Tatneft Group

IFRS CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Tatneft:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PJSC Tatneft and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

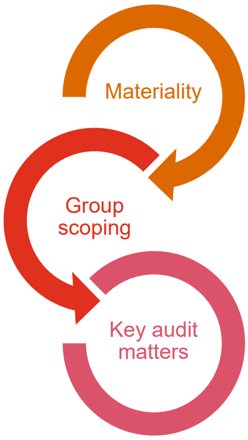
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall Group materiality: Russian Roubles ("RUB") 12,600 million, which represents 5.0 % of profit before tax.

- We conducted audit work at 4 significant reporting entities.
- The Group engagement team visited Group's operations in Almetievsk, Nizhnekamsk and Moscow.
- Our audit scope addressed 95 % of the Group's revenues and 94 % of the Group's absolute value of underlying profit before tax.

Key audit matter

- Business combinations
- Impairment of assets

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

Materiality

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

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

Overall Group materiality	RUB 12,600 million
How we determined it	5.0 % of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5.0 % which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry sector and previous year approach.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Business combinations *Refer to Note 29 to the consolidated financial statements*	
In the 4th quarter of 2019, the Group acquired 100 % of the charter capital of LLC Neste Saint-Petersburg (later renamed to LLC Tatneft-AZS-Severo-Zapad) from the third party Neste Oyj (Neste Corporation). LLC Neste Saint-Petersburg owns a premium retail chain of 75 petroleum stations, a tank farm of oil products and an office building in Saint-Petersburg. The acquired subsidiary will increase the Group's presence in the fuel and retail market of the North-West Federal district of Russia. The purchase price was RR 9,139 million (net of cash received), cash consideration was fully paid in 2019. In the 4th quarter of 2019, the Group also acquired 100 % of the charter capital of LLC SIBUR-Togliatti (later renamed to LLC Togliattikauchuk) and 100 % of the share capital of JSC Togliattisintez from the third party PJSC SIBUR Holding. The acquired subsidiaries form a petrochemical complex and contribute to the further development of the Group's petrochemical and tires business. The purchase price was RR 11,378 million (net of cash received), cash consideration was fully paid in 2019. As of 31 December 2019, the fair value measurement of the assets and liabilities of the acquired entities is preliminary and will be finalised within 12 months from the date of acquisition. Preliminary fair value of the acquired net assets of LLC Neste Saint-Petersburg is RR 10,832 million, net assets of LLC SIBUR-Togliatti and JSC Togliattisintez is RR 12,801 million. We focused on this matter due to significance of the acquired businesses for the Group's financial position.	We performed the following procedures to assess the appropriateness of valuation methods and methodology of accounting of acquired businesses used by the Group's management: • examination of documents on acquisition of control over the subsidiaries, including purchase agreements, payment documents, other agreements with the sellers; • analysis of key assumptions and input data used by the Group's management when performing a preliminary assessment of the fair values of acquired assets and liabilities; • analysis of reasonableness and review of the mathematical accuracy of preliminary calculations of purchase price allocation of the assets and liabilities of the acquired entities; • assessment of compliance with IFRS of the disclosures in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of assets *Refer to Note 12 to the consolidated financial statements* As a result of assessment performed in 2019 the Group recognised net impairment losses and losses on disposal of certain property, plant and equipment and construction in progress in the amount of RR 30,875 million (line "Impairment losses and disposal of property, plant and equipment and other non-financial assets net of reversal" of the consolidated statement of profit or loss and other comprehensive income). Impairment losses are primarily related to the following: • exploration and evaluation assets; • social assets and construction in progress in respect of which no future economic benefits are expected. We focused on this matter due to significance of impairment charges, estimates and judgements involved in the calculations.	We performed the following audit procedures to assess the appropriateness of valuation methods and calculations used in estimating recoverable values: • examination, on a sample basis, of the models and calculations used for the assessment of impairment losses; • analysis of key assumptions used by the Group's management when estimating the recoverable values; • verification of the mathematical accuracy of discounted cash flow models (if applicable); • analysis of collective labor agreements with respect to Group's social obligations to employees; • assessment of compliance with IFRS of the disclosures in the consolidated financial statements.

How we tailored our Group audit scope

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

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

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

Other information

Management is responsible for the other information. The other information comprises “Management’s discussion and analysis of financial condition and results of operations for the three months ended 31 December and 30 September 2019 and years ended 31 December 2019 and 2018” (but does not include the consolidated financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and PJSC Tatneft Annual Report 2019 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2020, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read PJSC Tatneft Annual Report 2019 and Quarterly Report of the Equity Securities Issuer for the 1st quarter 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AO PricewaterhouseCoopers Audit

31 March 2020

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

Taxpayer Identification Number 1644003838

423450, Russian Federation, Republic of Tatarstan, Almetievsk, 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

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association “Sodruzhestvo”

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

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

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	6	25,157	65,489
Banking: Mandatory reserve deposits with the Bank of Russia		1,572	1,875
Short-term accounts receivable, net	7	84,706	80,762
Banking: Loans to customers	8	33,880	53,797
Other short-term financial assets	9	27,713	32,901
Inventories	10	53,379	50,606
Prepaid expenses and other current assets	11	20,770	23,090
Prepaid income tax		4,838	852
Banking: Non-current assets held for sale		1,112	2,360
Total current assets		**253,127**	**311,732**
Long-term accounts receivable, net	7	7,861	2,930
Banking: Loans to customers	8	102,572	92,508
Other long-term financial assets	9	80,578	81,513
Investments in associates and joint ventures		774	637
Property, plant and equipment, net	12	768,735	701,922
Right-of-use assets	13	13,658	-
Deferred income tax assets	14	2,712	3,548
Other long-term assets		8,622	6,498
Total non-current assets		**985,512**	**889,556**
Total assets		**1,238,639**	**1,201,288**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	15	19,592	11,953
Accounts payable and accrued liabilities	16	60,289	42,989
Dividends payable	20	55,865	50,711
Banking: Other financial liabilities at fair value through profit and loss		4,451	1,190
Banking: Due to banks and the Bank of Russia	17	20,293	13,765
Banking: Customer accounts	18	158,671	183,654
Taxes payable	14	37,465	38,771
Income tax payable		598	3,254
Other short-term liabilities		869	533
Total current liabilities		**358,093**	**346,820**
Long-term debt, net of current portion	15	21,657	3,084
Banking: Due to banks and the Bank of Russia	17	2,522	4,660
Banking: Customer accounts	18	1,381	682
Decommissioning provision, net of current portion	12	50,347	34,338
Lease liabilities, net of current portion	13	11,578	-
Deferred income tax liability	14	33,419	31,486
Other long-term liabilities	19	7,512	3,437
Total non-current liabilities		**128,416**	**77,687**
Total liabilities		**486,509**	**424,507**
Shareholders' equity			
Preferred shares (authorised and issued at 31 December 2019 and at 31 December 2018 – 147,508,500 shares; nominal value at 31 December 2019 and at 31 December 2018 – RR1.00)	20	746	746
Ordinary shares (authorised and issued at 31 December 2019 and at 31 December 2018 – 2,178,690,700 shares; nominal value at 31 December 2019 and at 31 December 2018 – RR1.00)	20	11,021	11,021
Additional paid-in capital		84,437	84,437
Accumulated other comprehensive income		1,073	1,804
Retained earnings		658,614	683,508
Less: Ordinary shares held in treasury, at cost (75,636,735 shares at 31 December 2019 and 75,483,000 at 31 December 2018, respectively)		(10,359)	(10,251)
Total Group shareholders' equity		**745,532**	**771,265**
Non-controlling interest		**6,598**	**5,516**
Total shareholders' equity		**752,130**	**776,781**
Total liabilities and equity		**1,238,639**	**1,201,288**

Approved for issue and signed on behalf of the Board of Directors on 31 March 2020.

CEO Maganov N.U.

Chief Accountant Matveev O.M.

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

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

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Sales and other operating revenues on non-banking activities, net	25	**932,296**	**910,534**
Costs and other deductions on non-banking activities			
Operating expenses		(140,040)	(132,215)
Purchased crude oil and refined products		(58,112)	(76,080)
Exploration		(1,006)	(688)
Transportation		(37,356)	(36,952)
Selling, general and administrative		(52,637)	(49,700)
Depreciation, depletion and amortization	12,13,25	(35,165)	(30,520)
Impairment losses on financial assets net of reversal	7,9	(6,737)	(14,955)
Impairment losses and losses on disposal on property, plant and equipment and other non-financial assets net of reversal	12	(30,875)	(5,874)
Taxes other than income taxes	14	(307,654)	(293,162)
Maintenance of social infrastructure and transfer of social assets	12	(9,340)	(5,613)
Total costs and other deductions on non-banking activities		**(678,922)**	**(645,759)**
Loss on disposal of interests in subsidiaries and associates, net		(41)	(1,842)
Other operating gain, net		993	488
Operating profit on non-banking activities		**254,326**	**263,421**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities			
Interest, fee and commission income	23,24,25	22,584	23,259
Interest, fee and commission expense	23,24	(12,118)	(11,132)
Net expense on creating provision for credit losses associated with debt financial assets	8	(462)	(1,310)
Operating expenses		(9,871)	(10,019)
Gain/(loss) arising from dealing in foreign currencies, net		70	(205)
Other operating income/(expense), net		2,099	(36)
Total net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		**2,302**	**557**
Other income/(expenses)			
Foreign exchange (loss)/gain, net	30	(207)	7,936
Interest income on non-banking activities	22	1,201	5,497
Interest expense on non-banking activities, net of amounts capitalised	22	(5,407)	(3,590)
Share of results of associates and joint ventures, net		127	(32)
Total other (expense)/income, net		**(4,286)**	**9,811**
Profit before income tax		**252,342**	**273,789**
Income tax			
Current income tax expense		(57,626)	(58,015)
Deferred income tax expense		(1,898)	(4,226)
Income tax expense	14	**(59,524)**	**(62,241)**
Profit for the period		**192,818**	**211,548**

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

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Other comprehensive income/(loss) net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		(509)	(76)
Gain on debt financial assets at fair value through other comprehensive income, net		170	44
Items that will not be reclassified to profit or loss:			
Gain/(loss) on equity financial assets at fair value through other comprehensive income, net		1,225	(150)
Actuarial (loss)/gain on employee benefit plans		(377)	334
Other comprehensive income		**509**	**152**
Total comprehensive income for the period		**193,327**	**211,700**
Profit/(loss) attributable to:			
- Group shareholders		192,260	211,812
- Non-controlling interest		558	(264)
		192,818	**211,548**
Total comprehensive income/(loss) attributable to:			
- Group shareholders		192,343	211,964
- Non-controlling interest		984	(264)
		193,327	**211,700**
Basic and diluted earnings per share (RR)			
Ordinary	20	85.43	94.11
Preferred		85.43	93.89
Weighted average shares outstanding (millions of shares)			
Ordinary	20	2,103	2,103
Preferred		148	148

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

	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 year	-	-	-	-	-	-	-	211,812	211,812	(264)	211,548
Other comprehensive income/(loss) for the year	-	-	-	-	334	(76)	(106)	-	152	-	152
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**-**	**334**	**(76)**	**(106)**	**211,812**	**211,964**	**(264)**	**211,700**
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(48)	(48)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	1,052	1,052
Dividends declared (Note 20)	-	-	-	-	-	-	-	(145,599)	(145,599)	(46)	(145,645)
Balance at 31 December 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,537)**	**1,601**	**1,740**	**683,508**	**771,265**	**5,516**	**776,781**
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 year	-	-	-	-	-	-	-	192,260	192,260	558	192,818
Other comprehensive (loss)/income for the year	-	-	-	-	(377)	(509)	969	-	83	426	509
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(377)**	**(509)**	**969**	**192,260**	**192,343**	**984**	**193,327**
Treasury shares	(154)	-	-	(108)	-	-	-	-	(108)	-	(108)
- Additions	(156)			(109)					(109)		(109)
- Disposals	2	-	-	1	-	-	-	-	1	-	1
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	113	113
Disposal of non-controlling interests in subsidiaries	-	-	-	-	-	-	-			(14)	(14)
Dividends declared (Note 20)	-	-	-	-	-	-	-	(217,968)	(217,968)	(1)	(217,969)
Disposal of equity financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(814)	814	-	-	-
Balance at 31 December 2019	**2,250,562**	**11,767**	**84,437**	**(10,359)**	**(1,914)**	**1,092**	**1,895**	**658,614**	**745,532**	**6,598**	**752,130**

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

(In millions of Russian Rubles)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Operating activities			
Profit for the year		192,818	211,548
Adjustments:			
Net interest, fee and commission and other operating income and gains on banking activities		(2,302)	(557)
Depreciation, depletion and amortization	12,13,25	35,165	30,520
Income tax expense	14	59,524	62,241
Impairment losses on financial assets net of reversal	7,9	6,737	14,955
Impairment losses and losses on disposal on property, plant and equipment and other non-financial assets net of reversal	12	30,875	5,874
Loss on disposals of interests in subsidiaries and associates, net		41	1,842
Effects of foreign exchange		23	1,445
Equity investments gain net of dividends received		(127)	32
Interest income on non-banking activities	22	(1,201)	(5,497)
Interest expense on non-banking activities, net of amounts capitalised	22	5,407	3,590
Other		(958)	807
Changes in operational working capital, excluding cash:			
Accounts receivable		(7,252)	(27,786)
Inventories		(1,462)	(11,015)
Prepaid expenses and other current assets		1,901	132
Securities at fair value through profit or loss		-	504
Accounts payable and accrued liabilities		13,909	4,011
Taxes payable		(1,603)	10,939
Net cash provided by non-banking operating activities before income tax and interest		**331,495**	**303,585**
Net interest, fee and commission and other operating income and gains on banking activities		2,302	557
Adjustments:			
Net expense on creating provision for credit losses associated with debt financial assets	8	462	1,310
Reversal of provision for losses on credit related commitments		(84)	(551)
Change in fair value of financial assets through profit or loss		(1,148)	917
Other		(1,737)	165
Changes in operational working capital on banking activities, excluding cash:			
Mandatory reserve deposits with the Bank of Russia		303	41
Due from banks		(6,393)	(589)
Banking loans to customers		5,542	(11,107)
Due to banks and the Bank of Russia		5,094	(16,149)
Customer accounts		(17,408)	18,413
Debt securities issued		(186)	(2,298)
Securities at fair value through profit or loss		(3,948)	4,989
Net cash used in banking operating activities before income tax		**(17,201)**	**(4,302)**
Income taxes paid		(64,268)	(58,150)
Interest paid on non-banking activities		(2,222)	(846)
Interest received on non-banking activities		1,002	5,396
Net cash provided by operating activities		**248,806**	**245,683**

