Tatneft Group

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2019

Contents

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Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of PJSC Tatneft:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PJSC Tatneft and its subsidiaries (together – the "Group") as of 30 September 2019 and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month and nine-month periods then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

29 November 2019

Moscow, Russian Federation

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

Audited entity: PJSC Tatneft

Record made in the Unified State Register of Legal Entities on 18 July 2002 under State Registration Number 1021601623702

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

TATNEFT
Consolidated Interim Condensed Statement of Financial Position (Unaudited)
(in million of Russian Rubles)

	Note	30 September 2019	31 December 2018
Assets			
Cash and cash equivalents	4	57,394	65,489
Banking: Mandatory reserve deposits with the Bank of Russia		1,754	1,875
Short-term accounts receivable, net	5	87,290	80,762
Banking: Loans to customers	6	36,746	53,797
Other short-term financial assets	7	48,755	32,901
Inventories	8	44,732	50,606
Prepaid expenses and other current assets	9	19,817	23,090
Prepaid income tax		1,159	852
Banking: Non-current assets held for sale		1,145	2,360
Total current assets		**298,792**	**311,732**
Long-term accounts receivable, net	5	1,722	2,930
Banking: Loans to customers	6	104,230	92,508
Other long-term financial assets	7	98,241	81,513
Investments in associates and joint ventures		750	637
Property, plant and equipment, net		752,483	701,922
Right-of-use assets	3	14,449	-
Deferred income tax assets		3,842	3,548
Other long-term assets		6,982	6,498
Total non-current assets		**982,699**	**889,556**
Total assets		**1,281,491**	**1,201,288**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	11,271	11,953
Accounts payable and accrued liabilities	12	46,095	42,989
Dividends payable	13	91,263	50,711
Banking: Other financial liabilities at fair value through profit and loss		9	1,190
Banking: Due to banks and the Bank of Russia		30,093	13,765
Banking: Customer accounts		163,051	183,654
Taxes payable	10	42,598	38,771
Income tax payable		4,463	3,254
Other short-term liabilities		666	533
Total current liabilities		**389,509**	**346,820**
Long-term debt, net of current portion	11	1,697	3,084
Banking: Due to banks and the Bank of Russia		3,271	4,660
Banking: Customer accounts		329	682
Decommissioning provision, net of current portion		46,422	34,338
Lease liabilities, net of current portion	3	12,250	-
Deferred income tax liability		34,811	31,486
Other long-term liabilities		3,595	3,437
Total non-current liabilities		**102,375**	**77,687**
Total liabilities		**491,884**	**424,507**
Shareholders' equity			
Preferred shares (authorised and issued at 30 September 2019 and 31 December 2018 – 147,508,500 shares; nominal value RR1.00)		746	746
Ordinary shares (authorised and issued at 30 September 2019 and 31 December 2018 – 2,178,690,700 shares; nominal value RR1.00)		11,021	11,021
Additional paid-in capital		84,437	84,437
Accumulated other comprehensive income		2,983	1,804
Retained earnings		693,895	683,508
Less: Ordinary shares held in treasury, at cost (75,636,735 shares at 30 September 2019 and 75,483,000 shares at 31 December 2018, respectively)		(10,359)	(10,251)
Total Group shareholders' equity		**782,723**	**771,265**
Non-controlling interest		**6,884**	**5,516**
Total shareholders' equity		**789,607**	**776,781**
Total liabilities and equity		**1,281,491**	**1,201,288**

Approved for issue and signed on behalf of the Board of Directors on 29 November 2019.

CEO Maganov N.U.

Chief Accountant Matveev O.M.

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

TATNEFT
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
(in million of Russian Rubles)

	Note	Three months ended 30 September: 2019	2018	Nine months ended 30 September: 2019	2018
Sales and other operating revenues on non-banking activities, net	17	**241,753**	**252,824**	**691,409**	**675,157**
Costs and other deductions on non-banking activities					
Operating expenses		(36,348)	(33,901)	(100,558)	(92,333)
Purchased crude oil and refined products		(10,961)	(18,420)	(37,451)	(56,226)
Exploration		(279)	(177)	(658)	(522)
Transportation		(10,176)	(8,411)	(27,987)	(27,303)
Selling, general and administrative		(13,567)	(11,486)	(37,650)	(36,077)
Depreciation, depletion and amortization	17	(8,715)	(9,106)	(23,273)	(22,405)
Impairment losses on financial assets net of reversal		(1,543)	(1,763)	496	(5,422)
Impairment losses on property, plant and equipment and other non-financial assets net of reversal		(1,636)	(374)	(1,873)	(464)
Taxes other than income taxes	10	(82,639)	(82,485)	(234,694)	(215,765)
Maintenance of social infrastructure and transfer of social assets		(2,480)	(1,583)	(5,052)	(4,220)
Total costs and other deductions on non-banking activities		**(168,344)**	**(167,706)**	**(468,700)**	**(460,737)**
Gain on disposals of interests in subsidiaries and associates, net		-	6	1	94
Other operating loss, net		(263)	(187)	(635)	(312)
Operating profit on non-banking activities		**73,146**	**84,937**	**222,075**	**214,202**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities					
Interest, fee and commission income	14,15	5,700	5,648	17,081	17,308
Interest, fee and commission expense	14,15	(3,568)	(2,536)	(9,050)	(8,417)
Net income/(expense) on creating provision for credit losses associated with debt financial assets	6	118	(446)	(6)	(1,531)
Operating expenses		(1,664)	(2,046)	(7,172)	(6,385)
Gain/(loss) arising from dealing in foreign currencies, net		650	62	84	(93)
Other operating income/(loss), net		328	(484)	1,150	(127)
Total net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		**1,564**	**198**	**2,087**	**755**
Other income/(expenses)					
Foreign exchange gain/(loss), net	16	1,380	2,758	(1,532)	6,000
Interest income on non-banking activities	16	290	1,662	1,084	3,827
Interest expense on non-banking activities, net of amounts capitalised	16	(1,257)	(797)	(3,753)	(2,358)
Share of results of associates and joint ventures, net		(48)	5	108	(12)
Total other income/(expenses), net		**365**	**3,628**	**(4,093)**	**7,457**
Profit before income tax		**75,075**	**88,763**	**220,069**	**222,414**

Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

(in million of Russian Rubles)

	Note	Three months ended 30 September: 2019	Three months ended 30 September: 2018	Nine months ended 30 September: 2019	Nine months ended 30 September: 2018
Income tax					
Current income tax expense		(17,371)	(17,655)	(43,396)	(44,423)
Deferred income tax (expense)/benefit		1,333	(2,117)	(3,142)	(4,051)
Total income tax expense	10	**(16,038)**	**(19,772)**	**(46,538)**	**(48,474)**
Profit for the period		**59,037**	**68,991**	**173,531**	**173,940**
Other comprehensive income/(loss) net of income tax:					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustments		80	(787)	100	(685)
Gain/(loss) on debt financial assets at fair value through other comprehensive income, net		387	(156)	387	(230)
Items that will not be reclassified to profit or loss:					
Gain/(loss) on equity financial assets at fair value through other comprehensive income, net		705	(61)	1,930	(68)
Actuarial (loss)/gain on employee benefit plans		-	(57)	21	103
Other comprehensive income/(loss)		**1,172**	**(1,061)**	**2,438**	**(880)**
Total comprehensive income for the period		**60,209**	**67,930**	**175,969**	**173,060**
Profit/(loss) attributable to:					
- Group shareholders		58,433	68,922	172,719	174,096
- Non-controlling interest		604	69	812	(156)
		59,037	**68,991**	**173,531**	**173,940**
Total comprehensive income/(loss) attributable to:					
- Group shareholders		59,159	67,861	174,711	173,216
- Non-controlling interest		1,050	69	1,258	(156)
		60,209	**67,930**	**175,969**	**173,060**
Basic and diluted earnings per share (RR)					
Ordinary		25,96	30,64	76,74	77,36
Preferred		25,96	30,33	76,74	77,06
Weighted average shares outstanding (million of shares)					
Ordinary		2,103	2,103	2,103	2,103
Preferred		148	148	148	148

