31 December 2017, a significant portion of cash was placed with banks, which are under common control or significant influence of the state (89% and 92% correspondingly).

Information concerning the Group’s exposure to interest risk and sensitivity analysis relating to financial assets and liabilities are disclosed in Note 27.

14 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital	31 December 2018			31 December 2017		
	Number of shares	Historical cost	Inflated cost	Number of shares	Historical cost	Inflated cost
Authorised, issued and fully paid shares with par value RUB 1 each						
Ordinary:	5,694,468	5,70	231	5,568,748	5.57	231
Preferred:	1,554,875	1,55	77	1,554,875	1.55	77
	7,249,343	**7,25**	**308**	**7,123,623**	**7.12**	**308**

The carrying value of the share capital as at 31 December 2018 and as at 31 December 2017 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

(in millions of Russian roubles, if not stated otherwise)

14 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

The Russian Federation, through the Federal Agency for the Management of State Property, holds 100% of the ordinary shares of the Company.

In March 2018 125,720 ordinary registered uncertified shares of Transneft with a par value of 1 Rouble each were placed for the price of 278,780 Russian roubles per share by way of a private subscription in favor of the Russian Federation represented by the Federal Agency for the Management of State Property. The payment for the shares was made by 100% of ordinary shares of CPC Company and 100% of ordinary shares of CPC Investments Company (Note 8). The difference between the par value of additional issue of shares and payment for the shares was recognised as share premium in the amount of RUB 35,048.

In May 2018, the changes in the Charter of Transneft were registered. In accordance with these changes, the authorised capital of the Company amounts to 7,249,343 roubles and is divided into 7,249,343 shares with a par value of 1 rouble each, including 5,694,468 ordinary shares and 1,554,875 preferred shares.

In April 2017 changes to the charter of Transneft were registered according to which the share capital increased by 21,901 ordinary registered uncertified shares and constituted 7,123,623 shares with 1 RUB par value. The difference between par value of additional issue of shares and payment for the shares in the amount of RUB 5,991 was recognised as share premium.

Within the terms of the asset management agreement in the third quarter of 2017 the fiduciary manager acquired 6,178 of preferred shares of the Company which were sold in the fourth quarter of 2017. These operations were shown in the consolidated statement of changes in equity as Purchase of treasury shares and Sale of treasury shares.

Rights attributable to preferred shares

Holders of preferred shares are entitled to receive dividends pursuant to the authorization of dividend payment at the general meeting of shareholders of Transneft. The amount of dividends to be paid on preferred shares is established by the Company's Charter as 10 percent of net profits of the standalone (non-consolidated) financial statements of Transneft prepared in accordance with Russian Accounting Standards (RAS) for the most recent financial year. At the same time the amount of dividends paid for one preferred share cannot be lower than the dividend paid for an ordinary share.

Shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on the following issues:

- on the reorganization and liquidation of the Company;
- on the introduction of amendments and addenda to the Charter of the Company which limit the rights of shareholders that hold preferred shares and on the handling of application for delisting of the preferred shares.

In case where no decision on payment of dividends was adopted at an annual general meeting shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on any issues concerning its competences. This right of shareholders that hold preferred shares is terminated from the time of the first full payment of dividends on the indicated shares.

Dividends

In June 2018 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2017:

	Number of shares	RUB per share	Total
Ordinary shares	5,694,468	7,578,27	43,154
Preferred shares*	1,554,875	7,578,27	11,783
	7,249,343	**7,578,27**	**54,937**

* including treasury shares

Dividends were paid out in July - August 2018.

In June 2017 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2016:

	Number of shares	RUB per share	Total
Ordinary shares	5,568,748	4,296.48	23,926
Preferred shares*	1,554,875	4,296.48	6,680
	7,123,623	**4,296.48**	**30,606**

* including treasury shares

(in millions of Russian roubles, if not stated otherwise)

14 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

Dividends were paid out in July - August 2017.

In August 2017 at the extraordinary general meeting of shareholders the payment of dividends based on the results of the first half of 2017 was approved:

	Number of shares	RUB per share	Total
Ordinary shares	5,568,748	3,875.49	21,582
Preferred shares*	1,554,875	3,875.49	6,026
	7,123,623	**3,875.49**	**27,608**

* including treasury shares

Dividends were paid out in October 2017.

Merger reserve

The difference of RUB 13,080 thousand between the historic IFRS book value of the Company's share in Transnefteproduct Group net assets and the nominal value of the ordinary shares issued and the share premium, has been recorded as merger reserve within equity. During the year ended 31 December 2018 the merger reserve changed for the difference between the carrying value of the Group's share of net assets of CPC Company and CPC Investments Company and share premium reserve from the placement of ordinary registered uncertified shares of Transneft (Note 8).

15 NON-CONTROLLING INTERESTS

The following table provides summarized information before intra-group eliminations in relation to each of the Group's subsidiaries that has material non-controlling interests.

31 December 2018	PJSC NCSP and its subsidiaries	Other individually immaterial subsidiaries
Non-controlling interests	37%	different
Non-current assets	153,846	22,045
Current assets	17,072	4,211
Non-current liabilities	65,250	13,760
Current liabilities	22,324	2,487
Net assets	**83,343**	**10,009**
Net assets allocated to non-controlling interests	**30,687**	**2,187**
Revenue	15,878	703
Profit / (loss)	3,366	(405)
Other comprehensive loss	(105)	-
Total comprehensive income / (loss)	**3,261**	**(405)**
Profit/(loss) allocated to non-controlling interests	**1,286**	**(210)**
Cash flows from operating activities	8,229	138
Cash flows (used in)/ from investing activities	(1,763)	51
Cash flows used in financing activities	(16,509)	(300)
Net decrease in cash and cash equivalents	**(10,043)**	**(111)**

(in millions of Russian roubles, if not stated otherwise)

15 NON-CONTROLLING INTERESTS (continued)

31 December 2017	Other individually immaterial subsidiaries
Non-controlling interests	different
Non-current assets	2,993
Current assets	1,076
Non-current liabilities	239
Current liabilities	40
Net assets	**3,790**
Net assets allocated to non-controlling interests	**1,894**
Revenue	562
Loss	(205)
Total comprehensive loss	**(205)**
Loss allocated to non-controlling interests	**(166)**
Cash flows used in operating activities	(3)
Net decrease in cash and cash equivalents	**(3)**

In September 2018 the Group acquired 50% of the share capital of Omirico Limited which controls indirectly 50.1% of shares in PJSC NCSP (Note 8), and as a result of the acquisition PJSC NCSP and its subsidiaries, as well as NFT LLC became the Group's subsidiaries. Accordingly the information about PJSC NCSP and its subsidiaries and NFT LLC is presented only for the period from 1 October to 31 December 2018.