(In millions of Russian Rubles)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Investing activities			
Additions to property, plant and equipment		(95,994)	(97,945)
Proceeds from disposal of property, plant and equipment		1,678	1,693
Net cash outflow on acquisition of subsidiaries	29	(20,438)	(173)
Cash (outflow)/inflow from disposal of subsidiaries and associates, net of disposed cash		(10)	20
Purchase of securities at fair value through other comprehensive income		(48,186)	(35,086)
Purchase of securities at amortised cost		(1,263)	(20,965)
Proceeds from disposal of securities at fair value through other comprehensive income		48,724	36,574
Proceeds from redemption of securities at amortised cost		9,087	43,658
Proceeds from sale of non-current assets held for sale		1,118	170
Proceeds from investments in associates and joint ventures		-	10
Proceeds from redemption of bank deposits		27,198	21,314
Placement of bank deposits		(27,936)	(21,053)
Proceeds from redemption of loans and notes receivable	9	3,981	4,282
Issuance of loans and notes receivable	9	(642)	(24,068)
(Purchase)/proceeds from disposal of other non-current assets		(1,209)	73
Net cash used in investing activities		**(103,892)**	**(91,496)**
Financing activities			
Proceeds from issuance of debt from non-banking activities	30	115,346	25,920
Repayment of debt from non-banking activities	30	(107,212)	(49,466)
Repayment of principal portion of lease liabilities		(1,352)	-
Issuance of bonds	30	21,790	-
Redemption of bonds	30	(1,053)	(6,979)
Repayment of subordinated debt		(2,140)	(1,359)
Dividends paid to shareholders	20	(212,814)	(100,920)
Dividends paid to non-controlling shareholders	20	(1)	(46)
Proceeds from government grants	19	3,231	-
Net cash used in financing activities		**(184,205)**	**(132,850)**
Net change in cash and cash equivalents		**(39,291)**	**21,337**
Effect of foreign exchange on cash and cash equivalents		(1,041)	1,355
Cash and cash equivalents at the beginning of the year	6	65,489	42,797
Cash and cash equivalents at the end of the year	6	**25,157**	**65,489**

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. See Note 28 for the information about the Group's principal subsidiaries.

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 at 31 December 2019 and 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 accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on a historical cost basis, except for initial recognition of financial instruments based on fair value, revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI").

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 and fixed assets related to oil refining ; (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.

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

Note 3: Summary of significant accounting policies

The key accounting policies used in preparing these consolidated financial statements are presented below. In addition to changes in accounting policies as a result of the transition to IFRS 16 "Leases" from January 1, 2019, as well as the reflection of changes in the Tax Code of the Russian Federation ("Tax Code") in connection with the introduction of the reverse ("negative") excise tax calculation, these principles have been applied consistently to all periods presented in the statements.

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

Management has determined the functional currency for the Company and each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Ruble because the majority of Group revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Rubles. Accordingly, transactions and balances not 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 other comprehensive income. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rates 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 31 December 2019 and 31 December 2018 were RR 61.91 and RR 69.47 to US $, respectively. Average rates of exchange for the years ended 31 December 2019 and 31 December 2018 were RR 64.74 and RR 62.71 per US $, respectively.

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

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

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

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

Associates and joint ventures. Associates and joint ventures are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group's share of net assets of an associate and joint ventures are recognised as follows: (i) the Group's share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates or joint ventures are recognised in profit or loss within the share of result of associates or joint ventures.

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

Note 3: Summary of significant accounting policies (continued)

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

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

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 30.

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

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

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

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

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

Note 3: Summary of significant accounting policies (continued)

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

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

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

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

Note 3: Summary of significant accounting policies (continued)

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 30 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 30 For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 30 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

The Group applies the IFRS 9 simplified approach for measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The Group calculates expected credit losses on trade receivables based on historical data assuming reasonable approximation of current losses rates adjusted on forward-looking information.

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

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Note 3: Summary of significant accounting policies (continued)

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Financial liabilities designated at FVTPL. The Group may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

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

Cash and cash equivalents. Cash represents cash on hand and in bank accounts and the Bank of Russia, other than mandatory reserves deposits with the Bank of Russia, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Mandatory reserve deposits with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from banks. Amounts due from banks other than those that are part of the Group are recorded when the Group advances money to counterparty banks due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Due from banks that mature within three months or less from the date of placement are included in cash and cash equivalents.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL.

Note 3: Summary of significant accounting policies (continued)

Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Note 30 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Loan commitments. The Group issues commitments to provide loans in the course of its banking activities. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Group in the course of its banking activities to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Note 3: Summary of significant accounting policies (continued)

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements (“repo agreements”), which effectively provide a lender’s return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities sold under repo agreements are presented as other financial assets carried at FVTPL, FVOCI, AC. The corresponding liability is presented within amounts “Due to other banks and the Bank of Russia” or “Customer accounts”.

Securities purchased under agreements to resell (“reverse repo agreements”), which effectively provide a lender’s return to the Group, are recorded as “Due from other banks” or “Banking loans and advances to customers”, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Notes receivable. Notes receivable are included in “Other financial assets” and are carried at AC if: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

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

Due to other banks and the Bank of Russia. Amounts due to other banks and the Bank of Russia are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

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

Non-current assets classified as held for sale. Non-current assets are classified in the statement of financial position as “Non-current assets held for sale” if their carrying amount will be recovered principally through a sale transaction within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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

Precious metals. The Group has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Precious metals are carried at purchase price from the Bank of Russia and are subsequently measured at fair value based on London precious metals exchange.

Note 3: Summary of significant accounting policies (continued)

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

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

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

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

Mineral extraction tax. Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 919 per ton in 2019 and 2018, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US $ average exchange rate for the preceding month, taking into account the features of oil production. MET liabilities are lower for fields whose depletion rate exceeds 80% of their proved reserves as per the Russian classification of reserves and resources, as a result of using a reduction factor that depends on the level of depletion. The Company saves 3.5% at a field for each percent of depletion above the 80% threshold. In addition, lower MET is envisaged for small fields via application of a factor that characterises the volume of reserves. The amount of tax relief for depleted and small fields is calculated using the base MET rate of RR 559 per tonne (in 2018 - RR 559 per tonne).

Furthermore, the reduced MET tax rate is applied to the production of highly viscous crude oil (with viscosity of 10,000 Megapascal second in reservoir conditions) and oil produced from Domanic productive sediments.

In addition, another relief in the form of a lower MET is available for production of highly viscous oil with viscosity in the range from 200 to 10,000 Megapascal second (in reservoir conditions). The saving in these circumstances is calculated using the base MET tax rate of RR 559 per tonne (in 2018 - RR 559 per tonne).

Furthermore, the reduced MET tax rate is applied in the Nenets Autonomous Okrug (in view of the calculation in relation to such oil of the tax on additional income from the extraction of hydrocarbons).

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

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 recognised 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.

Value added tax. Value added tax (VAT) at a standard rate of 20% (at 2018 – 18%) is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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

Note 3: Summary of significant accounting policies (continued)

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

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalised as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found.

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

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

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

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

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

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

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

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

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

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

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

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

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

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in impairment losses and losses on disposal on property, plant and equipment and other non-financial assets net of reversal in the consolidated statement of profit or loss and other comprehensive income.

Note 3: Summary of significant accounting policies (continued)

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 recognised 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 for the funds, necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

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 leases 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 Consolidated Statement of Financial Position.

Debt. Debt is recognised initially at fair value, net of transaction costs incurred and is subsequently carried at AC using the effective interest method.

Note 3: Summary of significant accounting policies (continued)

Interest income on non-banking activities. Interest income on non-banking activities is recognised on a time-proportion basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums.

Fees integral to the effective interest rate include origination fees received by the Group relating to the creation or acquisition of a financial asset.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

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

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

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

Past service costs are recognised as an expense immediately.

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

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

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

The Group capitalises the associated decommissioning costs as part of the carrying amount of the non-current assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset.

Note 3: Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Note 3: Summary of significant accounting policies (continued)

Revenue from Contracts with Customers. Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of discounts, value added taxes, export duties and excise tax.

The Group's business activities include sales of crude oil and refined products, sales of tires and petrochemical raw materials. Revenues are recognised at a point in time when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. Transfer occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

The Group considers indicators that customer has obtained control of an asset, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators need to be met for management to conclude that control has transferred and revenue could be recognised. Management uses judgement to determine whether factors collectively indicate that the customer has obtained control.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such revenue.

The Group operates a chain of own petrol (gas) stations selling refined products. Revenue from the sale of products is recognised when a group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the fuel. Since no right of return, no refund liability recognised.

Revenues from providing services are recognised in the period in which the services are rendered.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

Recognition of interest, fee and commission income and expense on banking activities. Interest income and expense are recognised on an accrual basis calculated using the effective interest method. . This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Note 3: Summary of significant accounting policies (continued)

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

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

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

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

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

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

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

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

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

(In millions of Russian Rubles)

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

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

Management reviews the appropriateness of the assets' useful economic lives and residual values at the end of each reporting period. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

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

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

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

Sensitivity analysis for changes in discount rate:

		Impact on decommissioning provision	
	Change in	**At 31 December 2019**	**At 31 December 2018**
Discount rate	+1%	(11,243)	(7,207)
	-1%	14,954	9,353

Information about decommissioning provision is presented in Note 12.

Impairment of property, plant and equipment. At 31 December 2019 management assessed whether there is any indication of impairment of on-current assets. As the result the impairment of certain exploration and social assets was recognised (Note 12).

Accounting of investments in JSC "National Non-State Pension Fund"

As at 31 December 2019 and 2018 the Group has 74.46% of shares of JSC "National Non-Governmental Pension Fund". The Group does not exercise either control or significant influence over JSC "National Non-Governmental Pension Fund" based on corporate governance and pension legislation. These investments are presented within financial assets carried at FVOCI as at 31 December 2019 and 2018 (refer to Note 9).

Presentation of Revenue net of excise tax, including reverse (negative) excise

For the years ended 31 December 2019 and 2018 the Group's revenue is presented net of excise taxes, including reverse (negative) excise on crude oil refined, gasoline and diesel fuel. For the years ended 31 December 2019 and 2018 excise on refinery products amounted to RR 38,900 million and RR 18,156 million respectively, reverse (negative) excise on crude oil refined, gasoline and diesel fuel amounted to RR 23,307 million for the year 2019 (2018: not applicable).

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

Financial assets impairment

ECL measurement. Calculation and measurement of ECLs is an area of significant judgement, and implies methodology, models and data inputs. The following components of ECL calculation have the major impact on credit loss allowance for ECLs: default definition, significant increase in credit risk (SICR), probability of default (PD), exposure at default (EAD), loss given default (LGD), macromodels and scenario analysis for credit impaired loans. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Refer to Note 30.

Significant increase in credit risk (SICR). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 30.

Financial assets classification

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets.

(In millions of Russian Rubles)

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

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows.

The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual per amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

The Group's loans, primarily to real estate developers, have cash flows that highly depend on performance of the underlying assets. The loans are carried at FVTPL where management determined that such loans are in substance non-recourse.

The instruments that failed the SPPI test are measured at FVTPL are described in Note 8.

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

Any difference between the transaction price and the value based on a valuation technique is not recognised in the consolidated statement of profit or loss and other comprehensive income on initial recognition unless the value is based on valuation technique that uses only data from observable markets. Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

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

Note 5: Adoption of new or revised standards and interpretations

Adoption of IFRS 16, Leases. The Group decided to use the modified retrospective method when applying the standard from its mandatory adoption date of 1 January 2019, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets were 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 at 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 31 December 2019 was ranged from 7.4% to 8.4% and from 10.5% to 10.8% on a 1 January 2019.

	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

(In millions of Russian Rubles)

Note 5: Adoption of new or revised standards and interpretations

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.

Segment assets at 31 December 2019 increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	At 31 December 2019
Assets	
Exploration and production	11,323
Refining and marketing	314
Petrochemicals	1,422
Banking	516
Corporate and other	83
Total assets	**13,658**

Earnings per share for the year ended 31 December 2019 decreased by RR 0.25 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 beginning on or after 1 January 2019);
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

The following other new standards and interpretations are not expected to have any material impact on the Group's consolidated financial statements when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

(In millions of Russian Rubles)

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

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business.
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved.
- 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).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

Note 6: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31 December 2019	At 31 December 2018
Cash on hand and in banks	24,730	42,340
Term deposits with original maturity of less than three months	350	22,078
Due from banks	77	1,071
Total cash and cash equivalents	**25,157**	**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 fair value and credit quality analysis of cash and cash equivalents is presented in Note 30.

(In millions of Russian Rubles)

Note 7: Accounts receivable

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

	At 31 December 2019	At 31 December 2018
Short-term accounts receivable:		
Trade receivables	81,950	79,088
Other financial receivables	9,516	8,150
Other non-financial receivables	161	144
Less credit loss allowance	(6,921)	(6,620)
Total short-term accounts receivable	**84,706**	**80,762**
Long-term accounts receivable:		
Trade receivables	333	1,569
Other financial receivables	10,301	3,063
Less credit loss allowance	(2,773)	(1,702)
Total long-term accounts receivable	**7,861**	**2,930**
Total trade and other receivables	**92,567**	**83,692**

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

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due, with a distribution to portfolios of receivables, homogeneous in terms of credit risk. In addition to the number of days that an asset is past due, types of products sold, geographical specificity of distributional channels and other factors were taken into account.