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

	Attributable to Group shareholders									Non-con-trolling interest	Total equity
	Number of shares (thousands)	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Actuarial (loss)/gain on employee benefit plans**	**Foreign currency translation adjustments**	**Gain/(loss) on financial assets at fair value through other compre-hensive income, net**	**Retained earnings**	**Total shareholders' equity**		
Balance at 1 January 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,871)**	**1,677**	**1,846**	**617,295**	**704,900**	**4,822**	**709,722**
Profit/(loss) for the nine months	-	-	-	-	-	-	-	174,096	174,096	(156)	173,940
Other comprehensive income/(loss) for the nine months	-	-	-	-	103	(685)	(298)	-	(880)	-	(880)
Total comprehensive income/(loss) for the nine months	**-**	**-**	**-**	**-**	**103**	**(685)**	**(298)**	**174,096**	**173,216**	**(156)**	**173,060**
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(165)	(165)
Dividends declared (Note 13)	-	-	-	-	-	-	-	(95,841)	(95,841)	(1)	(95,842)
Balance at 30 September 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,768)**	**992**	**1,548**	**695,550**	**782,275**	**4,500**	**786,775**
Balance at 1 January 2019	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,537)**	**1,601**	**1,740**	**683,508**	**771,265**	**5,516**	**776,781**
Profit for the nine months	-	-	-	-	-	-	-	172,719	172,719	812	173,531
Other comprehensive income for the nine months	-	-	-	-	21	100	1,871	-	1,992	446	2,438
Total comprehensive income for the nine months	**-**	**-**	**-**	**-**	**21**	**100**	**1,871**	**172,719**	**174,711**	**1,258**	**175,969**
Treasury shares	(154)	-	-	(108)	-	-	-	-	(108)	-	(108)
- Additions	(156)			(109)					(109)		(109)
- Disposals	2	-	-	1	-	-	-	-	1	-	1
Dividends declared (Note 13)	-	-	-	-	-	-	-	(163,145)	(163,145)	(5)	(163,150)
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	115	115
Disposal of equity financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(813)	813	-	-	-
Balance at 30 September 2019	**2,250,562**	**11,767**	**84,437**	**(10,359)**	**(1,516)**	**1,701**	**2,798**	**693,895**	**782,723**	**6,884**	**789,607**

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

(in million of Russian Rubles)

	Nine months ended 30 September 2019	Nine months ended 30 September 2018
Operating activities		
Profit for the period	173,531	173,940
Adjustments:		
Net interest, fee and commission and other operating income and gains on banking activities	(2,087)	(755)
Depreciation, depletion and amortization	23,273	22,405
Income tax expense	46,538	48,474
Impairment losses on financial assets net of reversal	(496)	5,422
Impairment losses on property, plant and equipment and other non-financial assets net of reversal	1,873	464
Effects of foreign exchange	(163)	1,029
Share of results of associates and joint ventures, net	(108)	12
Interest income on non-banking activities	(1,084)	(3,827)
Interest expense on non-banking activities, net of amounts capitalised	3,753	2,358
Other	247	(1,685)
Changes in operational working capital, excluding cash:		
Accounts receivable	(4,866)	(41,247)
Inventories	4,089	(3,253)
Prepaid expenses and other current assets	2,856	682
Securities at fair value through profit or loss	(48)	(242)
Accounts payable and accrued liabilities	(1,344)	969
Taxes payable	3,814	18,308
Other non-current assets and liabilities	(176)	(145)
Net cash provided by non-banking operating activities before income tax and interest	**249,602**	**222,909**
Net interest, fee and commission and other operating income and gains on banking activities	2,087	755
Adjustments:		
Net expense on creating provision for credit losses associated with debt financial assets	6	1,531
Recovery of provision for losses on credit related commitments	(201)	(389)
Change in fair value of financial assets through profit or loss	(780)	617
Other	(2,786)	187
Changes in operational working capital on banking activities, excluding cash:		
Mandatory reserve deposits with the Bank of Russia	121	113
Due from banks	(612)	(168)
Banking loans to customers	2,319	(7,100)
Due to banks and the Bank of Russia	15,559	(1,449)
Banking customers accounts	(15,441)	1,342
Debt securities issued	(359)	(2,021)
Securities at fair value through profit or loss	(1,921)	3,727
Net cash used in banking operating activities before income tax	**(2,008)**	**(2,855)**
Income taxes paid	(42,493)	(42,343)
Interest paid on non-banking activities	(1,349)	(351)
Interest received on non-banking activities	1,011	3,637
Net cash provided by operating activities	**204,763**	**180,997**

(in million of Russian Rubles)

	Nine months ended 30 September 2019	Nine months ended 30 September 2018
Investing activities		
Additions to property, plant and equipment	(61,361)	(67,172)
Proceeds from disposal of property, plant and equipment	1,045	201
Net cash flow on acquisition of subsidiaries	8	(438)
Cash inflow from disposal of subsidiaries and associates, net of disposed cash	-	20
Purchase of securities at fair value through other comprehensive income	(42,680)	(11,471)
Purchase of securities at amortised cost	(1,263)	(16,734)
Proceeds from disposal of securities at fair value through other comprehensive income	25,548	21,660
Proceeds from redemption of securities at amortised cost	9,030	31,853
Proceeds from sale of non-current assets held for sale	1,078	257
Purchase of investments in associates and joint ventures	-	(15)
Proceeds from redemption of bank deposits	8,237	440
Placement of bank deposits	(27,762)	(20,724)
Proceeds from redemption of loans and notes receivable	1,930	696
Issuance of loans and notes receivable	(638)	(3,652)
Net cash used in investing activities	**(86,828)**	**(65,079)**
Financing activities		
Proceeds from issuance of debt from non-banking activities	18,187	25,270
Repayment of debt from non-banking activities	(18,793)	(48,132)
Repayment of principal portion of lease liabilities	(1,004)	-
Issuance of bonds	1,790	184
Redemption of bonds	(145)	(5,540)
Repayment of subordinated debt	(2,138)	(1,358)
Dividends paid to shareholders	(122,593)	(33,007)
Dividends paid to non-controlling shareholders	(5)	(1)
Net cash used in financing activities	**(124,701)**	**(62,584)**
Net change in cash and cash equivalents	**(6,766)**	**53,334**
Effect of foreign exchange on cash and cash equivalents	(1,329)	874
Cash and cash equivalents at the beginning of the period	65,489	42,797
Cash and cash equivalents at the end of the period	**57,394**	**97,005**

Note 1: Organisation

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

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

The Group does not have an ultimate controlling party.