16 LOANS AND BORROWINGS

	31 December 2018	31 December 2017
Total loans and borrowings	672,992	688,910
Less: current loans and borrowings and current portion of non-current loans and borrowings	(98,540)	(109,730)
	574,452	**579,810**
Maturity of non-current loans and borrowings		
Between one and five years	225,024	311,275
After five years	349,428	267,905
	574,452	**579,180**

The fair value of loans and borrowings is presented below:

Type of loans and borrowings	Mature in	Currency	Interest rate, %	31 December 2018		31 December 2017	
				Carrying value	Fair value	Carrying value	Fair value
Eurobonds	2018	USD	Fixed	-	-	62,585	65,001
Corporate bonds (unsecured)	2018-2019	RUB	Fixed	60,670	62,459	60,663	64,644
Marketable bonds (unsecured)*	2021-2027	RUB	Fixed	231,213	233,185	205,465	214,987
Loan agreement with China Development Bank	2024	USD	Floating LIBOR	-	-	268,117	269,086
Other loans	2023	USD	Floating LIBOR	69,070	71,384	-	-
Other borrowings	2019	USD	Fixed	10,410	10,410	-	-
Other loans and borrowings	2018-2025	RUB	Fixed	301,629	290,337	92,080	92,080

* In accordance with the relevant prospectus, some bonds have optional redemption terms for the total amount of RUB 51,000 with maturity in April 2026, in August 2026 and in April 2027 but with optional redemption on demand of bond-holders or by issuer's intention in April 2021, September 2022, April 2024, respectively.

(in millions of Russian roubles, if not stated otherwise)

16 LOANS AND BORROWINGS (continued)

Cash proceeds from placement of marketable bonds and receipt of loans and borrowings during the reporting period were used for partial earlier repayment of the loan from China Development Bank Corporation and general corporate purposes.

Collateral

All borrowings and loans of the Group are unsecured as at 31 December 2018.

In February 2009 as collateral for the loan from China Development Bank Corporation the Company signed a contract for the term of 20 years for the annual supply of 6 mln tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of this obligation, a contract was signed with Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company (Note 26).

Fair value

Fair value of the loan from China Development Bank Corporation (Level 2) was determined as a result of discounting using estimated market interest rate for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms.

The fair value of bonds (Level 1) was determined based on market quotations as at 31 December 2018 and 31 December 2017, respectively.

Changes in liabilities from financing activities were due to:

- cash flows from proceeds and repayment of loans and borrowings disclosed in the cash flows from financing activities in the Consolidated statement of cash flows;
- interest expense in the amount of RUB 57,911 (as for the year ended 31 December 2017 – RUB 48,712) including the amount of interest to be capitalised of RUB 9,298 (as for the year ended 31 December 2017 – RUB 3,755) (Note 22), payment of which was shown as cash flows from operating activities in the Consolidated statement of cash flows;
- difference between fair value of the loan received and the carrying value of the loan due to in the amount of RUB 10,573;
- loans and borrowings (net of the Group's ones) with accrued interest obtained in a business combination for the amount of RUB 82,257. Total amount of loans and borrowings of subsidiaries acquired is disclosed in Note 8;
- foreign exchange losses in the amount of RUB 15,433 (RUB 22,113 as for the year ended 31 December 2017).

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

The amounts recognised in the profit or loss

As for the year ended 31 December 2018 and the year ended 31 December 2017 the income tax included:

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax	48,763	49,911
Deferred income tax		
Origination and reversal of temporary differences	3,535	451
Deferred income tax expense	**3,535**	**451**
Total income tax expense	**52,298**	**50,362**

(in millions of Russian roubles, if not stated otherwise)

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

Deferred tax liabilities and assets consist of the following:

	31 December 2017	Recognised in retained earnings	1 January 2018	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	Acquisition of subsidiary	31 December 2018
Deferred tax liabilities:							
Carrying value of property, plant and equipment in excess of tax base	(64,412)	(1,090)	(65,502)	(1,067)	-	(28,047)	(94,616)
Other liabilities	(1,506)	-	(1,506)	(3,700)	495	(2,655)	(7,366)
	(65,918)	**(1,090)**	**(67,008)**	**(4,767)**	**495**	**(30,702)**	**(101,982)**
Deferred tax assets:							
Provision for inventories, receivables and accruals	6,113	369	6,482	(703)	-	3,474	9,253
Tax loss carry-forwards	1,239	-	1,239	610	-	3,394	5,243
Provisions for dismantlement and other expenses	11,446	-	11,446	(2,153)	-	8	9,301
Contract liabilities	-	7,692	7,692	3,478	-	-	11,170
	18,798	**8,061**	**26,859**	**1,232**	**-**	**6,876**	**34,967**
Net deferred tax liabilities	**(47,120)**	**6,971**	**(40,149)**	**(3,535)**	**495**	**(23,826)**	**(67,015)**

	1 January 2017	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	Disposal of subsidiary	31 December 2017
Deferred tax liabilities:					
Carrying value of property, plant and equipment in excess of tax base	(62,668)	(1,754)	-	10	(64,412)
Other	(638)	(687)	(153)	(28)	(1,506)
	(63,306)	**(2,441)**	**(153)**	**(18)**	**(65,918)**
Deferred tax assets:					
Provision for inventories, receivables and accruals	5,608	505	-	-	6,113
Tax loss carry-forwards	1,599	(279)	-	(81)	1,239
Provisions for dismantlement and other expenses	9,683	1,764	-	(1)	11,446
	16,890	**1,990**	**-**	**(82)**	**18,798**
Net deferred tax liabilities	**(46,416)**	**(451)**	**(153)**	**(100)**	**(47,120)**

(in millions of Russian roubles, if not stated otherwise)

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 20% for year ended 31 December 2018 and 31 December 2017.