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

	At 31 December 2019			At 31 December 2018		
	Loss rate	**Gross carrying amount**	**Lifetime ECL**	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**
Trade receivables						
- current	0.065%	75,614	(49)	0.197%	78,244	(157)
- less than 90 days overdue	0.92%	2,946	(27)	89.34%	798	(713)
- 91 to 180 days overdue	3.51%	969	(34)	0.59%	88	(1)
- over 180 days overdue	88.93%	2,754	(2,449)	89.68%	1,527	(1,369)
Total trade receivables (gross carrying amount)		**82,283**			**80,657**	
Credit loss allowance		(2,559)			(2,240)	
Total trade receivables (carrying amount)		**79,724**			**78,417**	
Other receivables						
- current	0.254%	12,617	(32)	0.735%	5,168	(37)
- less than 90 days overdue	100%	12	(12)	100%	12	(12)
- 91 to 180 days overdue	100%	1	(1)	0%	-	-
- over 180 days overdue	98.65%	7,187	(7,090)	100%	6,033	(6,033)
Total other receivables (gross carrying amount)		**19,817**			**11,213**	
Credit loss allowance		(7,135)			(6,082)	
Total other receivables (carrying amount)		**12,682**			**5,131**	

(In millions of Russian Rubles)

Note 7: Accounts receivable (continued)

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

	2019		2018	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Expected credit loss allowance at 1 January	**(2,240)**	**(6,082)**	**(1,676)**	**(2,419)**
New originated or purchased	(319)	(1,095)	(734)	(3,635)
Other movements	-	53	-	(53)
Total credit loss allowance charge in profit or loss for the period	**(319)**	**(1,042)**	**(734)**	**(3,688)**
Write-offs	-	(11)	228	25
FX movements	-	-	(58)	-
Expected credit loss allowance at 31 December	**(2,559)**	**(7,135)**	**(2,240)**	**(6,082)**

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

	At 31 December 2019		At 31 December 2018	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Not past due				
- International traders of crude oil, oil products and petrochemicals	23,349	-	21,373	-
- Russian crude oil and oil products traders	1,501	-	8,252	-
- Russian oil and petrochemicals refineries	22,603	-	14,160	-
- Central and Eastern Europe refineries	15,249	-	15,910	-
- Russian tire dealers and automotive manufacturers	3,430	-	4,732	-
- Natural monopoly entity	1,634	-	5,170	-
- Russian construction companies	327	-	325	-
- unrated	7,521	12,617	8,322	5,168
including related parties	*1,003*	*435*	*2,697*	*369*
Not past due	**75,614**	**12,617**	**78,244**	**5,168**
Past due but not individually assessed for credit loss allowance				
- less than 90 days overdue	2,946	-	85	12
- 91 to 180 days overdue	969	-	88	-
- over 180 days overdue	305	65	-	-
Total past due but not individually assessed for credit loss allowance	**4,220**	**65**	**173**	**12**
Individually assessed for credit loss allowance (gross)				
- less than 90 days overdue	-	12	713	-
- 91 to 180 days overdue	-	1	-	-
- over 180 days overdue	2,449	7,122	1,527	6,033
Total individually assessed for credit loss allowance	**2,449**	**7,135**	**2,240**	**6,033**
Less credit loss allowance	(2,559)	(7,135)	(2,240)	(6,082)
Total	**79,724**	**12,682**	**78,417**	**5,131**

(In millions of Russian Rubles)

Note 8: Banking: Loans to customers

	At 31 December 2019	At 31 December 2018
Loans to legal entities	92,147	106,538
Loans to individuals	41,836	39,935
Loans to customers measured at amortised cost before impairment	**133,983**	**146,473**
Credit loss allowance	(10,478)	(13,069)
Total loans to customers measured at amortised cost	**123,505**	**133,404**
Loans to customers measured at fair value through profit and loss	12,947	12,901
Total loans to customers	**136,452**	**146,305**
Less: long term loans at measured at fair value through profit and loss	(12,740)	(12,901)
Less: long term loans measured at amortised cost	(94,165)	(85,905)
Less: credit loss allowance for long term loans	4,333	6,298
Total short term loans to customers and current portion of long term loans to customers	**33,880**	**53,797**
Less: short term loans at measured at fair value through profit and loss	(207)	-
Total short term loans to customers and current portion of long term loans to customers measured at amortised cost	33,673	53,797

As at 31 December 2019 and 2018 the Group granted loans to 19 and 20 customers totalling RR 57,435 million and RR 51,743 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 December 2019 and 2018, the total amount of pledged loans to legal entities is RR 783 million and RR 1,742 million and loans to individuals is RR 4,425 million and RR 5,442 million respectively. The loans are pledged against the funds accounted within due to banks and the Bank of Russia.

The Group holds a portfolio of loans and advances to customers that does not meet the SPPI requirement for measured at amortised cost classification under IFRS 9. Dominant features that failed SPPI test were the following: the amount of net operating cash flows according to business-plan is not sufficient to fully repayment of loans within the period specified in loan contract; the time value of money is not compensated to the Group, interest payments will be performed in the end of loan contract; amount of collateral is not sufficient for repayment of loan. As a result, these loans and advances were measured at fair value through profit and loss from the date of initial recognition.

Loans and advances to customers measured at fair value through profit and loss are measured taking into account the credit risk. The carrying amount presented in the consolidated statement of financial position best represents the Group's maximum exposure to credit risk arising from loans and advances to customers.

The fair value of loans and advances to customers, including a breakdown by fair value hierarchy level, is disclosed in Note 30. Information on related party balances is disclosed in Note 26.

(In millions of Russian Rubles)

Note 8: Banking: Loans to customers (continued)

Movements in the credit loss allowance during the year ended 31 December 2019 are as follows:

	Loans to legal entities	Loans to individuals	Total
Credit loss allowance as at 1 January 2019	**(11,533)**	**(1,536)**	**(13,069)**
Net reversal/(provision) for credit loss allowance during the period	698	(1,160)	(462)
Reclassification in the credit loss allowance for other long-term loans	2,780	-	2,780
Other changes	264	9	273
Credit loss allowance as at 31 December 2019	**(7,791)**	**(2,687)**	**(10,478)**

Movements in the credit loss allowance during the year ended 31 December 2018 are as follows:

	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	(928)	(382)	(1,310)
Credit loss allowance as at 31 December 2018	**(11,533)**	**(1,536)**	**(13,069)**

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

	At 31 December 2019		At 31 December 2018	
	Gross book value	Share in customer loan portfolio, %	Gross book value	Share in customer loan portfolio, %
Trade	19,485	13.26%	28,943	18.16%
Manufacturing	29,191	19.87%	24,471	15.35%
Construction	15,908	10.83%	16,542	10.38%
Services	17,895	12.18%	22,877	14.35%
Food	633	0.43%	1,474	0.92%
Finance	10,173	6.92%	12,080	7.58%
Agriculture	1,041	0.71%	1,538	0.97%
Oil and gas	5,013	3.41%	2,533	1.59%
Individuals, including:	41,836	28.47%	39,936	25.06%
mortgage loans	22,843	15.55%	25,333	15.90%
consumer loans	14,202	9.67%	13,247	8.31%
car loans	4,178	2.84%	846	0.53%
plastic cards overdrafts	572	0.39%	479	0.30%
other	41	0.02%	31	0.02%
Other	5,755	3.92%	8,979	5.63%
Total loans to customers before credit loss allowance	**146,930**	**100%**	**159,373**	**100%**

(In millions of Russian Rubles)

Note 9: Other financial assets

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

	At 31 December 2019	At 31 December 2018
Financial assets measured at amortised cost		
Notes receivable (net of credit loss allowance of RR 240 million and 249 million as at 31 December 2019 and 31 December 2018 respectively)	112	136
Other loans (net of credit loss allowance of RR 3,615 million and 261 million as at 31 December 2019 and 31 December 2018 respectively)	227	3,220
Bank deposits (net of credit loss allowance of RR 5,547 million and 5,544 million as at 31 December 2019 and 31 December 2018 respectively)	659	11
Due from banks	1,222	997
REPO with banks	4,081	537
Securities held by the Group (net of credit loss allowance of RR 9 million and 47 million as at 31 December 2019 and 31 December 2018 respectively):	1,562	4,632
Russian government and municipal debt securities	30	675
Corporate debt securities	1,532	3,957
Securities pledged under sale and repurchase agreements (net of credit loss allowance of RR 22 million and 37 million as at 31 December 2019 and 31 December 2018 respectively):	9,044	8,267
Russian government and municipal debt securities	2,609	2,272
Corporate debt securities	6,435	5,995
Financial assets measured at fair value through profit and loss		
Due from banks	1,238	-
Securities held by the Group:	7,658	4,017
Russian government and municipal debt securities	460	287
Corporate debt securities	6,865	2,018
Corporate shares	165	186
Derivatives	168	1,526
Financial assets measured at fair value through other comprehensive income		
Securities held by the Group:	1,910	11,084
Russian government and municipal debt securities	695	176
Corporate debt securities	1,000	10,719
Corporate shares	215	189
Total short-term financial assets	**27,713**	**32,901**

(In millions of Russian Rubles)

Note 9: Other financial assets (continued)

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

	At 31 December 2019	At 31 December 2018
Financial assets measured at amortised cost		
Notes receivable (net of credit loss allowance of RR 318 million as at 31 December 2019 and 31 December 2018)	-	320
Loans to employees (net of credit loss allowance of RR 1,804 million and 1,776 million as at 31 December 2019 and 31 December 2018 respectively)	928	1,046
Other loans (net of credit loss allowance of RR 22,392 million and 17,746 million as at 31 December 2019 and 31 December 2018 respectively)	21,281	25,450
Bank deposits	-	646
Due from banks	2,027	1,018
Securities held by the Group (net of credit loss allowance of RR 31 million and 138 million as at 31 December 2019 and 31 December 2018 respectively):	13,132	19,867
Russian government and municipal debt securities	1,272	2,301
Corporate debt securities	11,860	17,566
Financial assets measured at fair value through profit and loss		
Other loans	-	117
Securities held by the Group:	293	757
Corporate debt securities	293	757
Financial assets measured at fair value through other comprehensive income		
Securities held by the Group:	42,917	32,292
Russian government and municipal debt securities	15,236	36
Corporate shares	12,440	12,317
Corporate debt securities	2,176	6,851
Investment fund units	13,065	13,088
Total long-term financial assets	**80,578**	**81,513**

The fair value of financial assets and valuation techniques used are disclosed in Note 30.

Corporate bonds consist of Russian Ruble and US Dollar 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 at FVTPL include quoted and unquoted shares of Russian companies and banks. At 31 December 2019 and 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 (45.45% of the total amount a shares). The main assets of this fund are the land plots located in Tatarstan Republic. The Group does not exercise significant influence over this investment and therefore accounts for it as a financial asset measured at fair value through other comprehensive income.

In 2019 the Group recognised an impairment losses on financial assets net of reversal in the amount of RR 6,737 million. These losses consist of expected credit loss allowance for accounts receivable in the amount of RR 1,361 million, other loans issued in the amount of RR 5,220 million and other financial assets in the amount of RR 156 million.

(In millions of Russian Rubles)

Note 9: Other financial assets (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for other loans carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Other loans								
At 31 December 2018	**-**	**(543)**	**(17,464)**	**(18,007)**	**83**	**26,217**	**20,377**	**46,677**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	302	(302)	-	-	(23,021)	23,021	-
Net remeasurement of credit loss allowance within the same stage	-	-	(6,608)	(6,608)	-	-	-	-
Loans repaid or derecognised (excluding write-offs)	-	-	1,388	1,388	(10)	(1,849)	(1,756)	(3,615)
New originated or purchased	-	-	-	-	-	184	439	623
Total movements with impact on credit loss allowance charge for the period	**-**	**302**	**(5,522)**	**(5,220)**	**(10)**	**(24,686)**	**21,704**	**(2,992)**
Movements without impact on credit loss allowance charge for the period:								
Reclassification from other financial assets	-	-	(2,780)	(2,780)	-	-	3,830	3,830
At 31 December 2019	**-**	**(241)**	**(25,766)**	**(26,007)**	**73**	**1,531**	**45,911**	**47,515**

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Other loans								
At 1 January 2018	-	(232)	(8,827)	(9,059)	49	1,768	15,435	17,252
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	36	(36)	-	-	(195)	195	-
Net remeasurement of credit loss allowance within the same stage	-	(17)	(8,273)	(8,290)	-	-	-	-
New originated or purchased	-	(323)	(703)	(1,026)	34	22,407	751	23,192
Total movements with impact on credit loss allowance charge for the period	**-**	**(304)**	**(9,012)**	**(9,316)**	**34**	**22,212**	**946**	**23,192**
Movements without impact on credit loss allowance charge for the period:								
Disposals	-	6	1,296	1,302	-	(263)	(3,171)	(3,434)
Reclassification from other financial assets	-	(13)	(921)	(934)	-	2,500	7,167	9,667
At 31 December 2018	**-**	**(543)**	**(17,464)**	**(18,007)**	**83**	**26,217**	**20,377**	**46,677**

(In millions of Russian Rubles)

Note 9: Other financial assets (continued)

In December 2018 the Group entered into a transaction to acquire from a number of Russian government-controlled banks their rights of claim under the credit facilities with NEFIS Group, a leading Russian household chemicals, oil and fats manufacturer. Total rights in the amount of RR 19,861 million and RR 21,506 million were accounted as other loans in other long-term financial assets carried at amortised cost at 31 December 2019 and 31 December 2018 respectively.

Note 10: Inventories

	At 31 December 2019	At 31 December 2018
Materials and supplies	18,916	17,640
Crude oil	9,905	12,003
Refined oil products	13,197	11,621
Petrochemical supplies and finished goods	11,361	9,342
Total inventories	**53,379**	**50,606**

Note 11: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 31 December 2019	At 31 December 2018
Prepaid export duties	2,233	3,818
Value added tax	6,006	7,873
Advances	6,176	8,670
Prepaid transportation expenses	1,465	1,752
Reverse (negative) excise	1,942	-
Other	2,948	977
Prepaid expenses and other current assets	**20,770**	**23,090**

(In millions of Russian Rubles)

Note 12: Property, plant and equipment

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construc-tion in progress	Total
Cost					
As at 31 December 2017	**382,326**	**196,072**	**144,939**	**195,168**	**918,505**
Additions	-	-	-	95,761	95,761
Disposals	(3,060)	(1,453)	(1,669)	(4,832)	(11,014)
Changes in Group structure	-	(726)	(679)	103	(1,302)
Transfers	24,377	26,969	14,938	(66,284)	-
Changes in decommissioning provision	(6,253)	-	-	-	(6,253)
As at 31 December 2018	**397,390**	**220,862**	**157,529**	**219,916**	**995,697**
Depreciation, depletion and amortisation					
As at 31 December 2017	**168,356**	**33,764**	**64,925**	**-**	**267,045**
Depreciation charge	14,363	6,783	9,999	-	31,145
Disposals	(2,156)	(454)	(982)	-	(3,592)
Changes in Group structure	-	(216)	(607)	-	(823)
Transfers	(1,204)	3,699	(2,495)	-	-
As at 31 December 2018	**179,359**	**43,576**	**70,840**	**-**	**293,775**
Net book value					
As at 31 December 2017	**213,970**	**162,308**	**80,014**	**195,168**	**651,460**
As at 31 December 2018	**218,031**	**177,286**	**86,689**	**219,916**	**701,922**
Cost					
As at 31 December 2018	**397,390**	**220,862**	**157,529**	**219,916**	**995,697**
Additions	415	-	-	100,094	100,509
Disposals	(6,266)	(1,506)	(3,369)	(1,353)	(12,494)
Changes in Group structure (Note 29)	-	10,356	7,631	1,231	19,218
Transfers	46,157	39,944	43,137	(129,238)	-
Changes in decommissioning provision	13,072	-	-	-	13,072
As at 31 December 2019	**450,768**	**269,656**	**204,928**	**190,650**	**1,116,002**
Depreciation, depletion and amortisation					
As at 31 December 2018	**179,359**	**43,576**	**70,840**	**-**	**293,775**
Depreciation charge	17,296	6,441	9,394	-	33,131
Impairment	759	4,090	-	24,391	29,240
Disposals	(5,764)	(683)	(2,386)	-	(8,833)
Changes in Group structure	-	2	(48)	-	(46)
Transfers	(2,090)	280	1,810	-	-
As at 31 December 2019	**189,560**	**53,706**	**79,610**	**24,391**	**347,267**
Net book value					
As at 31 December 2018	**218,031**	**177,286**	**86,689**	**219,916**	**701,922**
As at 31 December 2019	**261,208**	**215,950**	**125,318**	**166,259**	**768,735**

Additions for years 2019 and 2018 years include construction of TANECO refinery complex and superviscous oil fields facilities.