As of 30 September 2019 and 31 December 2018 the government of Tatarstan controls about 36% of the Company's voting stock. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Group's suppliers and contractors.

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

Note 2: Basis of preparation

The consolidated interim condensed financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The consolidated interim condensed financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated interim condensed financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2018 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition except for changes disclosed below. Management believes that the disclosures are adequate to make the information presented not misleading if these consolidated interim condensed financial statements are read in conjunction with the Group's 2018 audited consolidated financial statements and the notes related thereto. In the opinion of the Group's management, the unaudited consolidated interim condensed financial statements and notes thereto reflect the known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Group's financial position, results of operations and cash flows for the interim periods.

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

Note 2: Basis of preparation (continued)

The accounting policies adopted are consistent with those applied and disclosed in the Group's 2018 audited consolidated financial statements, except for IFRS 16 "Leases" the Group has adopted with effect from 1 January 2019 and accounting for changes in the Tax Code of the Russian Federation (the "Tax Code") regarding introduction of negative ("reverse") excise tax.

Reverse excise on crude oil refined and negative excise on gasoline and diesel fuel sold on domestic market. The Russian Government tax maneuver in the oil industry involves gradual reduction of crude oil and oil products export duty rates with a corresponding increase in crude oil mineral extraction and excise tax rates. To eliminate the negative effect of export duty reduction on refining margins, a reverse ("negative") excise on refinery feedstock was introduced. To reduce domestic fuel prices sensitivity to international prices fluctuations "damper coefficient" component was included into the reverse ("negative") excise tax calculation. Reverse ("negative") excise is recognized as a reduction in excise tax expense deducted from sales and other operating revenues on non-banking activities in the statement of profit and loss and other comprehensive income and is presented in prepaid expenses and other current assets line in the statement of financial position.

IFRS 16 "Leases". At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An asset is identified by being explicitly specified in a contract, or implicitly specified at the time that the asset is made available for use by the customer. The Group does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assessed whether both of the following met:

- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset, and
- The Group has the right to direct the use of the identified asset.

The Group leases service equipment used in oil extraction, land plots, railway tanks and other assets. Some of service agreements include lease component for a heavy and special vehicles used in oil production, drilling rigs, pipeline. The lease payments on heavy and special vehicles, drilling rigs, pipelines, land plots and railway tanks comprise of variable payments that are not based on an index or rate and therefore are recognized in profit or loss in the period in which those payments occur. Service equipment lease contracts are typically made for fixed periods from 1 to 3 years, but have extension options as described below. Previously leases of equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. Generally, the Group determines its incremental borrowing rate as possible borrowing rate offered by banks. Subsequently, the lease liability is measured at amortised cost using the effective interest method.

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Note 2: Basis of preparation (continued)

The term used to measure a liability and an asset in the form of a right of use is defined as the period during which the Group has sufficient confidence that it will lease the asset. Any option for renewal or termination is taken into account when estimating the term. Extension options are included in a number of equipment lease across the Group. The majority of extension options held are exercisable only by the Group and not by the respective lessor. The Group considers monetary and non-monetary aspects to determine the lease term of the contract, such as business plans, past practices and economic incentives to extend or terminate the contract (the presence of inseparable improvements, integration to the production process, potentially high consequential termination costs, etc.) and other factors that may affect management's judgment on the lease term. Extension options and termination options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Potential future cash outflows that have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated) are not significant.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group presents right-of-use assets and lease liabilities in the separate lines in the Interim Condensed Consolidated Statement of Financial Position.

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

Judgements that have the most significant effect on the amounts recognised in the consolidated interim condensed financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of property, plant and equipment;
- Definition of leases;
- Accounting of investments in JSC "National Non-State Pension Fund";
- Financial assets impairment;
- Financial assets classification;
- Financial instruments fair value estimation.

In preparing these consolidated interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

Income taxes. Income tax expense is recognized based on the management's best estimate of the income tax rate expected for the full financial year multiplied by the profit before income tax of the interim reporting period.

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

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

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

(in million of Russian Rubles)

Note 2: Basis of preparation (continued)

The official rate of exchange, as published by the Central Bank of the Russian Federation ("the Bank of Russia"), of the Russian Ruble ("RR") to the US Dollar ("US $") at 30 September 2019 and 31 December 2018 was RR 64.42 and RR 69.47 to US $, respectively. Average rate of exchange for the nine months ended 30 September 2019 and 2018 were RR 65.08 and RR 61.44 per US $, respectively.

Note 3: Adoption of new or revised standards and interpretations

Adoption of IFRS 16, Leases. The Group decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The borrowing rate was determined by the information on possible borrowing rates offered by banks. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 10.5% to 10.8%.

	At 1 January 2019
Total future minimum lease payments for non-cancellable operating leases	6,932
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	20,886
- Effect of discounting to present value	(11,750)
Total lease liabilities	**16,068**
Of which are:	
Current lease liabilities	2,919
Non-current lease liabilities	13,149

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Right-of-use assets comprise the following:

	Service equipment	**Other assets**	**Total**
As of 1 January 2019	**13,654**	**2,414**	**16,068**
Additions	-	42	42
Disposals	-	(113)	(113)
Depreciation	(1,338)	(210)	(1,548)
As of 30 September 2019	**12,316**	**2,133**	**14,449**

(in million of Russian Rubles)

Note 3: Adoption of new or revised standards and interpretations (continued)

Segment assets at 30 September 2019 increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	At 30 September 2019
Assets	
Exploration and production	12,352
Refining and marketing	376
Petrochemicals	1,172
Banking	468
Corporate and other	81
Total assets	**14,449**

The reconciliation between undiscounted lease liabilities and their present value as of 30 September 2019 is presented in the table below:

	At 30 September 2019
Lease liabilities	
Less than one year	2,999
Between one and five years	9,787
More than five years	12,907
Total undiscounted lease liabilities	**25,693**
Lease liabilities	**14,864**
Of which are:	
Current lease liabilities, presented in Accounts payable and accrued liabilities (Note 12)	2,614
Non-current lease liabilities	12,250

Earnings per share for the nine months ended 30 September 2019 decreased by RR 0.19 as a result of the adoption of IFRS 16. Application of this Standard did not have an effect on retained earnings (or other component of equity) at the date of initial application.

Practical expedients applied. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The following amended standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019);
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

(in million of Russian Rubles)

Note 3: Adoption of new or revised standards and interpretations (continued)

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted. The full list of such standards, interpretations and amendments to standards was disclosed in the consolidated financial statements as of and for the year ended 31 December 2018. The following amendments to existing standards have been issues since the Group published its last annual consolidated financial statements:

- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

The Group does not expect that these amendments will have any material impact on its consolidated financial statements.

Note 4: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 30 September 2019	At 31 December 2018
Cash on hand and in banks	30,532	42,340
Term deposits with original maturity of less than three months	26,570	22,078
Due from banks	292	1,071
Total cash and cash equivalents	**57,394**	**65,489**

Term deposits with original maturity of less than three months represent deposits placed in banks in the course of non-banking activities. Due from banks represent deposits with original maturities of less than three months placed in the course of banking activities in banks other than those that are part of the Group. The estimated fair value of cash and cash equivalents approximates their carrying value (Note 20).