The following is a reconciliation of theoretical profit tax expense computed at the statutory tax rate to the profit tax expense:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before income tax	**277,711**	**242,167**
Theoretical income tax expense at 20%	55,542	48,433
Increase/(decrease) due to:		
Items not taxable for income tax purposes	(7,120)	(2,488)
Items not deductible for income tax purposes	3,876	4,417
Actual income tax expense	**52,298**	**50,362**

The Group did not recognize deferred tax liability in respect of RUB 348,499 as at 31 December 2018 (as at 31 December 2017 - RUB 335,753) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

Since 1 January 2012 Transneft and almost all of its significant subsidiaries merged into the consolidated taxpayers' group for the purpose of calculation and payment of income tax.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2018	31 December 2017
Pension provision	107,867	107,995
Dismantlement provision	6,770	6,925
Other provisions	10,810	11,805
Total long-term provisions for liabilities and charges	**125,447**	**126,725**
Pension provision	3,005	4,605
Dismantlement provision	1,278	1,469
Provision for benefits	36,936	33,101
Other provisions	2,098	2,293
Total short-term provisions for liabilities and charges	**43,317**	**41,468**

Other provisions mainly include provision for unused vacations, accrued provision for annual performance benefit for the reporting year.

Provision in accordance with IAS 19

In addition to contributions to State pension fund, the Group sponsors defined benefit plans for the majority of its employees. These plans assume regular pension payments to participants during their lifetime for those who have worked for not less than five years based on years of service, salary and received awards during working. Also in accordance with collective agreements with employees the Group has a liability due to those who have worked not less than three years to pay a one-time benefit ranging from 1 to 5 salaries upon retirement, to cover funeral costs and to pay out benefits to pensioners to jubilees and holidays.

Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 "Employee Benefits". For the calculation of obligations the projected unit method was applied.

(in millions of Russian roubles, if not stated otherwise)

18 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Reconciliation of opening and closing present value of the defined benefit obligation is as follows:

Movement in defined benefit obligation	2018	2017
At 1 January	**35,321**	**32,786**
Interest cost	2,957	2,806
Service cost	2,068	3,194
Actuarial loss / (gain)	2,795	(700)
Past service cost	(13,831)	-
Benefits paid	(2,168)	(2,765)
Acquisition of subsidiaries	411	-
At 31 December	**27,553**	**35,321**

Starting from 2019 the retirement age at which the right for state pension is received will be increased in stages from 55 to 60 years for women and from 60 to 65 years for men; this resulted in a one-time recognition of gain as at 31 December 2018 for the amount of RUB 13,831 due to decrease in liabilities under defined benefit plan, which was shown in Past service cost.

Gain in the amount of RUB 11,763 including service cost and past service cost on the defined benefit plan and service cost in the amount of RUB 3,194 as for the years ended 31 December 2018 and 2017, respectively, are included in pension expenses in the consolidated statement of profit or loss and other comprehensive income, interest expense in the amount of RUB 2,957 and RUB 2,806 for the years ended 31 December 2018 and 2017, respectively, are included in interest expenses.

Actuarial loss amounting to RUB 2,795 for the year ended 31 December 2018 (actuarial gain amounting to RUB 700 for the year ended 31 December 2017) is recognised in other comprehensive income. As at 31 December 2018 accumulated actuarial loss amounted to RUB 3,992 (as at 31 December 2017 accumulated actuarial loss amounted to RUB 1,197).

Assumptions regarding future mortality are based on published statistics and mortality tables. Assumptions are based on mortality statistics in Russia for 2017 adjusted on the statistics of JSC “NPF “Transneft”.

The amounts associated with pension provision recognised in the consolidated statement of financial position are as follows:

	31 December 2018	31 December 2017
Pension provision for defined benefit plan	27,553	35,321

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2018	31 December 2017
Average nominal discount rate	8,93%	8.35%
Future salary increases (nominal)	5,04%	4.38%
Expected long-term inflation rate	4,04%	3.38%

As at 31 December 2018, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RUB 2,884 higher.

As at 31 December 2018, if the average nominal discount rate had decreased by 1%, the amount of the Group pension provisions would have been RUB 2,796 higher.

Pension liabilities through JSC “NPF “TRANSNEFT’s” activity

Pension liabilities through JSC “NPF “TRANSNEFT’s” activity include liabilities under insurance contracts and investment contracts.

Liabilities under insurance contracts are calculated by discounting expected future pension payments. The amount of the future pension is based on the amount guaranteed by insurance contract with pension indexation from the date of the contract to the reporting date, as well as the forecast of future pension indexation.

(in millions of Russian roubles, if not stated otherwise)

18 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Liabilities under investment contracts are amounts of the pension accounts balances of participants as at the reporting date, which are the amounts of accumulated contributions, accrued income from the placement of pension reserves less the amount of payments made to the reporting date.

	31 December 2018	31 December 2017
Pension liabilities – insurance contracts	58,355	52,799
Pension liabilities – investment contracts	24,964	24,480
	83,319	**77,279**

Insurance contracts liabilities are disclosed taking into account the indexation of non-state life pensions planned to be carried out based on the results of 2018.

Dismantlement provision

The Group uses the following assumption in relation to the provision for dismantlement of the existing network of oil and oil product pipelines. The operating oil and oil products pipeline network will be dismantled in the end of its useful life. The Group performs regular diagnostics, maintains periodic upgrades and reconstructions of oil and oil product pipelines, which leads to the extension of its useful life. Thus, the Group cannot make a reliable estimate of the period of the whole oil and oil products pipelines network dismantlement and consequently the amount of dismantlement provision. When the Group adopts a plan on liquidation and dismantlement of certain parts of network, the provision for dismantlement is recognised accordingly in the financial statements.

As at 31 December 2018 in relation to fixed assets included in the Programme for liquidation, adopted by the Group in accordance with established procedure, dismantlement provision was recognised in respect of future costs for liquidation of oil and oil product pipelines including site restoration expenses. The amount of provision is estimated by discounting future expenses at yield-to-maturity rates of federal bonds (OFZ) with relevant maturities; the rates amounted to 7.7% - 8.7% as at 31 December 2018 (7.4% - 7.6% as at 31 December 2017). Liquidation value of fixed assets in use is included in fixed assets and depreciated over the useful life of pipeline. Provision for liquidation of fixed assets, which are decommissioned, was recognised as operating expense. The carrying value of dismantlement provision amounted to RUB 8,048 as at 31 December 2018 (RUB 8,394 as at 31 December 2017) including short-term provision of RUB 1,278 (RUB 1,469 as at 31 December 2017), which is presented as current provisions for liabilities and charges.