Within construction in progress there are advances for construction of RR 14,862 million and RR 15,318 million at 31 December 2019 and 2018, respectively.

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

(In millions of Russian Rubles)

Note 12: Property, plant and equipment (continued)

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2038 and 2090, with other production licenses expiring between 2019 and 2105. The economic lives of several of the Group's licensed fields extend beyond the dates of licenses expiration. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met.

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

Changes in the net book value of exploration and evaluation assets are presented below:

At 1 January 2018	**18,520**
Additions	2,018
Reclassification to development assets	(642)
Charged to expense	(3,178)
At 31 December 2018	**16,718**
Additions	3,194
Reclassification to development assets	-
Charged to expense	(17,818)
At 31 December 2019	**2,094**

For the years ended 31 December 2019 and 2018, operating and investing cash flows used for exploration and evaluation activities amounted to RR 924 million and RR 688 million and RR 3,194 million and RR 2,018 million, respectively.

Libya. As a result of destabilisation of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its Russian personnel. After improvement of the situation in the country, in early 2013 the Group returned its staff to Libya and began preparatory work. In May 2014, exploration was resumed in accordance with contractual obligations. 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 at the date of these consolidated financial statements. As at 31 December 2019 the Group recognised an impairment loss in the amount of RR 6,492 million related to exploration and evaluation assets associated with its operations in Libya, including RR 4,899 million recognised for the year ended 31 December 2019. The Group is constantly monitoring the security and political situation in Libya to assess the possibility of geological exploration, and plans to resume its operations once the conditions permit to do so.

Assets outside the Republic of Tatarstan. As at 31 December 2019 the Group recognised an impairment loss for certain other exploration and evaluation assets in the amount of RR 19,104 million, including RR 12,919 million for the year ended 31 December 2019, related mainly to the oilfields located in Nenets Autonomous District and Republic of Kalmykia. The Group recognised this impairment loss due to adverse conditions in the oil market affecting the current assessment of respective projects.

Social assets. During the years ended 31 December 2019 and 2018 the Group transferred social assets with a net book value of RR 345 million and RR 21 million, respectively, to local authorities. At 31 December 2019 and 2018 the Group held social assets with a net book value net of impairment provision of RR 6,378 million and RR 9,232 million, respectively. The Group recognised an impairment loss on social assets not providing future economic benefits, in the amount of RR 7,208 million for the year ended 31 December 2019; no impairment loss on such assets was recognised for the year ended 31 December 2018.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 8,995 million and RR 5,592 million for the years ended 31 December 2019 and 2018, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

In 2019 the Group recognised an impairment losses and losses on disposal on property, plant and equipment and other non-financial assets net of reversal in the amount of RR 30,875 million. These losses consist of impairment losses on property, plant and equipment in the amount of RR 29,240 milllion and other non-current assets in the amount of RR 360 million, losses on creation of provision for impairment of inventories in the amount of RR 320 million and losses on disposal of property, plant and equipment in the amount of RR 950 million.

(In millions of Russian Rubles)

Note 12: Property, plant and equipment (continued)

Decommissioning provisions.

The following table summarizes changes in the Group's decommissioning provision for the year:

	2019	2018
Balance at the beginning of period	**34,457**	**38,081**
Unwinding of discount	3,015	2,936
New obligations	1,349	629
Release of existing obligations	(70)	(307)
Changes in estimates	11,723	(6,882)
Balance at the end of period	**50,474**	**34,457**
Less: current portion of decommissioning provisions (Note 16)	(127)	(119)
Long-term balance at the end of period	**50,347**	**34,338**

In 2019 and 2018 the Group recorded the change in estimate for oil and gas properties decommissioning primarily due to the change in discount rate and expected long-term inflation rate.

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

	At 31 December 2019	At 31 December 2018
Discount rate	6.69%	8.75%
Inflation rate	4.00%	4.21%

Note 13: Right-of-use assets and lease liabilities

Starting from January 1, 2019, a lease is recognised as a right-of-use assets and a lease liabilities on the date the asset becomes available for use by the Group.

Right-of-use assets comprise the following:

	Service equipment	Other assets	Total
As at 1 January 2019	**13,654**	**2,414**	**16,068**
Additions	78	1,648	1,726
Disposals	-	(925)	(925)
Depreciation	(1,784)	(316)	(2,100)
Revaluation and modification	(896)	(215)	(1,111)
As at 31 December 2019	**11,052**	**2,606**	**13,658**

The reconciliation between undiscounted lease liabilities and their present value presented in the table below:

	At 31 December 2019
Lease liabilities	
Less than one year	3,024
Between one and five years	9,443
More than five years	11,078
Total undiscounted lease liabilities	**23,545**
Lease liabilities	**14,191**
Of which are:	
Current lease liabilities, presented in Accounts payable and accrued liabilities (Note 16)	2,613
Non-current lease liabilities	11,578

(In millions of Russian Rubles)

Note 14: Taxes

Income tax expense comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax expense	(57,626)	(58,015)
Deferred income tax expense	(1,898)	(4,226)
Income tax expense for the year	**(59,524)**	**(62,241)**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	252,342	273,789
Theoretical income tax expense at statutory rate	(50,468)	(54,758)
Increase due to:		
Non-deductible expenses, net	(6,705)	(7,653)
Income tax withheld at source on dividends for treasury shares	(733)	(394)
Deferred income tax liability increase as a result of business combinations (Note 29)	(1,703)	-
Other	85	564
Income tax expense	**(59,524)**	**(62,241)**

At 31 December 2019 no deferred tax liabilities has been recognised for taxable temporary differences of RR 68,729 million (2018: RR 62,453 million) on undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings, except for undistributed earnings of subsidiaries operating in a tax free jurisdictions, could become subject to additional tax of approximately RR 1,203 million (2018: RR 1,185 million) if they were remitted as dividends.

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

	At 31 December 2019	At 31 December 2018
Tax loss carry forward	3,057	3,281
Decommissioning provision	7,318	6,868
Prepaid expenses and other current assets	189	278
Accounts receivable	425	230
Long-term loans and certificates of deposits	1,773	2,131
Long-term investments	366	395
Other	94	1,333
Deferred income tax assets	**13,222**	**14,516**
Property, plant and equipment	(41,908)	(39,602)
Inventories	(2,021)	(2,824)
Long-term investments	-	(15)
Other liabilities	-	(13)
Deferred income tax liabilities	**(43,929)**	**(42,454)**
Net deferred tax liability	**(30,707)**	**(27,938)**

(In millions of Russian Rubles)

Note 14: Taxes (continued)

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

	At 31 December 2019	At 31 December 2018
Deferred income tax asset	2,712	3,548
Deferred income tax liability	(33,419)	(31,486)
Net deferred tax liability	**(30,707)**	**(27,938)**

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

Tax losses carry forward. At 31 December 2019, the Group had recognised deferred income tax assets of RR 3,057 million (RR 3,281 million at 31 December 2018) in respect of unused tax loss carry forwards of RR 15,285 million (RR 16,405 million at 31 December 2018). Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The ten year expiry period for tax loss carry-forwards no longer applies. The amendments also set limitation on utilisation of tax loss carry forwards that will apply during the period from 2017 to 2021. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realised.

The Group does not have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

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

	Year ended 31 December 2019	Year ended 31 December 2018
Mineral extraction tax	298,592	284,118
Property tax	7,320	6,680
Other	1,742	2,364
Total taxes other than income taxes	**307,654**	**293,162**

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a tax relief of RR 50.4 billion and RR 52.2 billion for the years ended 31 December 2019 and 2018, respectively.

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 31 December 2019 and 2018 taxes payable were as follows:

	At 31 December 2019	At 31 December 2018
Mineral extraction tax	21,172	21,692
Value Added Tax	8,369	7,622
Excise	2,863	2,683
Export duties	425	2,493
Property tax	1,975	1,549
Other	2,661	2,732
Total taxes payable	**37,465**	**38,771**

(In millions of Russian Rubles)

Note 15: Debt

	At 31 December 2019	At 31 December 2018
Short-term debt		
Bonds issued	1,850	1,056
Subordinated debt	21	2,160
Debt securities issued	884	1,061
US $75 million 2011 credit facility	816	1,397
US $144.5 million 2011 credit facility	2,090	2,932
EUR 55 million 2013 credit facility	1,652	2,353
RR credit facilities	10,142	-
Other debt	938	994
Total short-term debt	**18,393**	**11,953**
Current portion of long-term debt	1,199	**-**
Total short-term debt, including current portion of long-term debt	**19,592**	**11,953**
Long-term debt		
Bonds issued	20,007	-
Subordinated debt	1,266	1,420
Debt securities issued	39	69
Other debt	1,544	1,595
Total long-term debt	**22,856**	**3,084**
Less: current portion of long-term debt	(1,199)	-
Total long-term debt, net of current portion	**21,657**	**3,084**

Fair value of debt is presented in Note 30. Maturity and currency analysis of debt is presented in Note 30. Debt issued by related parties is presented in Note 26.

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.

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

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

During 2019, to cover cash gaps the Group received short-term loans under the existing credit facilities with PJSC Sberbank, JSC ALFA-BANK, PJSC Bank Otkrytie FC and PJSC MOSCOW CREDIT BANK in total amount of 113,200 million Rubles at rates ranging from 6.33% to 8.54%, which were repaid early. The short-term debt under these loans at the end of 2019 amounted to 10,142 million Rubles and was fully repaid in January 2020.

Note 15: Debt (continued)

Bonds issued. In December 2019 the Company issued Russian Ruble denominated bonds in the amount of RR 15,000 million with the maturity in 3 years at a rate of 6.45% per annum.

At 31 December 2019 and 2018 bonds issued include bonds denominated in Russian Rubles issued by Bank ZENIT in the aggregate amount of RR 6,857 million and RR 1,056 million, respectively, that mature between 2020 and 2025 and between 2019 and 2025, respectively. At 31 December 2019 and 2018 the annual coupon rates on these securities range from 7.0% to 8.85% (excluding bonds issued on emission BO-13 at amount RR 1 million and coupon rate 0.1%) and 7.5% to 8.0% respectively. The majority of bonds issued by Bank ZENIT allow early repurchase at the request of the bond holder as set in the respective offering documents.

Subordinated debt. At 31 December 2019 and 2018 subordinated debt is presented by one and two subordinated loans raised by Bank ZENIT respectively (excluding subordinated debt under the direct repurchase agreement with Deposit Insurance Agency (DIA), Note 30). At 31 December 2019 the subordinated loan bears interest at the rate of 8.9% 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 2019 and 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. At 31 December 2018 the lender granted Bank ZENIT a waiver relating this covenant. At 30 June 2019 the lender granted Bank ZENIT a waiver until 1 March 2020. Starting from 1 March 2020 Bank ZENIT pays a higher interest rate until the violation is rectified or a new waiver is received.

Information about subordinated loans received by Bank ZENIT from Deposit Insurance Agency (DIA) within the Russian Federation Government program for additional capitalisation of Russian banks is presented in Note 30.

Debt securities issued. At 31 December 2019 and 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 2020 to 2028.

As at 31 December 2019 and 2018 non-interest-bearing promissory notes of the aggregate nominal value of RR 641 million and RR 469 million respectively were issued by Bank ZENIT for settlement purposes and mature primarily on demand.

(In millions of Russian Rubles)

Note 16: Accounts payable and accrued liabilities

	At 31 December 2019	At 31 December 2018
Trade payables	36,150	25,728
Current portion of lease liabilities (Note 13)	2,613	-
Other payables	1,809	1,013
Total financial liabilities within trade and other payables	**40,572**	**26,741**
Salaries and wages payable	8,267	7,282
Advances received from customers	7,828	6,197
Current portion of decommissioning provisions (Note 12)	127	119
Other accounts payable and accrued liabilities	3,495	2,650
Total non-financial liabilities	**19,717**	**16,248**
Accounts payable and accrued liabilities	**60,289**	**42,989**

For the current reporting period revenue of RR 6,197 million was recognised in respect of contract obligations as of 1 January 2019 related to advances received.

For the previous reporting period revenue of RR 8,003 million was recognised in respect of contract obligations as of 1 January 2018 related to advances received.

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2019 and 2018 is presented in Note 30.

Note 17: Banking: Due to banks and the Bank of Russia

	At 31 December 2019	At 31 December 2018
Term deposits from other banks	5,364	4,073
Term deposits from the Bank of Russia	2,630	2,731
REPO	13,259	10,083
Correspondent accounts and other banks' overnight deposits	1,562	1,538
Total due to banks and the Bank of Russia	**22,815**	**18,425**
Less: long term due to banks and the Bank of Russia	(2,522)	(4,660)
Total short term of due to banks and the Bank of Russia	**20,293**	**13,765**

Within due to banks and the Bank of Russia at 31 December 2019 and 2018 there are RR 18,778 million and RR 16,523 million respectively of correspondent accounts and term deposits, borrowed from the Bank of Russia and from three and four Russian banks respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 December 2019 and 31 December 2018 financial liabilities which are subject to offsetting include RR 13,260 million and RR 10,083 million of due to banks collateralised by securities, fair value of which is RR 14,446 million and RR 11,098 million respectively.