Note 5: Accounts receivable

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

	At 30 September 2019	At 31 December 2018
Short-term accounts receivable:		
Trade receivables	87,518	79,088
Other financial receivables	7,469	8,150
Other non-financial receivables	171	144
Less credit loss allowance	(7,868)	(6,620)
Total short-term accounts receivable	**87,290**	**80,762**
Long-term accounts receivable:		
Trade receivables	284	1,569
Other financial receivables	3,097	3,063
Less credit loss allowance	(1,659)	(1,702)
Total long-term accounts receivable	**1,722**	**2,930**
Total trade and other receivables	**89,012**	**83,692**

The estimated fair value of short-term and long-term accounts receivable approximates their carrying value (Note 20).

(in million of Russian Rubles)

Note 6: Banking: Loans to customers

	At 30 September 2019	At 31 December 2018
Loans to legal entities	98,226	106,538
Loans to individuals	40,002	39,935
Loans to customers measured at amortised cost before credit loss allowance	**138,228**	**146,473**
Credit loss allowance	(10,088)	(13,069)
Total loans to customers measured at amortised cost	**128,140**	**133,404**
Loans to customers measured at fair value through profit and loss	12,836	12,901
Total loans to customers	**140,976**	**146,305**
Less: long term loans measured at fair value through profit and loss	(12,836)	(12,901)
Less: long term loans measured at amortised cost	(97,201)	(85,905)
Less: credit loss allowance for long term loans	5,807	6,298
Total short term loans to customers and current portion of long term loans to customers	**36,746**	**53,797**

As at 30 September 2019 and 31 December 2018 the Group granted loans to 19 and 20 customers totalling RR 56,373 million and RR 51,743 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

The analysis of changes in provision for credit loss allowance for the nine months ended 30 September 2019 is presented in the table below:

	Loans to legal entities	Loans to individuals	Total
Credit loss allowance as at 1 January 2019	**(11,533)**	**(1,536)**	**(13,069)**
Net recovery/(provision) for credit loss allowance during the period	402	(453)	(51)
Cession	18	9	27
Reclassification to credit loss allowance of other long-term loans during the period	3,005	-	3,005
Credit loss allowance as at 30 September 2019	**(8,108)**	**(1,980)**	**(10,088)**

The analysis of changes in provision for credit loss allowance for the nine months ended 30 September 2018 is presented in the table below:

	Loans to legal entities	Loans to individuals	Total
Credit loss allowance as at 1 January 2018	**(10,605)**	**(1,154)**	**(11,759)**
Net provision for credit loss allowance during the period	(1,147)	(384)	(1,531)
Credit loss allowance as at 30 September 2018	**(11,752)**	**(1,538)**	**(13,290)**

(in million of Russian Rubles)

Note 7: Other financial assets

Other short-term financial assets comprise the following as at 30 September 2019 and 31 December 2018:

	At 30 September 2019	At 31 December 2018
Financial assets measured at amortised cost		
Notes receivable (net of credit loss allowance of RR 240 million as of 30 September 2019 and 249 million as of 31 December 2018)	9	136
Other loans (net of credit loss allowance of RR 321 million as of 30 September 2019 and RR 261 million as of 31 December 2018)	3,569	3,220
Bank deposits (net of credit loss allowance of RR 5,544 million as of 30 September 2019 and 31 December 2018)	19,163	11
Due from banks	29	997
REPO with banks	75	537
Securities held by the Group (net of credit loss allowance of RR 12 million as of 30 September 2019 and RR 47 million as of 31 December 2018):	2,259	4,632
Russian government and municipal debt securities	631	675
Corporate debt securities	1,628	3,957
Securities pledged under sale and repurchase agreements (net of credit loss allowance of RR 8 million as of 30 September 2019 and RR 37 million as of 31 December 2018):	2,170	8,267
Russian government and municipal debt securities	2,170	2,272
Corporate debt securities	-	5,995
Financial assets measured at fair value through profit and loss		
Securities held by the Group:	5,897	4,017
Russian government and municipal debt securities	31	287
Corporate debt securities	5,632	2,018
Corporate shares	183	186
Derivatives	51	1,526
Securities pledged under sale and repurchase agreements:	250	-
Russian government and municipal debt securities	250	-
Financial assets measured at fair value through other comprehensive income		
Securities held by the Group:	6,302	11,084
Russian government and municipal debt securities	5,398	176
Corporate debt securities	704	10,719
Corporate shares	200	189
Securities pledged under sale and repurchase agreements:	9,032	-
Russian government and municipal debt securities	9,032	-
Total short-term financial assets	**48,755**	**32,901**

(in million of Russian Rubles)

Note 7: Other financial assets (continued)

Other long-term financial assets comprise the following as at 30 September 2019 and 31 December 2018:

	At 30 September 2019	At 31 December 2018
Financial assets measured at amortised cost		
Notes receivable (net of credit loss allowance of RR 318 million as of 30 September 2019 and 31 December 2018)	-	320
Loans to employees (net of credit loss allowance of RR 1,797 million as of 30 September 2019 and RR 1,776 million as of 31 December 2018)	916	1,046
Other loans (net of credit loss allowance of RR 20,893 million as of 30 September 2019 and RR 17,746 million as of 31 December 2018)	25,394	25,450
Bank deposits	622	646
Due from banks	2,775	1,018
Securities held by the Group (net of credit loss allowance of RR 112 million as of 30 September 2019 and RR 138 million as of 31 December 2018):	20,817	19,867
Russian government and municipal debt securities	1,901	2,301
Corporate debt securities	18,916	17,566
Financial assets measured at fair value through profit and loss		
Other loans	210	117
Securities held by the Group:	265	757
Corporate shares	265	757
Financial assets measured at fair value through other comprehensive income		
Securities held by the Group:	47,242	32,292
Russian government and municipal debt securities	10,252	36
Corporate shares	12,258	12,317
Corporate debt securities	10,863	6,851
Investment fund units	13,869	13,088
Total long-term financial assets	**98,241**	**81,513**

The fair value of financial assets and valuation techniques used are disclosed in Note 20.

Corporate bonds consist of Russian Ruble, US Dollar and Euro denominated bonds and Eurobonds issued by Russian banks and companies.

Federal loan bonds consist of Russian Ruble denominated government securities issued by the Ministry of Finance of the Russian Federation, which are commonly referred to as “OFZ” and Russian Federation Eurobonds.

Municipal bonds consist of Russian Ruble denominated bonds issued by regional and municipal authorities of the Russian Federation.

Corporate shares measured at fair value through profit and loss include quoted shares of Russian companies and banks. At 30 September 2019 and at 31 December 2018 unquoted securities measured at fair value through other comprehensive income include investment in AK BARS Bank ordinary shares (17.24%) in the amount of RR 7,300 million.

Investment fund units are solely presented with investment in closed mutual investment rental fund AK BARS – Gorizont. The main assets of this fund are the land plots located in Tatarstan. The Group does not exercise significant influence over this investment and therefore accounts for it as a financial asset measured at fair value through other comprehensive income.