19 TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Long-term payables		
Other payables	1,419	1,200
Total financial payables	**1,419**	**1,200**
Advances received	-	2,258
Contract liabilities	62,000	-
Total long-term payables	**63,419**	**3,458**
Short-term payables		
Trade payables	52,544	49,070
Dividends payable to non-controlling interest	1,802	-
Other payables	12,055	10,189
Total financial payables	**66,401**	**59,259**
Advances received	-	51,423
Contract liabilities	59,719	-
VAT payable	16,530	9,881
Other taxes payable	9,812	8,458
Total short-term payables	**152,462**	**129,021**

(in millions of Russian roubles, if not stated otherwise)

19 TRADE AND OTHER PAYABLES (continued)

Breakdown of accounts payable and other liabilities by currency is presented in the table below:

Currency	31 December 2018			31 December 2017		
	Trade payables	Other payables	Total payables	Trade payables	Other payables	Total payables
RUB	39,319	12,268	51,587	48,950	10,183	59,133
USD	13,075	622	13,697	14	622	636
Euro	143	580	723	87	580	667
Other	7	4	11	19	4	23
	52,544	**13,474**	**66,018**	**49,070**	**11,389**	**60,459**

Trade payables include payables for purchases of property, plant and equipment in the amount of RUB 28,897 as at 31 December 2018 and RUB 27,737 as at 31 December 2017.

Information concerning the Group's exposure to currency risk and liquidity risk in relation to trade and other payables is disclosed in Note 27.

20 REVENUE

	Year ended 31 December 2018	Year ended 31 December 2018 (without IFRS 15 impact)	Year ended 31 December 2017
Revenue from crude oil transportation services:			
Domestic tariff	260,428	271,936	257,307
Export tariff	391,459	391,855	374,152
Total revenue from crude oil transportation services	**651,887**	**663,791**	**631,459**
Revenue from crude oil sales	206,408	206,408	150,182
Revenue from oil products transportation services	72,167	73,697	66,035
Revenue from stevedoring services, additional port services and fleet services (Note 8)	14,444	14,444	-
Other revenue	35,052	42,946	36,661
	979,958	**1,001,286**	**884,337**

Almost all of the Group's revenue is revenue from contracts with customers.

Revenue from crude oil sales for the year ended 31 December 2018 mainly include revenue from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement crude oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases crude oil under the contract signed in April 2009 with Rosneft (see Note 26).

The Group revenues from crude oil transportation services on the domestic pipeline network comprise:

- revenue from transportation of crude oil to destinations in the Russian Federation and to the member-states of the Eurasian Economic Union, based on tariffs set by the Federal Antimonopoly Service and payable in RUB ("domestic tariff");
- revenue from transportation of crude oil which is destined for export outside of the Russian Federation and member-states of the Eurasian Economic Union, based on tariffs set by the Federal Antimonopoly Service and payable in RUB ("export tariff");
- revenue from transportation of transit crude oil from Azerbaijan to export destinations through the territory of the Russian Federation to the Novorossiysk's port in accordance with tariff set by the Federal Antimonopoly Service and payable in RUB ("export tariff");
- revenue from transportation of transit crude oil from Kazakhstan, based on the tariffs which are set by the Federal Antimonopoly Service and payable in RUB ("export tariff").

(in millions of Russian roubles, if not stated otherwise)

20 REVENUE (continued)

Revenue from oil products transportation includes revenue from oil product transportation in the Russian Federation, in the Republic of Belarus and in the Republic of Kazakhstan.

Revenue from domestic transportation of oil products is formed on the basis of tariffs which are set within limits imposed by tariffs approved by Federal Tariff Service and Federal Antimonopoly Service and includes:

- revenue from oil products transportation services in the territory of the Russian Federation and member-states of the Eurasian Economic Union at tariffs set and paid for in RUB;
- revenue from oil products transportation services for export outside the territory of the Russian Federation and member-states of the Eurasian Economic Union at tariffs set and paid for in RUB.

Revenue from oil product transportation in the Republic of Belarus is formed on the basis of tariffs set in US Dollars by the relevant regulatory body of the Republic of Belarus in compliance with the Treaty between the governments of the Russian Federation and the Republic of Belarus on cooperation in operating oil product pipelines, located on the territory of the Republic of Belarus. These services are paid for in USD.

Revenue from oil product transportation services in the Republic of Kazakhstan is formed on the basis of tariffs set by Transneft in Kazakhstani tenge. These services are paid for in RUB at the exchange rate set by the Central Bank of the Russian Federation at the date of payment.

21 OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries	127,337	116,791
Social funds contributions	32,325	29,330
Social expenses	3,929	3,757
Cost of crude oil sold	157,459	119,260
Export custom duties	48,261	30,393
Energy	44,058	41,718
Materials	33,297	33,851
Repairs and maintenance services	19,175	17,790
Property tax and other taxes, except for income tax	36,843	28,494
Pension expenses	(9,367)	5,412
Insurance	6,359	6,070
Other expenses	46,407	43,196
Operating expenses net of amortisation and depreciation	**546,083**	**476,062**

Other expenses comprise of communication services, rent expenses, transportation expenses, business trip expenses, received and paid fines and penalties, as well as, other operating income and expenses.

(in millions of Russian roubles, if not stated otherwise)

22 FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income from*:		
Financial assets at FVTPL	5,715	15,843
Financial assets at amortised cost	9,402	10,235
Cash and cash equivalents	5,053	4,675
Total interest income	**20,170**	**30,753**
Less interest income from the temporary investment of borrowings	-	(296)
Total interest income recognised in the consolidated statement of profit or loss and other comprehensive income	**20,170**	**30,457**
Foreign exchange gain	80,338	77,720
Gain from changes in financial instruments ECL	234	-
Net gain from financial instruments through profit or loss	188	1,000
Total finance income	**100,930**	**109,177**
Interest expense on loans and borrowings	(57,911)	(48,712)
Distribution of pension income on pension liabilities	(4,407)	(6,744)
Other interest expenses	(11,400)	(4,023)
Total interest expenses	**(73,718)**	**(59,479)**
Less capitalised interest expenses	9,298	3,755
Total interest expenses recognised in the consolidated statement of profit or loss and other comprehensive income	**(64,420)**	**(55,724)**
Foreign exchange losses	(57,246)	(68,419)
Net loss from operations with financial assets measured at fair value through profit or loss	(568)	(666)
Total finance costs	**(122,234)**	**(124,809)**
Net finance costs	**(21,304)**	**(15,632)**

* Comparative information for the year ended 31 December 2017 is presented in accordance with the classification of financial assets according to IFRS 9 Financial Instruments, applied from January 1, 2018 for similar types of financial assets

(in millions of Russian roubles, if not stated otherwise)

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The following are the principal subsidiaries which have been consolidated and associates and jointly controlled entities accounted for using equity method in these consolidated financial statements:

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2018
Transneft Siberia, JSC	crude oil and oil products transportation	Russia	100
Chernomortransneft, JSC	crude oil and oil products transportation	Russia	100
Transneft Druzhba, JSC	crude oil and oil products transportation	Russia	100
Transneft Volga Region, JSC	crude oil and oil products transportation	Russia	100
Transneft Western Siberia, JSC	crude oil and oil products transportation	Russia	100
Transneft Upper Volga, JSC	crude oil and oil products transportation	Russia	100
Transneft Central Siberia, JSC	crude oil transportation	Russia	100
Transneft North, JSC	crude oil transportation	Russia	100
Transneft Baltic, LLC	crude oil and oil products transportation	Russia	100
Transneft Urals, JSC	crude oil and oil products transportation	Russia	100
Transneft Kama Region, JSC	crude oil and oil products transportation	Russia	100
Transneft East, LLC	crude oil transportation	Russia	100
Transneft Far East, LLC	crude oil transportation	Russia	100
Transnefteproduct, JSC	wholesale of oil products	Russia	100
Zapad-Transnefteproduct, Private Unitary Production Enterprise	oil products transportation	Belarus	100
AO Transnefteproduct-Zapad	other financial activities	Russia	100
Transneft Primorsk Port, LLC	cargo handling services	Russia	100
Transneft Kozmino Port, LLC	crude oil transportation	Russia	100
Transneft Ust-Luga Port, LLC	cargo handling services	Russia	100
Transneft UW Service, JSC	diagnostics, repair of underwater line	Russia	100
Giprotruboprovod, JSC	development of engineering documentation	Russia	100
Svyaztransneft, JSC	maintenance of technological connection of trunk pipeline facilities	Russia	100
Transneft Diascan, JSC	diagnostics of trunk pipelines	Russia	100
Transneft Supervision, LLC	technical and building supervision and control	Russia	100
Transneft PCD, LLC	provision of general construction services	Russia	100
Transneft-Service, LLC	safety activities in emergency situations	Russia	100
Transneft Metrology, JSC	metrological support of oil transportation	Russia	100
The Pipeline Transport Institute, LLC	research activity	Russia	100
IPTER, LLC	scientific research and development in the field of natural and technical sciences	Russia	100

(in millions of Russian roubles, if not stated otherwise)

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2018
PMC ESPO, LLC	construction services	Russia	100
Transneft Finance, LLC	provision of accounting, tax and management accounting services	Russia	100
Transneft Energy, LLC	electricity sales	Russia	100
Transneft-Logistics, LLC	transportation of cargo	Russia	100
Transneft Energy Terminal, JSC	oil loading services	Russia	50.04
Transneftstroy, LLC	general building and machinery contractor	Russia	100
Fenti Development Ltd.	financial activity	Switzerland	100
Transneft Media, LLC	publishing activity	Russia	100
Unitarnoye predpriyatiye Zapad-Telecomnefteproduct	communication services	Belarus	100
AO PROMSFERA	rent of property	Russia	100
LLC «Tikhoretsk-Nafta»	handling of cargo services	Russia	100
Transneft Service, JSC	wholesale of oil products	Russia	100
TNT, JSC	crude oil and oil products transportation services	Russia	100
TES, LLC	transmission of electricity	Russia	100
Transneft Technology, LLC	maintenance of automation means, telemechanization systems and automated process control systems	Russia	100
Transneft Telecom, LLC	telecommunication activities	Russia	100
Transneft security services, LLC	security services	Russia	100
MC Evolution, LLC	Property management	Russia	100
NPF Transneft, JSC	non-state pension management	Russia	100
"Transneft Invest" Management Company, LLC	trust management of non-state pension fund assets	Russia	100
Omirico Limited	financial activity	Cyprus	100
NCSP, PJSC	cargo handling and storage services	Russia	63
NFT, LLC	cargo handling services	Russia	82
Primorsk Trade Port (PTP), LLC	cargo handling services	Russia	63
Novoroslesexport, JSC	cargo handling services	Russia	58
IPP, LLC	cargo handling services	Russia	63
Fleet of Novorossiysk Commercial Sea Port, JSC	supporting sea transport activities	Russia	60
Baltic Stevedore Company, LLC	stevedoring activities	Russia	63
Novorossiysk Ship Repair Yard, JSC	cargo handling services	Russia	62
Novorossiysk Grain Terminal, LLC	transportation of cargo	Russia	63
SoyuzFlot Port (SFP), JSC	supporting sea transport activities	Russia	63
HENFORD LOGISTICS LIMITED	supporting sea transport activities	Hong Kong	60
REM, JSC	production of electric motors	Russia	51

(in millions of Russian roubles, if not stated otherwise)

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Equity-accounted investments	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2018
OOO Nevskaya pipe company	cargo handling services	Russia	26
AO OMEGA	production of monitoring systems of pipelines	Russia	49.99
OOO RUSENERGORESURS	wholesale of electric and heat power	Russia	25
AO Ust-Luga Oil	handling of cargo services	Russia	25
Sandmark Operations Limited	handling of cargo services	Cyprus	25
CMF Gazprombank-Finansoviy	financial activity	Russia	57
JSC CPC-R	crude oil transportation	Russia	7
JSC CPC-K	crude oil transportation	Kazakhstan	7
OOO TK-BA	designing and construction of “Burgas – Alexandroupolis” pipeline	Russia	33
Transneft oil pumps, JSC	development, production and sales of pumping equipment	Russia	51
OOO Transneft-Sintez	production of oil products	Russia	51
LatRosTrans Ltd	oil products transportation	Latvia	34

24 OPERATING LEASES

The Group leases a number of land plots, mainly, owned by local governments under operating lease.

The future expected lease payments under lease agreements broken-down by period of payment were as follows:

	31 December 2018	31 December 2017
Less than one year	1,015	1,476
Between one year and five years	4,058	5,905
After five years	45,657	66,430
Total	**50,730**	**73,811**

The land areas leased by the Group are the territories on which the Group’s oil pipelines, oil product pipeline and other assets are located. Most contracts for land lease are long term and concluded for duration up to 49 years with subsequent prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated.

The rent paid to the landlord of the land is increased in accordance with the contractual terms at regular intervals, it was determined that substantially all the risks and rewards of owning the land lie within the landlord. As such, the Group determined that the lease agreements are operating lease agreements.

During the year ended 31 December 2018 operating lease expenses are included in operating expenses in the amount of RUB 542 (31 December 2017: RUB 564).