(In millions of Russian Rubles)

Note 18: Banking: Customer accounts

	At 31 December 2019	At 31 December 2018
State and public organizations		
Current / settlement accounts	1,014	577
Term deposits	90	347
Other legal entities		
Current / settlement accounts	16,986	22,385
Term deposits	22,653	37,679
Individuals		
Current / settlement accounts	14,265	14,958
Term deposits	105,044	108,390
Total customer accounts	**160,052**	**184,336**
Less: long-term customer accounts	(1,381)	(682)
Total short-term customer accounts	**158,671**	**183,654**

Within customer accounts at 31 December 2019 and 2018 there are RR 38,557 million and RR 48,549 million of current/settlement accounts and term deposits from 12 and 19 customers respectively, which individually exceeded 5% of the Bank ZENIT equity.

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

	At 31 December 2019		At 31 December 2018	
	Carrying value	**Share in customer loan portfolio, %**	**Carrying value**	**Share in customer loan portfolio, %**
Individuals	119,309	74.54%	123,348	66.91%
Finance	9,292	5.81%	20,479	11.11%
Oil and gas	2,195	1.37%	3,659	1.99%
Trade	4,798	3.00%	8,097	4.39%
Services	12,331	7.70%	10,886	5.91%
Manufacturing	4,306	2.69%	5,801	3.15%
Construction	3,620	2.26%	4,741	2.57%
Other	4,201	2.63%	7,325	3.97%
Total customer accounts	**160,052**	**100%**	**184,336**	**100%**

(In millions of Russian Rubles)

Note 19: Other long-term liabilities

Other long-term liabilities are as follows:

	At 31 December 2019	At 31 December 2018
Pension liability	4,062	3,287
Government grants	3,231	-
Other long-term liabilities	219	150
Total other long-term liabilities	**7,512**	**3,437**

Pension liabilities

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-Governmental Pension Benefits for JSC Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the JSC "National Non-Governmental Pension Fund". In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years of service upon reaching official retirement age (according to the Law 350-FZ on amending the appointment and payment of pensions), and for management are based upon employment contract terms. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obliged to pay other certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Government grants

At the end of 2019, the Group received grants from the Republic of Tatarstan for the creation, modernization and reconstruction of energy facilities and infrastructure.

Note 20: Shareholders' equity

Authorised share capital. At 31 December 2019 and 2018 the authorised, issued and paid share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation on capital contributions made before 2003.

Golden share. Tatarstan holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers (see also Note 1).

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

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

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

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

(In millions of Russian Rubles)

Note 20: Shareholders' equity (continued)

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2019 and 2018, the Company had a statutory current year profit of RR 156,046 million and RR 192,766 million, respectively.

In December 2019, the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2019, in the amount of RR 64.47 per preference and ordinary share (the "9 months 2019 Dividends"), including previously paid interim dividends for the six months ended 30 June 2019, in the amount of RR 40.11 per preference and ordinary share. The 9 months 2019 Dividends are reported as dividends payable as at 31 December 2019 and were paid in the beginning of 2020.

In September 2019, the shareholders of the Company approved interim dividends for the six months ended 30 June 2019 in the amount of RR 40.11 per each preference and ordinary share. The dividends 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 at 31 December 2018 and were paid in the beginning of 2019.

In September 2018, the shareholders of the Company approved the payment of interim dividends for the six months ended 30 June 2018 in the amount of RR 30.27 per each preference and ordinary share. The dividends were paid in the fourth quarter of 2018.

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.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares.

The remaining profit or loss is allocated ordinary and preferred shares to the extent that each class may have share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2019	**Year ended 31 December 2018**
Profit attributable to Group shareholders	192,260	211,812
Ordinary share dividends	(203,682)	(136,057)
Preferred share dividends	(14,286)	(9,542)
Income available to ordinary and preferred shareholders, net of dividends	**(25,708)**	**66,213**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Ordinary	2,103	2,103
Preferred	148	148
Combined weighted average number of ordinary and preferred shares outstanding	2,251	2,251
Basic and diluted earnings per share (RR)		
Ordinary	85.43	94,11
Preferred	85.43	93,89

(In millions of Russian Rubles)

Note 20: Shareholders' equity (continued)

Non-controlling interest. Non-controlling interest is adjusted by dividends declared and paid by the Group's subsidiaries amounting to RR 1 million and RR 46 million at 31 December 2019 and 2018, respectively.

Note 21: Employee benefit expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	41,045	39,079
Statutory insurance contributions	11,474	10,949
Pension costs – defined benefit plans	736	-
Other employee benefits	1,801	1,901
Total employee benefit expense	**55,056**	**51,929**

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

(In millions of Russian Rubles)

Note 22: Interest income and interest expense on non-banking activities

Interest income on non-banking activities comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income from financial assets measured at amortised cost	1,128	5,225
Unwinding of the present value discount of long-term financial assets	73	272
Total interest income on non-banking activities	**1,201**	**5,497**

Interest expense on non-banking activities comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Bank loans	(755)	(593)
Unwinding of the present value discount of decommissioning provision	(3,015)	(2,936)
Interest expense on lease liabilities	(1,571)	-
Unwinding of the present value discount of long-term financial liabilities	(66)	(61)
Total interest expenses on non-banking activities	**(5,407)**	**(3,590)**

Note 23: Interest income and expense on banking activities

	Year ended 31 December:	
	2019	**2018**
Interest income		
Loans to customers	14,216	15,518
Due from banks	313	436
Securities measured at amortised cost	1,737	2,286
Correspondent accounts	40	39
Securities measured at fair value through profit and loss	412	339
Securities measured at fair value through other comprehensive income	1,439	867
Total interest income on banking activities	**18,157**	**19,485**
Interest expense		
Term deposits of individuals	(5,889)	(5,082)
Term deposits of legal entities	(2,270)	(2,304)
Russian Ruble-denominated bonds issued	(182)	(616)
Expenses directly associated with deposit insurance (DIA)	(789)	-
Subordinated debt	(310)	(464)
Term placements of banks	(1,049)	(1,463)
Debt securities issued	(2)	(48)
Total interest expense on banking activities	**(10,491)**	**(9,977)**
Net interest income on banking activities	**7,666**	**9,508**

(In millions of Russian Rubles)

Note 24: Fee and commission income and expense on banking activities

	Year ended 31 December:	
	2019	**2018**
Settlement transactions	2,664	2,499
Cash transactions	488	501
Agency services	431	-
Operations with foreign currencies	331	392
Guarantees issued	235	234
Transactions with securities	71	37
Asset management	5	8
Other	202	103
Total fee and commission income on banking activities	**4,427**	**3 774**
Settlement transactions	(1,352)	(874)
Cash transactions	(158)	(164)
Transactions with securities	(29)	(34)
Operations with foreign currencies	(23)	(24)
Commission on guarantees received	(11)	(12)
Other	(54)	(47)
Total fee and commission expense on banking activities	**(1,627)**	**(1,155)**
Net fee and commission income on banking activities	**2,800**	**2,619**

Note 25: 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, technical carbon;
- Banking segment includes operations of Banking Group ZENIT.

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

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income 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 year ended 31 December 2019, revenues of RR 104,506 million or 11% of the Group's total sales and operating revenues are derived from one external customer.

For the year ended 31 December 2018, revenues of RR 98,183 million or 11% of the Group's total sales and operating revenues are derived from one external customer.

(In millions of Russian Rubles)

Note 25: Segment information (continued)

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

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

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

	Year ended 31 December 2019	Year ended 31 December 2018
Exploration and production		
Domestic own crude oil	175,402	167,694
CIS own crude oil	26,818	28,395
Non-CIS own crude oil	255,602	270,966
Other	3,151	4,908
Intersegment sales	208,886	191,912
Total exploration and production	**669,859**	**663,875**
Refining and marketing		
Domestic sales		
Refined products	225,137	183,497
Total Domestic sales	225,137	183,497
CIS sales		
Refined products	14,866	20,565
Total CIS sales(1)	14,866	20,565
Non-CIS sales		
Crude oil purchased for resale	8,900	7,282
Refined products	138,496	150,960
Total non-CIS sales(2)	147,396	158,242
Other	11,426	8,579
Intersegment sales	1,461	1,239
Total refining and marketing	**400,286**	**372,122**
Petrochemicals		
Tires – domestic sales	29,336	33,316
Tires – CIS sales	11,466	10,418
Tires – non-CIS sales	4,124	3,806
Petrochemical products and other	3,647	4,248
Intersegment sales	1,028	994
Total petrochemicals	**49,601**	**52,782**
Banking		
Interest income	18,157	19,485
Fee and commission income	4,427	3,774
Total banking	**22,584**	**23,259**
Total segment sales	**1,142,330**	**1,112,038**
Corporate and other sales	23,925	15,900
Elimination of intersegment sales	(211,375)	(194,145)
Total sales and other operating revenues	**954,880**	**933,793**

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

(In millions of Russian Rubles)

Note 25: Segment information (continued)

Segment earnings

	Year ended 31 December 2019	Year ended 31 December 2018
Segment earnings		
Exploration and production	241,891	267,320
Refining and marketing	59,407	33,867
Petrochemicals	1,345	3,634
Banking	1,279	269
Total segment earnings	**303,922**	**305,090**
Corporate and other	(47,294)	(41,112)
Other (expenses)/income	(4,286)	9,811
Profit before income tax	**252,342**	**273,789**

For the years ended 31 December 2019 and 2018 "Corporate and other" line includes Head Office administrative expenses, impairment losses on financial assets net of reversal, impairment losses and losses on disposal on property, plant and equipment and other non-financial assets, charity expenses, maintenance of social infrastructure and transfer of social assets.

Segment assets

	At 31 December 2019	At 31 December 2018
Assets		
Exploration and production	384,022	368,991
Refining and marketing	450,191	406,407
Petrochemicals	34,324	32,923
Banking	232,101	252,854
Corporate and other	138,001	140,113
Total assets	**1,238,639**	**1,201,288**

As at 31 December 2019 corporate and other includes RR 50,102 million of property, plant and equipment, RR 24,413 million of securities measured at fair value through other comprehensive income, RR 20,626 million loans receivable, RR 331 million of bank deposits measured at amortised cost, RR 3,277 million of cash.

As at 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 27,799 million loans receivable, RR 49 million of debt securities measured at amortised cost, 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.

(In millions of Russian Rubles)

Note 25: Segment information (continued)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Depreciation, depletion and amortization		
Exploration and production	22,037	15,797
Refining and marketing	9,885	11,595
Petrochemicals	1,538	1,687
Banking	349	326
Corporate and other	1,356	1,115
Total depreciation, depletion and amortization	**35,165**	**30,520**
Additions to property, plant and equipment		
Exploration and production	57,708	39,361
Refining and marketing	48,609	41,235
Petrochemicals	2,264	1,731
Banking	665	596
Corporate and other	23,553	6,585
Total additions to property, plant and equipment	**132,799**	**89,508**

For the years ended 31 December 2019 and 2018 additions to property, plant and equipment of exploration and production segment were adjusted for changes in decommissioning provision. For the year ended 31 December 2019 additions to property, plant and equipment of refining and marketing segment and corporate and other assets took into account changes in Group structure (Note 29).

Note 26: Related party transactions

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

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

Associates, joint ventures and other related parties

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

	Year ended 31 December 2019	Year ended 31 December 2018
Revenues and income		
Sales of refined products	21	14
Other sales	122	250
Interest income	57	302
Costs and expenses		
Other services	844	905
Other purchases	501	579

(In millions of Russian Rubles)

Note 26: Related party transactions (continued)

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

	At 31 December 2019	At 31 December 2018
Assets		
Accounts receivable, net	231	148
Banking: Loans to customers	293	193
Other financial assets		
Securities measured at fair value through profit and loss	42	-
Notes receivable	-	249
Other loans receivable	51	51
Prepaid expenses and other current assets	268	276
Due from related parties short-term	**885**	**917**
Long-term accounts receivable	198	114
Banking: Loans to customers	50	-
Other financial assets		
Securities measured at fair value through other comprehensive income	4,070	5,249
Other loans receivable	978	912
Due from related parties long-term	**5,296**	**6,275**
Liabilities		
Accounts payable and accrued liabilities	(37)	(61)
Banking: Customer accounts	(910)	(1,668)
Due to related parties short-term	**(947)**	**(1,729)**

(In millions of Russian Rubles)

Note 26: Related party transactions (continued)

Government related companies

For the years ended 31 December 2019 and 2018 the outstanding balances with Government related companies were as follows:

	At 31 December 2019	At 31 December 2018
Assets		
Cash and cash equivalents	10,044	16,810
Banking: Mandatory reserve deposits with the Bank of Russia	1,572	1,875
Accounts receivable	4,416	6,795
Banking: Loans to customers	6,563	7,496
Other financial assets		
Notes receivable	4	-
Bank deposits	310	-
Securities measured at fair value through other comprehensive income	505	10,209
Securities measured at amortised cost	3,325	8,349
Securities measured at fair value through profit and loss	3,915	1,679
Other loans receivable	41	40
Prepaid expenses and other current assets	3,185	5,067
Due from related parties short-term	**33,880**	**58,320**
Long-term accounts receivable	-	1,221
Banking: Loans to customers	4,994	500
Other financial assets		
Bank deposits	-	346
Securities measured at fair value through other comprehensive income	24,193	11,001
Securities measured at amortised cost	7,898	8,192
Other loans receivable	148	192
Advances for construction	14	1,430
Due from related parties long-term	**37,247**	**22,882**
Liabilities		
Accounts payable and accrued liabilities	(1,519)	(1,420)
Banking: Due to banks and the Bank of Russia	(2,445)	(100)
Banking: Customer accounts	(2,959)	(6,298)
Debt		
RR credit facilities	(10,142)	-
Other debt	(881)	(3,121)
Due to related parties short-term	**(17,946)**	**(10,939)**
Banking: Due to banks and the Bank of Russia	(2,763)	(2,631)
Government grants (Note 19)	(3,231)	-
Due to related parties long-term	**(5,994)**	**(2,631)**

(In millions of Russian Rubles)

Note 26: Related party transactions (continued)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Sales of crude oil	-	1,132
Sales of refined products	30,662	20,965
Other sales	5,302	4,287
Interest income	2,852	4,988
Interest expense	764	1,019
Purchases of refined products	20,715	34,184
Purchases of electricity	18,479	16,691
Purchases of transportation services	26,987	23,831
Other services	5,830	4,485
Other purchases	2,366	3,822

In December 2018 the Group entered into a transaction to acquire from a number of Russian government-controlled banks their rights of claim under the credit facilities with NEFIS Group (Note 9).

Compensation to key management personnel

The key management personnel of the Group includes members of the Board of Directors and the Management Board of PJSC Tatneft.

For the years ended 31 December 2019 and 2018 total remuneration, including pension cost, for key management personnel was RR 988 million and RR 1,089 million, respectively.

At 31 December 2019 and 2018 key management personnel customer accounts in Bank ZENIT amounted to RR 31,738 million and RR 31,290 million, respectively.