(in million of Russian Rubles)

Note 8: Inventories

	At 30 September 2019	At 31 December 2018
Materials and supplies	15,818	17,640
Crude oil	9,207	12,003
Refined oil products	10,512	11,621
Petrochemical supplies and finished goods	9,195	9,342
Total inventories	**44,732**	**50,606**

Note 9: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 30 September 2019	At 31 December 2018
Prepaid export duties	1,883	3,818
VAT recoverable	7,334	7,873
Advances	5,677	8,670
Prepaid transportation expenses	1,080	1,752
Reverse excise (Note 2)	2,456	-
Other	1,387	977
Prepaid expenses and other current assets	**19,817**	**23,090**

Note 10: Taxes

Income tax expense comprises the following:

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Current income tax expense	(17,371)	(17,655)	(43,396)	(44,423)
Deferred income tax (expense)/benefit	1,333	(2,117)	(3,142)	(4,051)
Income tax expense	**(16,038)**	**(19,772)**	**(46,538)**	**(48,474)**

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	2018	2019	2018
Profit before income tax	75,075	88,763	220,069	222,414
Theoretical income tax expense at statutory rate	(15,015)	(17,753)	(44,014)	(44,483)
(Increase)/decrease due to:				
Non-deductible expenses, net	(944)	(1,683)	(2,609)	(3,714)
Other	(79)	(336)	85	(277)
Income tax expense	**(16,038)**	**(19,772)**	**(46,538)**	**(48,474)**

(in million of Russian Rubles)

Note 10: Taxes (continued)

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Mineral extraction tax	80,065	80,551	227,667	209,521
Property tax	1,839	1,498	5,287	5,020
Other	735	436	1,740	1,224
Total taxes other than income taxes	**82,639**	**82,485**	**234,694**	**215,765**

Taxes other than income taxes exclude the export duties paid on the sale of crude oil and refined products as the Group sales and other operating revenues are presented net of such export duties.

At 30 September 2019 and 31 December 2018 taxes payable were as follows:

	At 30 September 2019	**At 31 December 2018**
Mineral extraction tax	22,733	21,692
Value Added Tax	10,898	7,622
Excise	3,191	2,683
Export duties	2,105	2,493
Property tax	1,727	1,549
Other	1,944	2,732
Total taxes payable	**42,598**	**38,771**

Note 11: Debt

	At 30 September 2019	**At 31 December 2018**
Short-term debt		
Bonds issued	2,700	1,056
Subordinated debt	25	2,160
Debt securities issued	726	1,061
US$ 75 mln 2011 credit facility	1,082	1,397
US$ 144.5 mln 2011 credit facility	2,447	2,932
EUR 55 mln 2013 credit facility	1,951	2,353
Other debt	998	994
Total short-term debt	**9,929**	**11,953**
Current portion of long-term debt	1,342	-
Total short-term debt, including current portion of long-term debt	**11,271**	**11,953**
Long-term debt		
Subordinated debt	1,347	1,420
Debt securities issued	25	69
Other debt	1,667	1,595
Total long-term debt	**3,039**	**3,084**
Less: current portion of long-term debt	(1,342)	-
Total long-term debt, net of current portion	**1,697**	**3,084**

Fair value of debt is presented in Note 20. Debt received from related parties is presented in Note 18.

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

Note 11: Debt (continued)

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

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

In January 2019 the Group received loans under the credit facilities with Sberbank and Alfa-Bank in total amount of RR 15,000 million at rates ranging from 8.25% to 8.54% which were fully repaid in January and February 2019.

Bonds issued. At 30 September 2019 and 31 December 2018 bonds issued are bonds denominated in Russian Rubles issued by Bank ZENIT that mature between 2019 and 2025. At 30 September 2019 and 31 December 2018 the annual coupon rates on these securities range from 7.5% to 8.85% (excluding bonds issued on emission BO-13 at amount RR 1 mln and coupon rate 0.1%) and 7.5% to 8.0% respectively. The majority of bonds allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer at any time with the consent of the bond holder may purchase/repay the bonds early. Such purchase/repayment of the bonds does not constitute an early redemption.

Subordinated debt. At 30 September 2019 and 31 December 2018 subordinated debt is presented by one and two subordinated loans raised by Bank ZENIT respectively. At 30 September 2019 the subordinated loan bears interest at the rate of 9.2% and matures in 2024. At 31 December 2018 the subordinated loans bear interest at rates ranging from 6.5% to 9.5% and mature from 2019 to 2024.

Bank ZENIT is obliged to comply with eight financial covenants in relation to the subordinated loan maturing in December 2024. At 31 December 2018 Bank ZENIT was in compliance with these covenants, except one (Cost-to-income ratio). At 30 June 2019 Bank ZENIT did not comply with two covenants (Cost-to-income ratio and Liquid assets to Total assets). This violation does not entail claims for early repayment of the subordinated loan. Failure to comply with these covenants may result in a deterioration of the commercial terms of the loan in the event of failure to obtain a waiver from the lender. During the nine months ended 30 September 2019 and the twelve months ended 31 December 2018 the lender granted Bank ZENIT a waiver relating to the Cost-to-income ratio. Bank ZENIT expects to receive the waiver relating to the Liquid assets to Total assets covenant after the issue of its financial statements as of 30 September 2019. At 30 September 2019 Bank ZENIT did not assess its compliance with these covenants, since Bank ZENIT is obliged to calculate them on a semi-annual basis only.

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

Debt securities issued. At 30 September 2019 and 31 December 2018 debt securities are promissory notes issued by Bank ZENIT at a discount to nominal value and interest bearing promissory notes denominated in Russian Rubles and US Dollars. Maturity dates of these promissory notes vary from 2019 to 2028.

At 30 September 2019 and 31 December 2018 non-interest-bearing promissory notes of the aggregate nominal value of RR 277 million and RR 469 million respectively were issued by Bank ZENIT for settlement purposes and mature primarily on demand.

(in million of Russian Rubles)

Note 12: Accounts payable and accrued liabilities

	At 30 September 2019	At 31 December 2018
Trade payables	25,428	25,728
Current portion of lease liabilities	2,614	-
Other payables	1,855	1,013
Total financial liabilities within trade and other payables	**29,897**	**26,741**
Salaries and wages payable	7,376	7,282
Advances received from customers	5,381	6,197
Current portion of decommissioning provisions	119	119
Other accounts payable and accrued liabilities	3,322	2,650
Total non-financial liabilities	**16,198**	**16,248**
Accounts payable and accrued liabilities	**46,095**	**42,989**

The fair value of each class of financial liabilities at 30 September 2019 and 31 December 2018 is presented in Note 20.

Note 13: Dividends payable

In September 2019, the shareholders of the Company approved dividends for the six months ended 30 June 2019 in the amount of RR 40.11 per each preference and ordinary share (the “6 months 2019 Dividends”). The 6 months 2019 Dividends are reported as dividends payable as of 30 September 2019 and were paid in the fourth quarter of 2019.

In June 2019, the shareholders of the Company approved dividends for the year ended 31 December 2018 in the amount of RR 84.91 per each preference and ordinary share with the consideration of earlier paid interim dividends for the nine months ended 30 September 2018 in the amount of RR 52.53 per each preference and ordinary share. The dividends were paid in the third quarter of 2019.

In December 2018, the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2018 in the amount of RR 52.53 per each preference and ordinary share (the “9 months 2018 Dividends”), including previously paid interim dividends for the six months ended 30 June 2018 in the amount of RR 30.27 per each preference and ordinary share. The 9 months 2018 Dividends are reported as dividends payable as of 31 December 2018 and were paid in the beginning of 2019.

In June 2018 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2017 in the amount of RR 39.94 per each preference and ordinary share, including previously paid interim dividends for the nine months ended 30 September 2017 in the amount of RR 27.78 per each preference and ordinary share. The dividends were paid in the third quarter of 2018.