25 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the year ended 31 December 2018 the Group was involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group’s management, there were no current legal proceedings or claims outstanding at 31 December 2018, which could have a material adverse effect on the results of operations or financial position of the Group.

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation represented by the Federal Agency for the Management of State Property owns 100% of the ordinary shares of the Company and conducts control via the Board of Directors that as at the 31 December 2018 was comprised of the State representatives (professional attorneys) and Independent Directors. The Government of the Russian Federation shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and their limits.

As at 31 December 2018 and 31 December 2017 the Company holds in trust on behalf of the Russian Federation 24% of the ordinary shares of JSC CPC-R and 24% of the ordinary shares of JSC CPC–K.

(in millions of Russian roubles, if not stated otherwise)

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

In the ordinary course of business the Group had the following significant transactions with entities, which are under common control or significant influence of the state:

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from oil transportation services	352,382	336,760
Rosneft and its subsidiaries	288,837	272,889
PJSC “GAZPROM” and its subsidiaries	27,293	31,285
Others	36,252	32,586
Revenue from oil products transportation services	32,131	28,673
Rosneft and its subsidiaries	19,095	18,998
PJSC “GAZPROM” and its subsidiaries	13,036	9,675
Other services	6,625	2,410
Rosneft and its subsidiaries	3,539	1,878
PJSC “GAZPROM” and its subsidiaries	2,793	460
Others	293	72
Purchases of oil (Rosneft)	151,248	110,483
Electricity expenses	1,076	914
Proceeds from loans from banks under the state control	261,701	40,000
Loans from acquired subsidiaries	71,004	-
Finance income	12,393	21,047
Finance cost	23,295	145
Transportation expenses	-	33

The Group had the following transactions with associates and jointly controlled entities:

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from sales of goods and services	7,031	4,048
Purchases of goods and services	47,788	47,299

The Group had the following balances with associates and jointly controlled entities:

	31 December 2018	31 December 2017
Trade and other receivables	7,905	9,636
Trade and other payables	2,264	1,599
Borrowings granted	16,231	25,374
Borrowings received	36	59

Borrowings granted include:

- Borrowing granted to JSC CPC-R at 6% interest rate per annum, with the carrying amount of RUB 11,384 as at 31 December 2018 (Note 8);
- as at 31 December 2017 borrowing granted to Omirico Limited at 5.27% interest p.a., with the carrying value plus accrued interest income amounting to RUB 11,781.

Key management personnel compensation

Key management personnel (the members of the Board of Directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consist of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Board of Directors of Company are subject to approval by the annual general meeting of shareholders. According to Russian legislation, the Group makes contributions to the Pension fund of the Russian Federation to defined contributions plan from payments to all of its employees including key management personnel of the Company and its subsidiaries. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, JSC "NPF "TRANSNEFT", and one-time payments programme at the retirement date.

(in millions of Russian roubles, if not stated otherwise)

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and bonuses	2,256	1,869
Termination benefits	9	8
Other	13	6
	2,278	**1,883**

Amounts of loans issued to key management personnel were as follows:

	2018	2017
1 January	**8**	**22**
Granted	-	-
Repaid	(7)	(14)
31 December	**1**	**8**
due for repayment during 1 year	1	7
due for repayment after 1 year	-	1

During the year ended 31 December 2018 the Group contributed to JSC “NPF “TRANSNEFT” in favor of the key management personnel RUB 169 (for 2017 – RUB 9).

Contributions to the JSC “NPF “TRANSNEFT” represent transfer to the fund of the present value of future pension distributions in connection with retirement in accordance with the terms of contracts for non-state pension benefits. These distributions will be made when the right to receive the pension in accordance with established rules of JSC “NPF “TRANSNEFT” vest.

Key management personnel for whom information was disclosed in the consolidated financial statements include members of the Board of Directors and the Board of Transneft, as well as CEOs and their families (including change of management during the reporting periods) of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.

Total number of the people who have received payments as the key management personnel and their family members as for the year ended 31 December 2018 amounted to 64 individuals (for the year ended 31 December 2017 – 62 individuals).

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to the items below:

	At fair value through profit or loss – others	At amortised cost	Financial liabilities
31 December 2018			
Financial assets			
Measured at fair value			
Investments measured at fair value through profit or loss (Note 9)	65,240	-	-
	65,240	-	-
Not measured at fair value			
Cash and cash equivalents (Note 13)	-	101,852	-
Trade and other receivables (Note 12)	-	31,045	-
Measured at amortised cost (Note 10)	-	143,643	-
	-	**276,540**	-
Financial liabilities not measured at fair value			
Unsecured bank loans (Note 16)	-	-	381,109
Bonds issued without collateral (Note 16)	-	-	291,883
Trade and other payables (Note 19)*	-	-	66,018
	-	-	**739,010**

* Other payables which are not financial liabilities (RUB 121,719 of contract liabilities recognised in accordance with IFRS 15) are not included.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

31 December 2017	Held-to-maturity investments	Loans and receivables	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Financial assets					
Cash and cash equivalents (Note 13)	-	76,162	-	-	-
Financial assets measured at fair value through profit or loss (Note 9)	-	-	58,859	-	-
Available-for-sale financial assets	-	-	-	251	-
Other non-current financial assets (Note 10)	-	23,096	-	-	-
Other current financial assets (Note 10)	13,638	195,130	-	-	-
Receivables (trade and other) (Note 12)	-	33,396	-	-	-
	13,638	**327,784**	**58,859**	**251**	-
Financial liabilities					
Financial accounts payable (trade and other) (Note 19)	-	-	-	-	60,459
Loans and borrowings (Note 16)	-	-	-	-	688,910
	-	**-**	**-**	**-**	**749,369**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, commodity price risk, credit risk, insurance risk and liquidity risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set allowed risk limits and appropriate control mechanisms, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Foreign exchange risk

The Group's overall strategy is to mitigate foreign exchange risk which arises from use of currencies other than RUB. Moreover, the Group has an approved policy and regulations for managing foreign exchange risk and interest rate risk. The Group's foreign exchange exposure mainly arises on USD-denominated loans and borrowings (Note 16) and translation of cash balances and financial assets measured at amortised cost (Note 10, 13) denominated in USD. Assets and liabilities of the Group denominated in other currencies which give exposure to foreign exchange risk are insignificant.

If USD had strengthened/weakened by 10% against RUB, with all other variables left constant, profit after tax and equity would have increased/decreased as at 31 December 2018 at RUB 5,269 (as at 31 December 2017 - RUB 9,768), mainly as a result of losses/(gains) on conversion of borrowings and translation of cash balances and other financial assets denominated in USD into RUB.