Note 27: 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. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019.

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 recognised 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. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 31 provides more information about changes in economic environment after reporting date.

Capital commitments. As at 31 December 2019 and 2018 the Group has outstanding capital commitments of approximately RR 46,804 million and RR 38,327 million, respectively, mainly for the construction of the TANECO refinery complex and superviscous oil fields facilities construction. These commitments are expected to be paid between 2020 and 2022.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 15).

(In millions of Russian Rubles)

Note 27: Contingencies and commitments (continued)

Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the own 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 31 December 2019	At 31 December 2018
Loan commitments	28,973	18,810
Guarantees issued	12,739	20,467
Import letters of credit	129	271
Less: allowance for credit related commitment impairment	(324)	(426)
Less: client funds held as security for guarantees issued	(19)	(29)
Less: client funds held as security for import letter of credit	(130)	(806)
Total credit related commitments	**41,368**	**38,287**

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.

In 2017, tax authorities completed inspections of the Company and its subsidiaries for the years ended December 31, 2013 and 2014. In 2019, tax authorities completed inspections of the Company and its subsidiaries for the years ended December 31, 2015, 2016, 2017. The available results of tax inspections, in particular, the income tax of the consolidated group of taxpayers of PJSC TATNEFT do not significantly affect the financial results and cash flows of the Group.

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

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

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

Note 27: Contingencies and commitments (continued)

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

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

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

(In millions of Russian Rubles)

Note 28: Principal subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2019. The joint-stock companies as listed below (except for PJSC "Nizhnekamskshina") have share capital consisting solely of ordinary shares. The proportion of ownership interests held equals to the voting rights held by Group. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

Name of entity	Principal activity	At 31 December 2019 % of ownership interest held by the Group	At 31 December 2019 % of ownership interest held by the NCI	At 31 December 2018 % of ownership interest held by the Group	At 31 December 2018 % of ownership interest held by the NCI
Bank ZENIT	Banking operations	72	28	72	28
Tatneft Europe AG	Export oil sales	100	-	100	-
TANECO	Oil refinery	100	-	100	-
Nizhnekamskshina	Tires production	82	18	82	18
Nizhnekamskiy zavod shin CMK	Tires production	100	-	100	-
Trade House Kama	Tires sales	100	-	100	-
Tatneft-AZS Centr	Oil products sales	100	-	100	-
Tatneft-AZS-Zapad	Oil products sales	100	-	100	-

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

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit
Year ended 31 December 2019						
Bank ZENIT	84,220	149,286	195,643	13,184	22,873	1,480
Nizhnekamskshina PJSC	1,033	3,575	5,223	-	14,918	623
Total	**85,253**	**152,861**	**200,866**	**13,184**	**37,791**	**2,103**
Year ended 31 December 2018						
Bank ZENIT	121,300	133,315	224,675	8,233	23,347	322
Nizhnekamskshina PJSC	1,576	3,783	6,567	-	20,368	237
Total	**122,876**	**137,098**	**231,242**	**8,233**	**43,715**	**559**

(In millions of Russian Rubles)

Note 29: Business combinations

LLC Neste Saint-Petersburg

In 4th quarter of 2019 the Group acquired 100% of the charter capital of LLC Neste Saint-Petersburg (subsequently renamed to LLC Tatneft-AZS-Severo-Zapad) from third party Neste Oyj (Neste Corporation) and obtained control becoming its sole participants. LLC Neste Saint-Petersburg owns a chain of 75 premium retail petroleum stations, an oil products tank farm and an office building in Saint-Petersburg, Russia. The acquired subsidiary will increase the Group's presence in the fuel and retail market of the North-West Federal District of the Russian Federation.

The purchase price was RR 9,139 million (net of cash on the acquired entity's balance sheet) and the cash consideration was fully paid in 2019. The consideration paid by the Group was based on the results of the evaluation of the business value of the acquired entity as a whole.

As at 31 December 2019 the fair value measurement of the assets and liabilities of LLC Neste Saint-Petersburg was not completed. The purchase price allocation of the assets and liabilities of the acquired entity will be completed within 12 months from the date of acquisition.

Details of preliminary assessment of the fair value of acquired assets and liabilities performed by the Group are as follows:

	Preliminary fair value
Cash and cash equivalents	1,693
Property, plant and equipment	8,680
Inventories	915
Other assets	620
Accounts payable	(900)
Other liabilities	(176)
Fair value of identifiable net assets of subsidiary	**10,832**
Total purchase consideration	**10,832**
Cash and cash equivalents of subsidiary acquired	(1,693)
Purchase price, net	**9,139**

The acquired subsidiary contributed revenue of RR 3,557 million and profit of RR 67 million to the Group for the period from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1 January 2019, without taking into account any other acquisitions, the Group revenue for 2019 would have been RR 950,015 million, and the profit for 2019 would have been RR 193,741 million.

Petrochemical complex in Togliatti

In the 4th quarter of 2019 the Group acquired 100% of the charter capital of LLC SIBUR Togliatti (subsequently renamed to LLC Togliattikauchuk) and 100% of the share capital of JSC Togliattisintez from the third party PJSC SIBUR Holding and obtained control of these entities becoming the sole participant of LLC SIBUR Togliatti and through its ability to cast a majority of votes in the general meeting of shareholders of JSC Togliattisintez. The acquired companies form a petrochemical complex for the production of various types of synthetic rubbers, as well as the high-octane component MTBE for motor fuel, butadiene, isoprene, and other intermediate products. The acquired subsidiaries contribute to the further development of the Group's petrochemical and tires business.

The purchase price was RR 11,299 million (net of cash on the targets' balance sheets), and cash consideration was fully paid in 2019. The consideration paid by the Group was based on the results of the evaluation of the business value of the acquired entities as a whole.

As at 31 December 2019 the fair value measurement of the assets and liabilities of LLC SIBUR Togliatti and JSC Togliattisintez was not completed. The purchase price allocation of the assets and liabilities of the acquired entity will be completed within 12 months from the date of acquisition.

(In millions of Russian Rubles)

Note 29: Business combinations (continued)

Details of preliminary assessment of the fair value of acquired assets and liabilities performed by the Group are as follows:

	Preliminary fair value
Cash and cash equivalents	1,502
Property, plant and equipment	10,452
Inventories	1,542
Other assets	664
Accounts payable	(790)
Other liabilities	(569)
Fair value of identifiable net assets of subsidiaries	**12,801**
Total purchase consideration	**12,801**
Cash and cash equivalents of subsidiaries acquired	(1,502)
Purchase price, net	**11,299**

The acquired subsidiaries contributed revenue of RR 4,016 million and loss of RR 122 million to the Group for the period from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1 January 2019, without taking into account any other acquisitions, the Group revenue for 2019 would have been RR 944,050 million, and the profit for 2019 would have been RR 193,847 million.

Note 30: Financial risk management

Financial risk management objectives and policies.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

Market risk

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

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

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US Dollar. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2019.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	16,472	5,853	2,405	24,730
Term deposits with original maturity of less than three months	350	-	-	350
Due from banks	-	-	77	77
Banking: Mandatory reserves with the Bank of Russia	1,572	-	-	1,572
Accounts receivable				
Trade receivables	42,019	36,895	810	79,724
Other financial receivables	12,633	29	20	12,682
Banking: Loans to customers	109,895	19,897	6,660	136,452
Other financial assets				
Bank deposits	350	309	-	659
Due from banks	29	1,450	3,008	4,487
REPO with banks	4,081	-	-	4,081
Notes receivable	112	-	-	112
Loans to employees	928	-	-	928
Other loans	21,198	310	-	21,508
Securities at FVTPL	7,079	716	156	7,951
Securities at FVOCI	43,798	850	179	44,827
Securities at AC	12,586	11,152	-	23,738
Total financial assets	**273,102**	**77,461**	**13,315**	**363,878**
Financial liabilities				
Trade and other financial payables				
Trade payables	35,109	496	545	36,150
Dividend payable	55,865	-	-	55,865
Current portion of lease liabilities	2,613	-	-	2,613
Lease obligations, net of current portion	11,578	-	-	11,578
Other payables	1,764	45	-	1,809
Banking: Other finance liabilities at FVTPL	4,337	114	-	4,451
Debt				
Bonds issued	21,857	-	-	21,857
Subordinated debt	-	1,287	-	1,287
Debt securities issued	809	114	-	923
Credit facilities	10,142	4,558	-	14,700
Other debt	1,734	272	476	2,482
Banking: Due to banks and the Bank of Russia	12,951	9,557	307	22,815
Banking: Customer accounts	128,750	25,982	5,320	160,052
Total financial liabilities	**287,509**	**42,425**	**6,648**	**336,582**
Net balance sheet position	**(14,407)**	**35,036**	**6,667**	**27,296**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2018.

	Russian Ruble	US Dollar	Other	Total
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	25,249	14,353	2,738	42,340
Term deposits with original maturity of less than three months	22,078	-	-	22,078
Due from banks	29	657	385	1,071
Banking: Mandatory reserves with the Bank of Russia	1,875	-	-	1,875
Accounts receivable				
Trade receivables	42,750	35,299	368	78,417
Other financial receivables	5,130	1	-	5,131
Banking: Loans to customers	131,907	8,220	6,178	146,305
Other financial assets				
Bank deposits	310	347	-	657
Due from banks	168	428	1,419	2,015
REPO with banks	537	-	-	537
Notes receivable	456	-	-	456
Loans to employees	1,046	-	-	1,046
Other loans	28,517	270	-	28,787
Securities at FVTPL	3,149	1,625	-	4,774
Securities at FVOCI	38,773	4,603	-	43,376
Securities at AC	18,718	14,048	-	32,766
Total financial assets	**320,692**	**79,851**	**11,088**	**411,631**
Financial liabilities				
Trade and other financial payables				
Trade payables	25,727	1	-	25,728
Dividend payable	50,711	-	-	50,711
Other payables	933	80	-	1,013
Banking: Other finance liabilities FVPL	1,190	-	-	1,190
Debt				
Bonds issued	1,056	-	-	1,056
Subordinated debt	2,160	1,420	-	3,580
Debt securities issued	981	149	-	1,130
Credit facilities	-	6,682	-	6,682
Other debt	1,754	835	-	2,589
Banking: Due to banks and the Bank of Russia	15,212	3,087	126	18,425
Banking: Customer accounts	144,070	33,764	6,502	184,336
Other short-term liabilities	533	-	-	533
Total financial liabilities	**244,327**	**46,018**	**6,628**	**296,973**
Net balance sheet position	**76,217**	**33,833**	**4,460**	**114,510**

For the year ended 31 December 2019 the Group recognised RR 12,892 million and RR 13,099 million foreign exchange gains and losses respectively in the consolidated statement of profit or loss and other comprehensive income (for the year ended 31 December 2018: RR 21,483 million and RR 13,547 million, respectively).

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

	Year ended 31 December 2019		Year ended 31 December 2018	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
US Dollar strengthening by 20%	7,007	5,606	6,767	5,413
US Dollar weakening by 20%	(7,007)	(5,606)	(6,767)	(5,413)

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

b) Interest rate risk.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Non-banking operations interest rate risk management

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

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

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

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

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

The interest rate risk measurement system provides the ability to evaluate a risk profile from two different, but complementary points of view. From the economic value point of view the effect of changes in interest rates and the associated volatility of the present value of all future cash flows is considered and is calculated as the change in the sensitivity of fair value using a shock effect on the interest rate curve. From the profit point of view the effect generated by measuring interest rates on net profit in the form of interest and, therefore, on the associated effect on net interest income on a 1-year horizon is analysed. Interest rate risk reporting is compiled and reported to the Bank ZENIT's Management Board on a quarterly basis.

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

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

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-sensitive**	**Total**
31 December 2019							
Total financial assets	22,101	19,095	16,043	96,644	76,635	133,360	363,878
Total financial liabilities	58,220	65,700	46,762	39,911	9,668	116,321	336,582
Net interest sensitivity gap	**(36,119)**	**(46,605)**	**(30,719)**	**56,733**	**66,967**	**17,039**	**27,296**
31 December 2018							
Total financial assets	73,319	41,463	20,961	92,419	54,469	129,000	411,631
Total financial liabilities	41,385	46,508	57,113	44,540	1,560	105,867	296,973
Net interest sensitivity gap	**31,934**	**(5,045)**	**(36,152)**	**47,879**	**52,909**	**23,133**	**114,658**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

The table below summarises the effective average year end interest rates, by major currencies (US Dollars, Russian Rubles), for financial instruments outstanding as at 31 December 2019 and 2018. The analysis has been prepared on the basis of weighted average effective interest rates for the various financial instruments using year-end contractual terms and conditions.

	At 31 December 2019		At 31 December 2018	
	Russian Ruble	**US Dollar**	**Russian Ruble**	**US Dollar**
Financial assets				
Cash and cash equivalents				
Cash on hand and in banks	-	1.00%	6.26%	0.30%
Term deposits	7.21%	-	7.96%	-
Due from banks	4.41%	-	1.20%	-
Banking: Loans to customers	10.13%	4.60%	8.30%	6.60%
Other financial assets				
Bank deposits	13.00%	1.60%	13.00%	1.60%
Due from banks	4.41%	-	1.20%	-
REPO with banks	6.05%	-	8.21%	-
Notes receivable	0.10%	-	0.10%	-
Loans to employees	3.19%	-	3.19%	-
Other loans	9.22%	-	9.25%	-
Securities at FVTPL	7.11%	3.66%	5.56%	7.89%
Securities at FVOCI	8.67%	6.57%	7.76%	5.86%
Securities at AC	8.35%	6.57%	9.18%	6.11%
Financial liabilities				
Debt				
Bonds issued	6.89%	-	7.73%	-
Subordinated debt	0.00%	8.92%	6.50%	9.50%
Debt securities issued	5.00%	1.20%	2.92%	2.30%
Credit facilities	6.47%	4.19%	-	4.18%
Other debt	4.57%	0.01%	5.24%	2.91%
Banking: Other financial liabilities at fair value through profit and loss	7.46%	-	7.90%	-
Banking: Due to banks and the Bank of Russia	6.41%	1.60%	7.58%	2.00%
Banking: Customer accounts	6.00%	2.30%	5.46%	2.80%

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

	Year ended 31 December 2019		Year ended 31 December 2018	
	Impact on profit before tax	**Impact on equity**	**Impact on profit before tax**	**Impact on equity**
Increase by 100 basis points	(273)	(218)	(1,147)	(917)
Decrease by 100 basis points	273	218	1,147	917

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

c) Financial instruments price risk

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

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

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

Sensitivity to changes in other prices is estimated using the Value at Risk (VaR) methodology. This is a way to assess potential losses that may occur at a risk position as a result of changes in market rates and prices in a certain period of time with a given level of confidence.