(in million of Russian Rubles)

Note 14: Interest income and expense on banking activity

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Interest income				
Loans to customers	3,654	3,661	10,955	11,622
Due from banks	38	125	233	377
Securities measured at amortised cost	405	650	1,348	1,715
Correspondent accounts	9	8	33	19
Securities measured at fair value through profit and loss	116	85	303	282
Securities measured at fair value through other comprehensive income	347	114	918	598
Total interest income on banking activity	**4,569**	**4,643**	**13,790**	**14,613**
Interest expense				
Term deposits of individuals	(1,430)	(1,048)	(4,435)	(3,210)
Term deposits of legal entities	(504)	(517)	(1,834)	(1,642)
Russian Ruble-denominated bonds issued	(51)	(81)	(115)	(635)
Expenses directly associated with deposit insurance	(600)	-	(600)	-
Subordinated debt	(75)	(98)	(290)	(407)
Term placements of banks	(306)	(434)	(551)	(1,561)
Debt securities issued	-	(15)	(2)	(50)
Total interest expense on banking activity	**(2,966)**	**(2,193)**	**(7,827)**	**(7,505)**
Net interest income on banking activity	**1,603**	**2,450**	**5,963**	**7,108**

Note 15: Fee and commission income and expense on banking activity

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Settlement transactions	757	589	1,905	1,623
Cash transactions	57	309	409	487
Agency services	147	-	396	-
Operations with foreign currencies	87	102	247	296
Guarantees issued	61	86	177	166
Transactions with securities	18	8	50	18
Asset management	-	2	2	7
Other	4	(91)	105	98
Total fee and commission income on banking activity	**1,131**	**1,005**	**3,291**	**2,695**
Settlement transactions	(516)	(227)	(984)	(628)
Cash transactions	(54)	(123)	(157)	(126)
Transactions with securities	(7)	(9)	(15)	(27)
Operations with foreign currencies	(6)	(6)	(17)	(18)
Commission on guarantees received	(3)	(3)	(8)	(8)
Other	(16)	25	(42)	(105)
Total fee and commission expense on banking activity	**(602)**	**(343)**	**(1,223)**	**(912)**
Net fee and commission income on banking activity	**529**	**662**	**2,068**	**1,783**

(in million of Russian Rubles)

Note 16: Other income and expenses

Interest income on non-banking activities comprises the following:

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Interest income from financial assets measured at amortised cost	289	1,610	1,011	3,608
Unwinding of the present value discount of long-term financial assets	1	52	73	219
Total interest income on non-banking activities	**290**	**1,662**	**1,084**	**3,827**

Interest expense on non-banking activities comprises the following:

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Bank loans	(80)	(107)	(272)	(288)
Unwinding of the present value discount of decommissioning provision	(759)	(674)	(2,261)	(2,024)
Interest expense on lease liabilities	(403)		(1,171)	-
Unwinding of the present value discount of long-term financial liabilities	(15)	(16)	(49)	(46)
Total interest expenses on non-banking activities	**(1,257)**	**(797)**	**(3,753)**	**(2,358)**

For the nine months ended 30 September 2019 the Group recognized RR 11,494 million and RR 13,026 million foreign exchange gains and losses respectively in the consolidated interim condensed statement of profit or loss and other comprehensive income (for the nine months ended 30 September 2018: RR 17,805 million and RR 11,805 million, respectively).

For the three months ended 30 September 2019 the Group recognized RR 5,526 million and RR 4,146 million foreign exchange gains and losses respectively in the consolidated interim condensed statement of profit or loss and other comprehensive income (for the three months ended 30 September 2018: RR 7,782 million and RR 5,024 million, respectively).

Note 17: Segment information

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

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

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

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

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

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

For the three months ended 30 September 2019, revenues of RR 29,819 million or 12% of the Group's total sales and operating revenues are derived from one external customer.

For the nine months ended 30 September 2019, revenue of RR 73,607 million or 10% of the Group's total sales and operating revenues are derived from one external customer.

For the three months ended 30 September 2018, revenues of RR 31,552 million or 12% of the Group's total sales and operating revenues are derived from one external customer.

For the nine months ended 30 September 2018, revenue of RR 82,800 million or 12% of the Group's total sales and operating revenues are derived from one external customer.

These revenues represent sales of crude oil and are attributable to the exploration and production segment.

Management does not believe the Group is dependent on any particular customer.

(in million of Russian Rubles)

Note 17: Segment information (continued)

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Exploration and production				
Domestic own crude oil	38,446	53,419	128,734	138,691
CIS own crude oil	7,767	7,786	19,386	21,362
Non – CIS own crude oil	74,423	72,791	204,265	191,390
Other	806	1,245	2,363	3,925
Intersegment sales	57,576	51,186	155,759	138,635
Total exploration and production	**179,018**	**186,427**	**510,507**	**494,003**
Refining and marketing				
Domestic sales				
Refined products	58,396	50,821	166,220	121,920
Total Domestic sales	58,396	50,821	166,220	121,920
CIS sales				
Refined products	3,280	3,573	9,796	15,004
Total CIS sales(1)	3,280	3,573	9,796	15,004
Non – CIS sales				
Crude oil purchased for resale	1,250	2,161	5,618	5,768
Refined products	35,704	41,258	97,199	124,587
Total Non – CIS sales(2)	36,954	43,419	102,817	130,355
Other	2,873	2,384	8,076	6,154
Intersegment sales	460	226	995	755
Total refining and marketing	**101,963**	**100,423**	**287,904**	**274,188**
Petrochemicals				
Tires - domestic sales	8,965	9,227	20,675	24,086
Tires - CIS sales	3,333	2,862	8,544	6,952
Tires - non-CIS sales	1,044	1,135	3,051	2,592
Petrochemical products and other	1,231	1,087	3,198	2,996
Intersegment sales	167	270	381	728
Total petrochemicals	**14,740**	**14,581**	**35,849**	**37,354**
Banking				
Interest income	4,569	4,643	13,790	14,613
Fee and commission income	1,131	1,005	3,291	2,695
Total banking	**5,700**	**5,648**	**17,081**	**17,308**
Total segment sales	**301,421**	**307,079**	**851,341**	**822,853**
Corporate and other sales	4,235	3,075	14,284	9,730
Elimination of intersegment sales	(58,203)	(51,682)	(157,135)	(140,118)
Total sales and other operating revenues	**247,453**	**258,472**	**708,490**	**692,465**

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

(in million of Russian Rubles)

Note 17: Segment information (continued)

Segment earnings

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Segment earnings				
Exploration and production	68,828	78,754	203,433	206,020
Refining and marketing	13,864	11,983	40,929	28,251
Petrochemicals	884	1,313	335	2,640
Banking	1,349	674	1,239	687
Total segment earnings	**84,925**	**92,724**	**245,936**	**237,598**
Corporate and other	(10,215)	(7,589)	(21,774)	(22,641)
Other (expense)/income, net	365	3,628	(4,093)	7,457
Profit before income tax	**75,075**	**88,763**	**220,069**	**222,414**

For the three and nine months ended 30 September 2019 and 30 September 2018 "Corporate and other" line includes Head Office administrative expenses, impairment losses on financial assets net of reversal, charity expenses, maintenance of social infrastructure and transfer of social assets.