Interest rate risk

The Group has an approved policy and regulations concerning determination of how much the Group's exposure should be to fixed or variable interest rates. At the time of raising new loans or borrowings management uses its judgment, economic experience and risk assessment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Loans and borrowings received at fixed rates expose the Group to fair value interest rate risk. The Group obtains loans from banks at current market interest rates. The interest rate risk is constantly monitored and, if necessary, measures will be taken to decrease the Group's exposure to it. The Group does not account for any of its fixed rate financial assets and liabilities at fair value through profit or loss (except for the assets relating to JSC "NPF "TRANSNEFT"). Therefore, a change in interest rates for these loans and borrowings at the reporting date would not affect profit or equity.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Loans and borrowings received by the Group under variable interest rate expose the Group to the risk of changes in the cash flows under loans and borrowings. As the Group receives bank loans for financing its investment projects, the part of borrowing costs are capitalised. An increase/decrease of 1% in interest rates for the year ended 31 December 2018 would have decreased/increased after tax profit for the year and equity by RUB 190 (year ended 31 December 2017 – RUB 2,496). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

To monitor changes in interest rate risk affecting assets of JSC "NPF "TRANSNEFT" the Group performs a sensitivity analysis of its comprehensive income to interest rates change based on the simplified scenario of the symmetric increase or decline in rates by certain amount of basic interest rate points.

Sensitivity analysis for profit or loss before tax and equity due to changes in value of financial instruments at fair value through profit and loss resulting from changes in interest rates (set up as at 31 December 2018 according to the simplified scenario of the parallel shift of the yield curve for 100 basis points increase or decline) may be presented as follows:

	Profit / (loss) before income tax	Net assets to execute liabilities towards participants and insured persons
	31 December 2018	
100 basic points interest rates increase	(1,547)	(1,541)
100 basic points interest rates decline	1,459	1,453

Commodity price risk

The Group's principle activities include technical maintenance, replacement of the existing pipelines and construction of new pipelines. These require annual purchases of a significant number of metal pipes for replacement and construction of new pipelines.

The Group concluded framework agreements with pipes producers, under which the delivery price and delivery dates are not fixed at the moment of signing these agreements. In addition, the Group has no long-term contracts with oil producing companies (except agreement on crude oil delivery with Rosneft) and refineries and does not use the hedging contracts to manage the risks associated with changes in metal prices and prices for oil and oil product.

Credit risk and compliance with contractual terms and obligations

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group has an approved policy in accordance with which it regularly assesses creditworthiness of banks it deals with and reviews limit for allocation of free cash.

The Group's policy is generally to transact with its customers on a prepayment basis. Its trade accounts receivable are unsecured. Being the subject of natural monopolies on the Russian transportation market the Group ensures equal access to the oil and oil product pipeline for all Russian oil refining and oil products companies. The majority of the Group's revenue is received under agreements with the major oil companies of the Russian Federation including those controlled by the State. The Group has no material concentrations of credit risk or any material past due accounts receivable.

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group selects suppliers (contractors, performers) in accordance with the legislation of the Russian Federation, as a rule, on a competitive basis. When purchasing goods, works, services, the technical and financial indicators of procurement participants (availability of production facilities, qualified personnel, financial condition, etc.), and the criteria for its reliability (availability of relevant experience, professional reputation, etc.). Procurement requirements for bidders provide for the selection of counterparties, the risk of default on contractual obligations is minimal.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Financial assets had the following credit ratings assigned by Moody's and other credit agencies ratings adjusted to Moody's rating scale as at 31 December 2018:

Credit rating	Cash and cash equivalents	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost
External credit rating Baa3	64,732	53,571	80,985
External credit rating Ba1 – Ba2	30,993	6,553	50,869
Other	6,127	5,116	11,789
	101,852	**65,240**	**143,643**

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Risks associated with securities under trust management

The Group is exposed to equity price risk. Management companies which are entered into trust management agreements control operations with equity securities in accordance with approved investment declaration which sets the structure and ratio between debt and equity securities and cash levels which management companies must maintain. The specialised depositary also controls compliance with investment declarations on a daily basis.

To manage other price risk the Group uses periodic estimation of potential losses which can be incurred because of negative market changes as well as sensitivity analysis of profit or loss for the year to changes in share prices in accordance with a symmetrical increase or decline scenario for a certain percentage points.

Sensitivity analysis of net profit to changes in price of shares (computed on positions open as at 31 December 2018 and simplified scenario for 10% decline or increase in all share prices) can be shown as follows:

	31 December 2018
	Profit (loss) before income tax
10% increase in securities' quotes	6,012
10% decline in securities' quotes	(6,012)

Insurance risk

For insurance contracts for payment of benefits under guaranteed pensions where insurance risk is the mortality risk the main factor is the stable improvement of medical services and social conditions which increase life expectancy.

Insurance risk management is performed by permanent observation of actual mortality of participants. Currently the actual mortality rate as well as its changes are consistent with expectations. To fulfill already taken obligations the part of investment returns from allocation of pension reserves including insurance reserve will be used.

The table below shows sensitivity analysis of insurance contract liabilities under non-state pension:

Change in obligation in relation to obligation as at reporting date		31 December 2018
Analysis of change in liability in case of change in discount rate	-1 p.p.*	10.4%
	+1 p.p.*	(9.6)%
Analysis of change in liability in case of change in assumption of indexation of pensions	-1 p.p.*	(9.7)%
	+1 p.p.*	10.3%
Analysis of change in liability in case of change in assumption of mortality	-10%	4.8%
	+10%	(5.1)%

(*) p.p. – percentage point

Liability adequacy test for insurance contracts under OPS would not result in a deficit in all cases when indexation rate does not exceed discount rate. JSC "NPF "TRANSNEFT" estimated the minimal discount rate (with fixed indexation rate used in calculation as at the reporting date) equal to 4.5% when the test will result in zero.

A decline in mortality probability by 25% will lead to a zero result in liability adequacy test relating to insurance contracts under OPS.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, 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.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines.

Offsetting and similar agreements

The Group may conclude agreements for purchase and sale with same counterparties in the ordinary course of business. Relevant amounts of receivables and payables are not always available for offsetting in the statement of financial position. This is due to the fact that the Group may not have currently legally enforceable right to offset the recognised amounts, since the right of set-off may be valid only when certain events occur in the future. In particular, in accordance with civil law in force in Russia, the obligation may be settled by offsetting uniform requirements, which are due either not specified or determined by the time on demand.