VaR estimates in respect of financial assets at fair value through profit or loss and available-for-sale financial assets as at 31 December 2019 and 2018 are as follows:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Fixed income securities price risk	301	240	104	83
Equity securities price risk	6	5	12	10
Total price risk	**307**	**245**	**116**	**93**

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

Note 30: Financial risk management (continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward-looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

An assessment is performed at each reporting date to identify a significant increase in credit risk since initial recognition of a financial instrument. Such assessment is performed on the basis of qualitative and quantitative information:

- Quantitative assessment is performed on the basis of a change in risk of default arising over the expected lifetime of a financial asset.
- Qualitative assessment implies that a number of factors are important for assessing significant increase in credit risk (restructuring indicative of problems, establishing favourable schedule for repaying loan interest and principal, significant changes in expected results of operations and behaviour of a borrower and other material changes).

Financial assets move from Stage 1 to Stage 2 if there is one or a combination of the following factors:

- financial assets are over 30 days overdue;
- credit rating deteriorates;
- there are early warning indicators of an increase in credit risk; a need to change previously agreed on terms of the agreement to create more favourable environment for a customer due to his inability to meet current liabilities because of the customer's financial position; full or partial refinancing of the current debt which would not be required if the client did not experience financial difficulties;
- a customer has no rating at the reporting date;
- information on future changes in assets that may result in credit losses not considered in the rating systems is identified (e.g. military conflicts in the region that may have a significant impact on future credit quality).

Note 30: Financial risk management (continued)

A default is recognised if one or a combination of the following events occur:

- financial assets are over 90 days overdue (a rebuttable presumption);
- a default rating is assigned;
- restructuring indicative of problems is undertaken;
- a favourable schedule for repaying interest and principal with payments to be made at the end of the term is granted.

Non-banking activities credit risk management

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

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of expected credit losses. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded. Credit risk analysis for accounts receivable is presented in Note 7.

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

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

Banking activities credit risk management

The Group's credit risk policies prescribe its acceptance only through formalized procedures and only based on decisions of the authorized collegial body. The Bank ZENIT has a system of credit committees responsible for making credit decisions, the main objective of which is to create a high-quality loan portfolio that ensures the implementation of the strategy, credit policies and risk management policies. The credit committees of Bank ZENIT, authorized to make credit decisions, have a clear segmentation according to business lines, lending segments and the amount of authority.

Credit committees and their level of responsibility in respect of approval of maximum exposures on a borrower or group of related borrowers are as follows:

Name of committee	Maximum exposure allowed to be approved, RR million
Credit committee	Not limited*
Credit committee on small and medium-sized business borrowers	400
Credit committee on retail lending	90

* Within the limits of standards N6 and N25

The Group structures the level of credit risk it undertakes by placing the appropriate limits. Limits are set by the Group on an individual (for example, for specific customers and counterparties), group and portfolio basis (for example, industry and regional limits, limits on types of operations, etc.).

Internal regulations on financial analysis and risk assessment are created and applied to each segment of the lending activity, including lending to legal entities, individuals, small and medium-sized businesses and other categories of borrowers.

To reduce the level of risk, the Group accepts collateral in the form of pledges, sureties and guarantees. In case of acceptance of a surety, the Group performs a financial analysis of the guarantor. The assessment of collateral is performed internally by special division responsible for collateral assessment and control. They use several methodologies developed for each type of collateral.

Valuations performed by third parties, including independent appraisal firms authorized by the Group, may serve as additional data for such assessment. The Group usually requires collateral to be insured by insurance companies authorized by the Group.

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.
Risk management departments monitor compliance with the requirements of external and internal polices of risk assessment, credit decision making, authority to make credit decisions, and work with collaterals.
To quantify the credit risk, the Group uses internal models (rating systems). In the absence of a model, the assessment can be carried out in one of the alternative ways:

- based on the average values obtained on the internal statistics;
- using external ratings of international rating agencies (S&P, Fitch, Moody`s), mapped to the internal scale of the Bank ZENIT.

The system of internal ratings has been applied by Bank ZENIT since 1999 and is continuously updated and developed. The information accumulated over this period provides a sound ground for assessment of ratings migration and allows the Group to calibrate corresponding parameters of default probability.

The Group updates and validates internal models and approaches on a periodic basis, but at least once a year. For the purpose of information disclosure, assets are grouped in one of the 4 credit quality rating categories in order of credit quality deterioration (credit risk increase) in accordance with the approaches outlined below:

Rating group	PD interval	Corresponding ratings of external international rating agencies		Description
		S&P \ Fitch	Moody`s	
I	<0.36%	«AAA»…«BBB-»	«Aaa»…«Baa3»	Minimal credit risk
II	[0.36%; 1.51%)	«BB+»…«BB-»	«Ba1»…«Ba3»	Low credit risk
III	[1.51%; 7.51%)	«B+»…«B-»	«B1»…«B3»	Medium credit risk
IV	[7.51%; 100%)	«CCC»…«C»	«Caa1»…«C»	High credit risk
V	100.00%	«D»	«D»	Default assets

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

In order to monitor the credit risk, responsible employees of credit departments prepare regular reports based on a structured analysis of the Client’s business and financial performance. Management obtains and analyses all information about significant risks related to customers with deteriorating creditworthiness.

Credit risk monitoring has an important role in maintaining the quality of loans at least as good as at the moment of credit limits approval, in preventing losses on the formed portfolio in excess of planned norms and consists in:

- maintaining constant contact and holding regular risk-focused discussions (meetings) with the borrower by business managers;
- structured and continuous monitoring of the implementation of financial and non-financial covenants using the control register;
- carrying out, with an established frequency, regular inspections of the volume, type and conditions of maintenance of the pledged items, its validity and insurance;
- conducting a quarterly analysis of the financial and economic activities of the borrower and monitoring its financial position;

Note 30: Financial risk management (continued)

- monitoring of proper loan maintenance and repayment (tranches);
- compulsory comprehensive annual review of the risk limit established for the Client in order to re-approve, increase or reduce it (in case of negative trends in the borrower's activity, in its sector, in the economy as a whole, etc.);
- analysis of actual exposures versus established limits;
- control over compliance with internal policies, procedures, instructions and orders issued by respective management bodies;
- monitoring of macroeconomic parameters in order to check the adequacy of risk assessment and forecast;
- portfolio analysis showing trends in levels of default, concentrations, diversifications by borrowers or groups of borrowers, products, industries, countries, etc.

In order to ensure financial stability, forecast expected losses, plan capital requirements, calculate risk-appetite limits, the Group performs periodic stress-testing of credit risk. The stress-testing tool includes regression models based on macroeconomic factors. A mandatory condition for the application of regression models is their high quality, confirmed by the results of validation.

The Group's divisions carry out loan maturity analysis and follow-up control over overdue balances.

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

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

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

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

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

The following table contains an analysis of the credit risk exposure of cash and cash equivalents including mandatory reserve deposits with the Bank of Russia. The carrying amount as at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these financial assets.

	At 31 December 2019				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
Cash on hand and cash in banks					
- Investment grade rating	22,999	-	-	-	22,999
- Non-investment grade rating	10	-	-	-	10
- Unrated	1,721	-	-	-	1,721
Gross carrying amount	**24,730**	**-**	**-**	**-**	**24,730**
Credit loss allowance	-	-	-	-	-
Carrying amount	**24,730**	**-**	**-**	**-**	**24,730**
Term deposits with original maturity of less than three months					
- Investment grade rating	128	-	-	-	128
- Non-investment grade rating	222	-	-	-	222
- Unrated	-	-	-	-	-
Gross carrying amount	**350**	**-**	**-**	**-**	**350**
Credit loss allowance	-	-	-	-	-
Carrying amount	**350**	**-**	**-**	**-**	**350**
Due from banks					
- Investment grade rating	77	-	-	-	77
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**77**	**-**	**-**	**-**	**77**
Credit loss allowance	-	-	-	-	-
Carrying amount	**77**	**-**	**-**	**-**	**77**
Banking: Mandatory reserve deposits with the Bank of Russia					
- Investment grade rating	1,572	-	-	-	1,572
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**1,572**	**-**	**-**	**-**	**1,572**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1,572**	**-**	**-**	**-**	**1,572**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

	At 31 December 2018				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Cash on hand and cash in banks					
- Investment grade rating	31,721	-	-	-	31,721
- Non-investment grade rating	4,030	-	-	-	4,030
- Unrated	6,589	-	-	-	6,589
Gross carrying amount	**42,340**	**-**	**-**	**-**	**42,340**
Credit loss allowance	-	-	-	-	-
Carrying amount	**42,340**	**-**	**-**	**-**	**42,340**
Term deposits with original maturity of less than three months					
- Investment grade rating	6,468	-	-	-	6,468
- Non-investment grade rating	15,610	-	-	-	15,610
- Unrated	-	-	-	-	-
Gross carrying amount	**22,078**	**-**	**-**	**-**	**22,078**
Credit loss allowance	-	-	-	-	-
Carrying amount	**22,078**	**-**	**-**	**-**	**22,078**
Due from banks					
- Investment grade rating	-	-	-	-	-
- Non-investment grade rating	1,071	-	-	-	1,071
- Unrated	-	-	-	-	-
Gross carrying amount	**1,071**	**-**	**-**	**-**	**1,071**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1,071**	**-**	**-**	**-**	**1,071**
Banking: Mandatory reserve deposits with the Bank of Russia					
- Investment grade rating	1,875	-	-	-	1,875
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**1,875**	**-**	**-**	**-**	**1,875**
Credit loss allowance	-	-	-	-	-
Carrying amount	**1,875**	**-**	**-**	**-**	**1,875**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

The following table contains an analysis of the credit risk exposure of other financial assets measured at amortised cost and measured at fair value through other comprehensive income for which ECL allowance is recognised other than cash and cash equivalents including mandatory reserve deposits with the Bank of Russia, loans to customers and accounts receivable. The carrying amount as at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these financial assets.

	At 31 December 2019				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
Notes receivable					
- Investment grade rating	-	-	-	-	
- Non-investment grade rating	-	-	-	-	
- Unrated	-	112	240	-	352
Gross carrying amount	**-**	**112**	**240**	**-**	**352**
Credit loss allowance	-	-	(240)	-	(240)
Carrying amount	**-**	**112**	**-**	**-**	**112**
Other loans					
- Investment grade rating	-	-	-	-	-
- Non-investment grade rating	-	-	-	-	-
- Unrated	7,158	4,551	35,806	-	47,515
Gross carrying amount	**7,158**	**4,551**	**35,806**	**-**	**47,515**
Credit loss allowance	-	(3,322)	(22,685)	-	(26,007)
Carrying amount	**7,158**	**1,229**	**13,121**	**-**	**21,508**
Loans to employees					
- Investment grade rating	-	-	-	-	
- Non-investment grade rating	-	-	-	-	
- Unrated	-	-	2,732	-	2,732
Gross carrying amount	-	**-**	**2,732**	**-**	**2,732**
Credit loss allowance	-	-	(1,804)	-	(1,804)
Carrying amount	-	**-**	**928**	**-**	**928**
Bank deposits					
- Investment grade rating	309	-	-	-	309
- Non-investment grade rating	12	-	-	-	12
- Unrated	338	-	5,547	-	5,885
Gross carrying amount	**659**	**-**	**5,547**	**-**	**6,206**
Credit loss allowance	-	-	(5,547)	-	(5,547)
Carrying amount	**659**	**-**	**-**	**-**	**659**
Due from banks					
- Investment grade rating	1,475	-	-	-	1,475
- Non-investment grade rating	3,121	-	-	-	3,121
- Unrated	-	-	32	-	32
Gross carrying amount	**4,596**	**-**	**32**	**-**	**4,628**
Credit loss allowance	(109)	-	(32)	-	(141)
Carrying amount	**4,487**	**-**	**-**	**-**	**4,487**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

	At 31 December 2019				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
REPO with banks					
- Investment grade rating	4,081	-	-	-	4,081
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**4,081**	**-**	**-**	**-**	**4,081**
Credit loss allowance	-	-	-	-	-
Carrying amount	**4,081**	**-**	**-**	**-**	**4,081**
Debt securities measured at amortised cost					
- Investment grade rating	16,354	-	-	-	16,354
- Non-investment grade rating	5,087	-	-	-	5,087
- Unrated	2,359	-	-	-	2,359
Gross carrying amount	**23,800**	**-**	**-**	**-**	**23,800**
Credit loss allowance	(62)	-	-	-	(62)
Carrying amount	**23,738**	**-**	**-**	**-**	**23,738**
Debt securities measured at fair value through other comprehensive income					
- Investment grade rating	16,476	-	-	-	16,476
- Non-investment grade rating	797	-	-	-	797
- Unrated	1,848	20	-	-	1,868
Gross carrying amount	**19,121**	**20**	**-**	**-**	**19,141**
Credit loss allowance	(34)	-	-	-	(34)
Carrying amount	**19,087**	**20**	**-**	**-**	**19,107**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

	At 31 December 2018				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
Notes receivable					
- Investment grade rating	-	-	-	-	
- Non-investment grade rating	-	-	-	-	
- Unrated	-	456	566	-	1,022
Gross carrying amount	**-**	**456**	**566**	**-**	**1,022**
Credit loss allowance	-	-	(566)	-	(566)
Carrying amount	**-**	**456**	**-**	**-**	**456**
Other loans					
- Investment grade rating	-	-	-	-	-
- Non-investment grade rating	-	-	-	-	-
- Unrated	83	26,217	20,377	-	46,677
Gross carrying amount	**83**	**26,217**	**20,377**	**-**	**46,677**
Credit loss allowance	-	(543)	(17,464)	-	(18,007)
Carrying amount	**83**	**25,674**	**2,913**	**-**	**28,670**
Loans to employees					
- Investment grade rating	-	-	-	-	
- Non-investment grade rating	-	-	-	-	
- Unrated	-	-	2,822	-	2,822
Gross carrying amount	**-**	**-**	**2,822**	**-**	**2,822**
Credit loss allowance	-	-	(1,776)	-	(1,776)
Carrying amount	**-**	**-**	**1,046**	**-**	**1,046**
Bank deposits					
- Investment grade rating	346	-	-	-	346
- Non-investment grade rating	-	-	-	-	
- Unrated	311	-	5,544	-	5,855
Gross carrying amount	**657**	**-**	**5,544**	**-**	**6,201**
Credit loss allowance	-	-	(5,544)	-	(5,544)
Carrying amount	**657**	**-**	**-**	**-**	**657**
Due from banks					
- Investment grade rating	333	-	-	-	333
- Non-investment grade rating	1,599	-	-	-	1,599
- Unrated	83	-	-	-	83
Gross carrying amount	**2,015**	**-**	**-**	**-**	**2,015**
Credit loss allowance	-	-	-	-	-
Carrying amount	**2,015**	**-**	**-**	**-**	**2,015**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

	At 31 December 2018				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**POCI**	**Total**
REPO with banks					
- Investment grade rating	537	-	-	-	537
- Non-investment grade rating	-	-	-	-	-
- Unrated	-	-	-	-	-
Gross carrying amount	**537**	**-**	**-**	**-**	**537**
Credit loss allowance	-	-	-	-	-
Carrying amount	**537**	**-**	**-**	**-**	**537**
Debt securities measured at amortised cost					
- Investment grade rating	32,938	3	-	-	32,941
- Non-investment grade rating	35	10	-	-	45
- Unrated	-	1	-	-	1
Gross carrying amount	**32,973**	**14**	**-**	**-**	**32,987**
Credit loss allowance	(221)	-	-	-	(221)
Carrying amount	**32,752**	**14**	**-**	**-**	**32,766**
Debt securities measured at fair value through other comprehensive income					
- Investment grade rating	15,662	-	-	-	15,662
- Non-investment grade rating	1,677	-	-	-	1,677
- Unrated	478	89	-	-	567
Gross carrying amount	**17,817**	**89**	**-**	**-**	**17,906**
Credit loss allowance	(124)	-	-	-	(124)
Carrying amount	**17,693**	**89**	**-**	**-**	**17,782**

Within short term bank deposits there are RR 5,540 million of deposits placed with Tatfondbank. In March 2017, by the order of the Bank of Russia the license to conduct banking operations was withdrawn from Tatfondbank. At 31 December 2019 and 2018 the Group created a provision for impairment of deposits placed with Tatfondbank in the amount of RR 5,540 million.