Segment assets

	At 30 September 2019	At 31 December 2018
Assets		
Exploration and production	400,730	368,991
Refining and marketing	419,238	406,407
Petrochemicals	37,668	32,923
Banking	249,936	252,854
Corporate and other	173,919	140,113
Total assets	**1,281,491**	**1,201,288**

As of 30 September 2019 corporate and other assets include RR 42,383 million of property, plant and equipment, RR 25,117 million of securities measured at fair value through other comprehensive income, RR 81 million of corporate debt securities measured at amortised cost, RR 45,870 million of bank deposits measured at amortised cost and RR 5,738 million of cash.

As of 31 December 2018 corporate and other includes RR 41,059 million of property, plant and equipment, RR 24,341 million of securities measured at fair value through other comprehensive income, RR 22,378 million of bank deposits measured at amortised cost and RR 420 million of cash.

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

Banking segment has certain funding sources concentration. Within due to banks and the Bank of Russia as at 30 September 2019 and 31 December 2018 are RR 26,108 million and RR 16,523 million of correspondent accounts and term deposits from 3 and 4 Russian banks respectively, which individually exceeded 5% of Bank ZENIT equity. Within customer accounts at 30 September 2019 and 31 December 2018 are RR 33,828 million and RR 48,549 million of current/settlement accounts and term deposits from 11 and 19 customers respectively, which individually exceeded 5% of Bank ZENIT equity.

(in million of Russian Rubles)

Note 17: Segment information (continued)

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Depreciation, depletion and amortization				
Exploration and production	4,778	4,107	13,288	11,670
Refining and marketing	2,591	4,219	7,341	8,393
Petrochemicals	408	444	1,128	1,415
Banking	137	146	303	285
Corporate and other	801	190	1,213	642
Total segment depreciation, depletion and amortization	**8,715**	**9,106**	**23,273**	**22,405**
Additions to property, plant and equipment				
Exploration and production	21,364	10,517	40,657	31,195
Refining and marketing	6,396	10,593	20,751	28,436
Petrochemicals	583	504	1,444	880
Banking	223	227	540	258
Corporate and other	6,803	1,302	11,397	3,337
Total additions to property, plant and equipment	**35,369**	**23,143**	**74,789**	**64,106**

For the nine months ended 30 September 2019 additions to property, plant and equipment of exploration and production segment include RR 9,823 million increase associated with change in the decommissioning provision (for the nine months ended 30 September 2018: not applicable). Change in provision is driven by decrease in discount rate by 1.05%.

Note 18: Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

(in million of Russian Rubles)

Note 18: Related party transactions (continued)

Associates, joint ventures and other related parties

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Revenues and income				
Sales of refined products	6	6	15	15
Other sales	27	78	84	156
Interest income	16	58	44	235
Costs and expenses				
Other services	246	239	613	629
Other purchases	64	152	373	412

At 30 September 2019 and 31 December 2018 the outstanding balances with associates, joint ventures and other related parties were as follows:

	At 30 September 2019	At 31 December 2018
Assets		
Accounts receivable, net	219	148
Banking: Loans to customers	319	193
Other financial assets		
Notes receivable	-	249
Other loans receivable	107	51
Prepaid expenses and other current assets	402	276
Due from related parties short-term	**1,047**	**917**
Long-term accounts receivable	113	114
Banking: Loans to customers	122	-
Other financial assets		
Securities measured at fair value through other comprehensive income	3,736	5,249
Other loans receivable	917	912
Advances for construction	41	-
Due from related parties long-term	**4,929**	**6,275**
Liabilities		
Accounts payable and accrued liabilities	(69)	(61)
Banking: Customer accounts	(1,048)	(1,668)
Due to related parties short-term	**(1,117)**	**(1,729)**

At 30 September 2019 and 31 December 2018 Group's key management personnel customer accounts in Bank ZENIT amounted to RR 32,816 million and RR 31,290 million, respectively.

(in million of Russian Rubles)

Note 18: Related party transactions (continued)

Government related companies

At 30 September 2019 and 31 December 2018 the outstanding balances with Government related companies were as follows:

	At 30 September 2019	At 31 December 2018
Assets		
Cash and cash equivalents	26,628	16,810
Banking: Mandatory reserve deposits with the Bank of Russia	1,754	1,875
Accounts receivable	3,716	6,795
Banking: Loans to customers	3,350	7,496
Other financial assets		
Notes receivable	8	-
Bank deposits	19,163	-
Securities measured at fair value through other comprehensive income	14,389	10,209
Securities measured at amortised cost	3,616	8,349
Securities measured at fair value through profit and loss	3,495	1,679
Other loans receivable	40	40
Prepaid expenses and other current assets	1,425	5,067
Due from related parties short-term	**77,584**	**58,320**
Long-term accounts receivable	-	1,221
Banking: Loans to customers	-	500
Other financial assets		
Bank deposits	322	346
Securities measured at fair value through other comprehensive income	22,914	11,001
Securities measured at amortised cost	6,372	8,192
Other loans receivable	159	192
Advances for construction	1,668	1,430
Due from related parties long-term	**31,435**	**22,882**
Liabilities		
Accounts payable and accrued liabilities	(1,030)	(1,420)
Banking: Due to banks and the Bank of Russia	(2,337)	(100)
Banking: Customer accounts	(3,952)	(6,298)
Debt		
Other debt	(804)	(3,121)
Due to related parties short-term	**(8,123)**	**(10,939)**
Banking: Due to banks and the Bank of Russia	(3,312)	(2,631)
Due to related parties long-term	**(3,312)**	**(2,631)**

The amounts of transactions for each period with Government related companies are as follows:

	Three months ended 30 September:		Nine months ended 30 September:	
	2019	**2018**	**2019**	**2018**
Sales of crude oil	-	1,132	-	1,132
Sales of refined products	8,242	3,559	22,699	10,138
Other sales	1,116	1,121	3,530	3,439
Interest income	615	1,226	2,071	3,423
Interest expense	154	262	557	795
Purchases of refined products	5,141	9,476	16,180	23,996
Purchases of electricity	4,702	4,219	13,860	12,028
Purchases of transportation services and compounding	7,625	5,819	20,877	16,706
Other services	1,122	1,083	3,368	3,386
Other purchases	128	176	629	607

(in million of Russian Rubles)

Note 19: Contingencies and commitments

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

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

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

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

Capital commitments. At 30 September 2019 and 31 December 2018 the Group had contractual capital expenditures commitments aggregating approximately RR 53,252 million and RR 38,327 million, respectively, mainly for construction of the TANECO refinery complex, drilling and construction of wells and superviscous oil fields facilities construction. These commitments are expected to be paid between 2019 and 2024.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company and the issuance of debt instruments. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 11).

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

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

Outstanding credit related commitments are as follows:

	At 30 September 2019	At 31 December 2018
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	18,100	18,810
Guarantees issued	13,804	20,467
Import letters of credit	184	271
Less: allowance for credit related commitments	(208)	(426)
Less: commitments collateralised by cash deposits under guarantees issued	(19)	(29)
Less: commitments collateralised by cash deposits under import letters of credit	(717)	(806)
Total credit related commitments	**31,144**	**38,287**

Note 19: Contingencies and commitments (continued)

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

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

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

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

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

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

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

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

As of 30 September 2019 the Group had approximately RR 5,117 million of assets associated with its Libyan operations of which RR 4,899 million is related to capitalised exploration costs, RR 210 million of inventories, RR 6 million of cash and RR 2 million of advances issued. As of 31 December 2018 the Group had approximately RR 5,116 million of assets associated with its Libyan operations of which RR 4,899 million is related to capitalised exploration costs, RR 210 million of inventories, RR 5 million of cash and RR 2 million of advances issued.