The following are the carrying values of recognised financial instruments under the afore-mentioned contracts:

	Trade and other receivables	Trade and other payables
31 December 2018		
Gross amounts	**31,045**	**66,401**
Net amounts shown in the consolidated statement of financial position	31,045	66,401
Amounts relating to recognised financial instruments which cannot be offset	(309)	(309)
Net amount	**30,736**	**66,092**
31 December 2017		
Gross amounts	**33,396**	59,259
Net amounts shown in the consolidated statement of financial position	33,396	59,259
Amounts relating to recognised financial instruments which cannot be offset	(1,386)	(1,386)
Net amount	**32,010**	**57,873**

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
31 December 2018						
Loans and borrowings	672,992	871,741	136,262	87,287	260,468	387,724
Trade and other payables	66,018	66,087	64,599	1,118	366	4
	739,010	**937,828**	**200,861**	**88,405**	**260,834**	**387,728**
31 December 2017						
Loans and borrowings	688,910	891,421	150,491	139,811	299,707	301,412
Trade and other payables	60,459	60,630	59,259	1,195	176	-
	749,369	**952,051**	**209,750**	**141,006**	**299,883**	**301,412**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the receivables and payables approximates their carrying amounts at 31 December 2018 and 31 December 2017. The fair values of loans and borrowings are disclosed in Note 16, of financial assets in Note 9.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company and the long-term and short-term debt (long-term and short term borrowings and trade and other payables). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing loans and borrowings.

Within the framework of capital management for the purpose of maintaining major debt parameters at the optimal level, the Group's management monitors its key financial indicators, such as total debt/EBITDA, total debt/equity and cash from operating activities/total debt; that allows the Group to keep its credit rating at the maximum level available for Russian companies.

There were no changes in the Group's approach to capital management during the reporting period.

28 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities and operational segments are set by nature of its activity based on management accounting under RAS. The following segments were allocated: Oil transportation services, Oil product transportation services and Trading operations for sale of oil and oil products and Others.

The Others segment includes stevedoring, additional port services and fleet services which appeared after the Group's acquisition of control in the Group PJSC NCSP in September 2018 (Note 8).

Adjusting entries used to reconcile this information with information in the consolidated financial statements primarily include adjustments and reclassifications resulting from differences between RAS and IFRS.

Segment information for the year ended 31 December 2018 and 31 December 2017 was as follows:

Year ended 31 December 2018	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Others	Adjustments	Total IFRS
Revenue	696,021	77,379	205,887	16,277	(15,606)	979,958
Operating expenses net of amortisation and depreciation	(314,338)	(38,614)	(205,905)	(4,912)	17,686	(546,083)
Operating profit net of amortisation and depreciation	**381,683**	**38,765**	**(18)**	**11,365**	**2,080**	**433,875**
Amortisation and depreciation	(206,380)	(26,339)	(13)	(997)	55,119	(178,610)
Operating profit	**175,303**	**12,426**	**(31)**	**10,368**	**57,199**	**255,265**
Other income	-	-	-	-	-	33,519
Share of profit from associates and jointly controlled entities	-	-	-	-	-	10,231
Profit before income tax and finance income/(costs)	**175,303**	**12,426**	**(31)**	**10,368**	**57,199**	**299,015**
Finance income	-	-	-	-	-	100,930
Finance costs	-	-	-	-	-	(122,234)
Profit before income tax	**175,303**	**12,426**	**(31)**	**10,368**	**57,199**	**277,711**
Income tax expense	-	-	-	-	-	(52,298)
Profit for the reporting year	**175,303**	**12,426**	**(31)**	**10,368**	**57,199**	**225,413**

(in millions of Russian roubles, if not stated otherwise)

28 SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjustments	Total IFRS
Revenue	664,177	69,137	145,588	5,435	884,337
Operating expenses net of amortisation and depreciation	(293,363)	(35,818)	(145,465)	(1,416)	(476,062)
Operating profit net of amortisation and depreciation	**370,814**	**33,319**	**123**	**4,019**	**408,275**
Amortisation and depreciation	(189,906)	(15,421)	(9)	52,699	(152,637)
Operating profit	**180,908**	**17,898**	**114**	**56,718**	**255,638**
Other expenses	-	-	-	-	(13,686)
Share of profit from associates and jointly controlled entities	-	-	-	-	15,847
Profit before income tax and finance income/(costs)	**180,908**	**17,898**	**114**	**56,718**	**257,799**
Finance income	-	-	-	-	109,177
Finance costs	-	-	-	-	(124,809)
Profit before income tax	**180,908**	**17,898**	**114**	**56,718**	**242,167**
Income tax expense	-	-	-	-	(50,362)
Profit for the reporting year	**180,908**	**17,898**	**114**	**56,718**	**191,805**

Adjusting items for segments' revenue in the amount of RUB 15,606 for the year ended 31 December 2018 include revenue for connection of facilities to the trunk oil pipeline system and relates to differences between RAS and IFRS.

Adjusting items for segments' expenses in the amount of RUB 72,805 for the year ended 31 December 2018 and RUB 51,283 for the year ended 31 December 2017 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Year ended 31 December 2018	Year ended 31 December 2017
Dismantlement provision	(2,101)	(2,101)
Adjustment to Property plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(57,807)	(53,581)
Pension provision	(10,980)	3,235
Deferred payment obligation	(961)	281
Others	(956)	883
Total adjusting items for segment's expenses	**(72,805)**	**(51,283)**

Geographical information. The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. The Oil products transportation services segment has certain assets located in the territory of the Republic of Belarus and the Republic of Kazakhstan.

Information on revenue allocation by customers' country of incorporation is set out below:

	Year ended 31 December 2018	Year ended 31 December 2017
Russian Federation	747,543	716,718
China	200,365	140,737
Other countries	32,050	26,882
Total	**979,958**	**884,337**

Revenue from external customers in other countries mainly includes revenue from services provided to customers in the Republic of Kazakhstan.

(in millions of Russian roubles, if not stated otherwise)

28 SEGMENT INFORMATION (continued)

Major customers. The Group's major customers are oil production companies which produce oil and transport it for export, domestic sale or refining.

The information about largest customers of the Group in Group's revenue is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017
Companies under control of the state	391,138	367,931
China National United Oil Corporation	200,286	140,737
PJSC Surgutneftegaz	112,532	105,482
PJSC LUKOIL	93,914	87,770
Total	**797,870**	**701,920**

Sales to the major customers are included in the results of the Oil transportation services, Oil products transportation services and Trading operations for sale of oil and oil products segments.