Note 30: Financial risk management (continued)

Liquidity risk

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

Non-banking operations liquidity risk management

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

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

Banking operations liquidity risk management

The objective of liquidity risk management is to ensure the stable operations of all banks of the Group, the possibility of uninterrupted operations in accordance with the Group's business plans, including the timely fulfilment of all obligations to customers and counterparties related to making payments, as well as minimising the negative impact on financial results, own funds (capital), the Group's reputation for a possible liquidity deficit. Also, the priority objective of liquidity risk management is to ensure that all banks of the Group comply with the mandatory liquidity ratios established by the Central Bank of Russia.

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

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

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

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

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

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

Note 30: Financial risk management (continued)

In order to optimize liquidity management procedures, Bank ZENIT allocates instant (intraday) and emergency liquidity management. The monitoring of the current and forecasted state of urgent liquidity is carried out by the Bank's Treasury daily on the basis of calculating the sufficiency of highly liquid assets to cover planned and unplanned outflows and meeting resource requirements for a period of up to 30 days. In the normal course of business, liquidity reports reflecting the current and projected structure of assets and liabilities, taking into account the model of daily minimum balance on current accounts by currency based on an analysis of historical dynamics, as well as expected future cash flows are regularly reported to ALCO. Liquidity management decisions made by the ALCO are implemented by treasuries as part of their duties.

The share of liquid assets is maintained at a level sufficient to meet obligations to customers and counterparties of Bank ZENIT, which can significantly reduce liquidity risks and non-market funding rates.

To maintain instant liquidity, limits are open on Bank ZENIT by a significant number of Russian banks. In addition, the liquidity risk is minimized by the Bank ZENIT’s ability to raise funds from the Bank of Russia within the framework of the refinancing system and state support for the financial sector, as well as established liquidity management policies and technologies that provide for stress approaches in estimating future cash flows.

In accordance with the Group's Liquidity Management Policy, the basic principle of liquidity management is risk limiting, in particular, using the required liquid assets limit. If necessary (changing the financial situation in the markets or at Bank ZENIT), other limits (for counterparties, financial instruments, etc.) included in the Bank ZENIT’s limit structure can be used to manage liquidity.

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)
Liquidity analysis for banking and non-banking operations of the Group

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments as at 31 December 2019 and 2018:

	At 31 December 2019			
	Less than 1 year	**Between 1 and 5 years**	**Over 5 years**	**Total**
Financial liabilities				
Trade and other financial payables				
Trade payables	36,150	-	-	36,150
Dividend payable	55,865	-	-	55,865
Current portion of lease liability	3,024	-	-	3,024
Lease obligations, net of current portion	-	9,443	11,078	20,521
Other payables	1,660	149	-	1,809
Banking: Other financial liabilities at fair value through profit and loss	4,451	-	-	4,451
Debt				
Bonds issued	3,232	22,323	7	25,562
Subordinated debt	292	3,137	509	3,938
Debt securities issued	880	40	3	923
Credit facilities	14,700	-	-	14,700
Other debt	475	2,007		2,482
Banking: Due to banks and the Bank of Russia	20,727	2,827	3	23,557
Banking: Customer accounts	134,315	29,486	8	163,809
Credit related commitments (Note 27)	36,114	5,725	-	41,839
Total	**311,885**	**75,137**	**11,608**	**398,630**

	At 31 December 2018			
	Less than 1 year	**Between 1 and 5 years**	**Over 5 years**	**Total**
Financial liabilities				
Trade and other financial payables				
Trade payables	25,728	-	-	25,728
Dividend payable	50,711	-	-	50,711
Other payables	1,013	-	-	1,013
Banking: Other financial liabilities at fair value through profit and loss	1,190	-	-	1,190
Debt				
Bonds issued	945	59	193	1,197
Subordinated debt	2,498	1,966	2,125	6,589
Debt securities issued	1,051	76	4	1,131
Credit facilities	6,682	-	-	6,682
Other debt	964	1,625	-	2,589
Banking: Due to banks and the Bank of Russia	15,386	4,660	-	20,046
Banking: Customer accounts	170,869	38,753	8	209,630
Other short-term liabilities	533	-	-	533
Credit related commitments (Note 27)	38,929	-	-	38,929
Total	**316,499**	**47,139**	**2,330**	**365,968**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

Fair values

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

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

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

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 31 December 2019
	Fair value			
	Level 1	Level 2	Level 3	**Carrying value**
Banking: Loans to customers measured at fair value through profit and loss	-	-	12,947	**12,947**
Securities measured at fair value through profit and loss	7,015	643	293	**7,951**
Banking: Due from banks	-	1,238	-	**1,238**
Securities measured at fair value through other comprehensive income	18,325	10,407	16,095	**44,827**
Investment property	-	-	1,323	**1,323**
Banking: Other financial liabilities measured at fair value through profit and loss	(4,425)	(26)	-	**(4,451)**
Total	**20,915**	**12,262**	**30,658**	**63,835**

				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 30: Financial risk management (continued)

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

	Fair value hierarchy	Valuation technique and key input data
Banking: Loans to customers at FVTPL	Level 3	Discounted cash flow models adjusted at credit risk
Securities at FVOCI	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 at credit risk
Securities at FVTPL	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 at credit risk
Banking: Due from banks	Level 2	Quoted prices for similar investments in active markets adjusted at credit risk
Other loans at FVTPL	Level 3	Discounted cash flow models adjusted at 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 the years ended 31 December 2019 and 2018.

There have been no transfers between Level 1, Level 2 and Level 3 during 2019 and 2018 year.

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

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

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

	At 31 December 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	6,365	18,365	-	24,730	5,451	36,889	-	42,340
Term deposits	-	350	-	350	-	22,078	-	22,078
Due from banks	-	77	-	77	-	1,071	-	1,071
Banking: Mandatory reserve deposits with the Bank of Russia	1,572	-	-	1,572	1,875	-	-	1,875
Accounts receivable								
Trade receivables	-	-	79,724	79,724	-	-	78,417	78,417
Other financial receivables	-	1,176	11,506	12,682	-	596	4,535	5,131
Banking: Loans to customers measured at amortised cost	-	-	122,842	123,505	-	-	133,404	133,404
Other financial assets								
Bank deposits	-	659	-	659	-	657	-	657
Due from banks	-	3,283	-	3,249	-	2,015	-	2,015
REPO with banks	-	4,081	-	4,081	-	537	-	537
Notes receivable	-	-	112	112	-	-	456	456
Loans to employees	-	-	928	928	-	-	1,046	1,046
Other loans measured at amortised cost	-	-	21,508	21,508	-	-	28,670	28,670
Securities measured at amortised cost	24,777	-	-	23,738	31,276	1,490	-	32,766
Total financial assets	**32,714**	**27,991**	**236,620**	**296,915**	**38,602**	**65,333**	**246,528**	**350,463**
Liabilities								
Trade and other financial payables								
Trade payables	-	350	35,800	36,150	-	272	25,456	25,728
Dividend payable	-	-	55,865	55,865	-	-	50,711	50,711
Current portion of lease liabilities	-	-	2,613	2,613	-	-	-	-
Other payables	-	332	1,477	1,809	-	500	513	1,013
Non-current lease liabilities	-	-	11,578	11,578	-	-	-	-
Debt								
Bonds issued	20,032	1,825	-	21,857	1,056	-	-	1,056
Subordinated debt	-	1,287	-	1,287	-	3,580	-	3,580
Debt securities issued	-	923	-	923	-	1,130	-	1,130
Credit facilities	-	-	14,700	14,700	-	-	6,682	6,682
Other debt	-	-	2,482	2,482	-	-	2,589	2,589
Banking: Due to banks and the Bank of Russia	1,527	21,288	-	22,815	1,526	16,899	-	18,425
Banking: Customer accounts	-	156,578	-	160,052	-	182,970	-	182,970
Other short-term liabilities	-	-	-	-	-	-	533	533
Total financial liabilities	**21,559**	**182,583**	**124,515**	**332,131**	**2,582**	**205,351**	**86,484**	**294,417**

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

The fair values in Level 2 fair value hierarchy were estimated using the discounted contractual cash flows and observable interest rates for identical instruments. The fair values in Level 3 fair value hierarchy were estimated using the discounted cash flows and observable interest rates for similar instruments with adjustment to credit risk and maturity.

Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	Liabilities arising as a result of financing activities			
	Short-term and long-term debt	Bonds issued	Subordinated debt	Total
At 31 December 2017	**31,150**	**7,742**	**4,492**	**43,384**
Cash flow movement, including:				
Proceeds from issuance of debt	25,920	-	-	25,920
Repayment of debt	(49,466)	-	-	(49,466)
Redemption of bonds	-	(6,979)	(1,359)	(8,338)
Interest paid	-	(602)	-	(602)
Foreign exchange adjustments	1,012	-	(19)	993
Interest accrued	654	614	466	1,734
Other non-cash flows	-	281	-	281
At 31 December 2018	**9,270**	**1,056**	**3,580**	**13,906**
Cash flow movement, including:				
Proceeds from issuance of debt	115,346	-	-	115,346
Repayment of debt	(107,212)	-	-	(107,212)
Issuance of bonds	-	21,790	-	21,790
Redemption of bonds	-	(1,053)	(2,140)	(3,193)
Interest paid	(2,222)	(119)	(286)	(2,627)
Foreign exchange adjustments	713	-	(160)	553
Interest accrual	755	182	310	1,247
Other non-cash flows	532	1	(17)	516
At 31 December 2019	**17,182**	**21,857**	**1,287**	**40,326**

Management of Capital

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

The Group defines capital under management as the total Group shareholders' equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as at 31 December 2019 was RR 745,532 million (2018: RR 771,265 million). The Group manages capital for banking and non-banking operations separately.

Non-banking operations capital management

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

(In millions of Russian Rubles)

Note 30: Financial risk management (continued)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Consolidated total borrowings excluding borrowings of Bank ZENIT:	**32,182**	**9,271**
- Bonds issued	15,000	-
- Credit facilities	14,700	6,682
- Other debt	2,482	2,589
Consolidated shareholders' equity	**745,532**	**771,265**
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders' equity)	**4.3%**	**1.2%**

Banking operations capital management

The Bank ZENIT's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored by the Management of Bank ZENIT on a daily basis. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Bank ZENIT is also subject to minimum capital requirements established by loan covenants, including capital adequacy level of 8% calculated in accordance with Basel I and IFRS, and Tier 1 capital adequacy ratio of 6%. Bank ZENIT has complied with all externally imposed capital requirements throughout 2019 and 2018.

In September 2015 Bank ZENIT received five subordinated loans totalling RR 9,933 million from DIA within the Russian Federation Government programme for additional capitalisation of Russian banks. Under the terms of these subordinated loan agreements DIA paid these loans by securities (OFZ of five series), that should be returned upon maturity of the subordinated loans. These subordinated loans mature from January 2025 to November 2034 and bear interest equal to OFZ coupon rate plus 1%. In accordance with 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 Bank of Russia's Regulation No. 395-P.

Note 31: Subsequent events

In the first quarter of 2020 the Group borrowed RR 101,960 million in total from Russian banks at the current market rates under existing credit facilities. The Group repaid RR 72,320 million of these loans by the date of this report.

Since the end of 2019, the spread of a new coronavirus, called COVID-19, which can cause serious consequences leading to human death, has begun. At the end of 2019, the World Health Organization reported a limited number of cases of COVID-19 infection, but on January 31, 2020 declared a public health emergency of international concern, and on March 13, 2020, announced a pandemic due to the rapid spread of COVID-19 in Europe and other regions. The measures taken around the world to combat the spread of COVID-19 result in limitation of business activity, which affects the demand for energy resources and other products of the Group, as well as the need for protective measures aimed at preventing the spread of infection. In addition, in March 2020, no agreement was reached on the OPEC+ limitation of crude oil production and the existing arrangement expires on April 1, 2020, which leads to the possibility of an increase in the supply of crude oil and refined products in the market from producing countries. Against the backdrop of these events, there has been a significant drop in stock markets, commodity prices fell, in particular, crude oil prices declined significantly, the Russian Ruble weakened against the US dollar and the Euro, and the lending rates for many companies in the emerging markets increased. While this is still an evolving situation at the time of issuing these consolidated financial statements, it appears that the impact on the global economy and uncertainty regarding further economic growth may negatively affect the financial position and financial results of the Group in the future.

Note 31: Subsequent events (continued)

Management is closely monitoring the situation and implements measures to reduce the negative impact of these events on the Group, while the excess of supply over demand and the associated decrease in world oil prices will directly affect the revenues of the Group and other financial results if prices do not recover within the near term. Management considers the reduction in oil demand due to the outbreak of COVID-19 coronavirus infection to be a non-adjusting event after the reporting period.