(in million of Russian Rubles)

Note 20: Fair values

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

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

Level 1 – Quoted prices in active markets for identical assets or liabilities that Group has the ability to assess at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

Recurring fair value measurements

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

				At 30 September 2019
		Fair value		
	Level 1	Level 2	Level 3	**Carrying value**
Banking: Loans to customers measured at fair value through profit and loss	-	-	12,836	**12,836**
Securities measured at fair value through profit and loss	5,437	710	265	**6,412**
Other loans measured at fair value through profit and loss	-	-	210	**210**
Securities measured at fair value through other comprehensive income	30,463	15,371	16,742	**62,576**
Investment property	-	-	1,320	**1,320**
Banking: Other financial liabilities measured at fair value through profit and loss	(9)	-	-	**(9)**
Total	**35,891**	**16,081**	**31,373**	**83,345**

				At 31 December 2018
		Fair value		
	Level 1	Level 2	Level 3	**Carrying value**
Banking: Loans to customers measured at fair value through profit and loss	-	-	13,043	**13,043**
Securities measured at fair value through profit and loss	2,320	2,265	189	**4,774**
Other loans measured at fair value through profit and loss	-	-	117	**117**
Securities measured at fair value through other comprehensive income	18,056	9,227	16,092	**43,375**
Investment property	-	-	918	**918**
Banking: Other financial liabilities measured at fair value through profit and loss	(1,190)	-	-	**(1,190)**
Total	**19,186**	**11,492**	**30,359**	**61,037**

Note 20: Fair values (continued)

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 30 September 2019 and 31 December 2018:

	Fair value hierarchy	Valuation technique and key input data
Banking: Loans to customers measured at fair value through profit and loss	Level 3	Discounted cash flow models adjusted for credit risk
Securities measured at fair value through other comprehensive income	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices/ discounted cash flow models adjusted for credit risk
Securities measured at fair value through profit and loss	Level 2, Level 3	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach / Publicly available information, comparable market prices / discounted cash flow models adjusted for credit risk
Other loans measured at fair value through profit and loss	Level 3	Discounted cash flow models adjusted for credit risk
Investment property	Level 3	Market data on comparable objects adjusted in case of differences from similar objects

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during nine months ended 30 September 2019 and for the year ended 31 December 2018.

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

(in million of Russian Rubles)

Note 20: Fair values (continued)

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

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

	At 30 September 2019				At 31 December 2018			
	Fair value				Fair value			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets								
Cash and cash equivalents								
Cash on hand and in banks	4,573	25,959	-	30,532	5,451	36,889	-	42,340
Term deposits	-	26,570	-	26,570	-	22,078	-	22,078
Due from banks	-	292	-	292	-	1,071	-	1,071
Banking: Mandatory reserve deposits with the Bank of Russia	1,754	-	-	1,754	1,875	-	-	1,875
Accounts receivable								
Trade receivables	-	-	84,549	84,549	-	-	78,417	78,417
Other financial receivables	-	722	3,570	4,292	-	596	4,535	5,131
Banking: Loans to customers measured at amortised cost	-	-	128,207	128,140	-	-	133,404	133,404
Other financial assets								
Bank deposits	-	19,785	-	19,785	-	657	-	657
Due from banks	-	2,804	-	2,804	-	2,015	-	2,015
REPO with banks	-	75	-	75	-	537	-	537
Notes receivable	-	-	9	9	-	-	456	456
Loans to employees	-	-	916	916	-	-	1,046	1,046
Other loans measured at amortised cost	-	-	28,963	28,963	-	-	28,670	28,670
Securities measured at amortised cost	27,908	310	-	25,246	31,276	1,490	-	32,766
Total financial assets	**34,235**	**76,517**	**246,214**	**353,927**	**38,602**	**65,333**	**246,528**	**350,463**
Liabilities								
Trade and other financial payables								
Trade payables	-	-	25,428	25,428	-	272	25,456	25,728
Dividend payable	-	-	91,263	91,263	-	-	50,711	50,711
Current portion of lease liabilities	-	-	2,614	2,614				
Other payables	-	-	1,855	1,855	-	500	513	1,013
Lease liabilities, net of current portion	-	-	12,250	12,250				
Debt								
Bonds issued	-	2,700	-	2,700	1,056	-	-	1,056
Subordinated debt	-	1,479	-	1,372	-	3,580	-	3,580
Debt securities issued	-	751	-	751	-	1,130	-	1,130
Credit facilities	-	-	5,480	5,480	-	-	6,682	6,682
Other debt	-	-	2,665	2,665	-	-	2,589	2,589
Banking: Due to banks and the Bank of Russia	1,025	32,138	-	33,364	1,526	16,899	-	18,425
Banking: Customer accounts	-	162,778	-	163,380	-	182,970	-	182,970
Other short-term liabilities	-	-	-	-	-	-	533	533
Total financial liabilities	**1,025**	**199,846**	**141,555**	**343,122**	**2,582**	**205,351**	**86,484**	**294,417**

Note 20: Fair values (continued)

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

Note 21: Subsequent events

On 24 October 2019 the Board of Directors of the Company approved a non-convertible interest-bearing and/or zero coupon exchange-traded bond programme along with the offering prospectus. Maximum amount of the bonds that can be issued under the programme is RR 100,000 million or the equivalent in foreign currency with a maximum maturity of 30 years. Each issue under the programme requires a separate corporate approval.

In the fourth quarter of 2019 the Group completed two business acquisitions:

• The Group purchased petrochemical facilities located in Samara region in Russia through the acquisition of 100% interest in LLC SIBUR Togliatti and JSC Togliattisintez from PJSC SIBUR Holding for a cash consideration of RR 12,865 million (including cash on accounts adjustment of RR 1,565 million), paid in the fourth quarter of 2019.

• The Group purchased fuel retail business in the northwestern Russia through the acquisition of 100% interest in LLC Neste Saint Petersburg from Finnish corporation Neste Oyj for a cash consideration of RR 10,832 million (including cash on accounts and working capital adjustment of RR 1,375 million), paid in the fourth quarter of 2019.

The Group is in the progress of assessing the impact of these transactions to consolidated financial statements for 2019 year.

In November 2019 the Board of Directors recommended to approve interim dividends on the preference and ordinary shares for the nine months ended 30 September 2019 in the amount of RR 64.47 per each preference and ordinary share with the consideration of earlier paid interim dividends for the six months ended 30 June 2019 in the amount of RR 40.11 per each preference and ordinary share. The decision on payment of interim dividends for the nine months ended 30 September 2019 will be taken by the extraordinary shareholders meeting held by proxy voting on 19 December 2019. Subject to the shareholders' approval, the dividend payment is planned for the first quarter of 2020.

In October and November 2019 the Group borrowed RR 73,485 million in total from two Russian banks at the current market rates under existing lines of credit arrangements. The Group repaid RR 47,385 million of these loans by the date of this report and will repay the remaining RR 26,100 million by the end of 2019 pursuant to the terms of the loans.