NIZHNEKAMSKNEFTEKHIM GROUP

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

31 December 2017

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of PAO Nizhnekamskneftekhim:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO Nizhnekamskneftekhim and its subsidiaries (together - the "Group") as at 31 December 2017, as well as its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- 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), which together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules 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.

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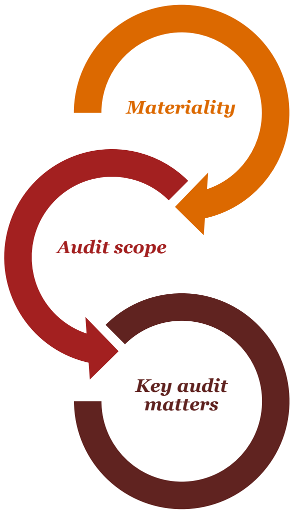
Our audit approach

Overview



Materiality

- Overall group materiality: Russian roubles ("RUB") 1,577 million, which represents 5% of profit before tax.

Audit scope

- We conducted audit work at PAO Nizhnekamskneftekhim, located in the city of Nizhnekamsk in the Russian Federation.
- The group engagement team performed selected audit procedures on subsidiaries situated in the Republic of Tatarstan in the Russian Federation, as well as on a subsidiary located in Finland.
- Our audit scope addressed 95% of the Group's revenues and more than 97% of the Group's total assets.

Key audit matters

- Revenue recognition and disclosure
- Contingent liabilities on legal cases

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including 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 that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions 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. Together with qualitative considerations, these helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures, and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	RUB 1,577 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the Group's performance is most commonly measured by users, and it is a generally accepted benchmark. We chose 5% because it is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and disclosure a) The Group executes a large volume of revenue transactions with multiple counterparties from different countries and on different terms of transfer of ownership and risks. The Group recognises revenues from sales of goods based on the quantity of goods dispatched and the agreed prices. Although revenue recognition involves only limited judgement, due to the size and volume of transactions it is an audit area which requires significant time and resources and is therefore considered to be a key audit matter. As in prior year we continued focusing on this area, even though there have been no significant changes in volumes or terms of transactions of the Group. b) The Group has performed an analysis of the expected impact of the new revenue standard IFRS 15 "Revenue from contracts with customers" (effective for the periods beginning on or after 1 January 2018) on the consolidated financial statements. Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contract terms and on the basis of the facts and circumstances existed at that date, the management made a conclusion that the impact of the adoption will not be significant.	a) We performed a wide range of audit procedures in the audit of revenue including, but not limited to: • assessment of the consistency of the revenue recognition policy application; • understanding of controls and evaluation of their effectiveness in the revenue cycle; • substantive detailed procedures, including circularisation procedures and sample testing; We incorporated an element of unpredictability by selecting transactions not otherwise tested due to their materiality and by testing operations with new customers. No exceptions or significant deficiencies were noted from our testing and the procedures performed. b) We performed an analysis management's assessment of the expected impact of IFRS 15 "Revenue from contracts with customers" on the consolidated financial statements. Based on the above analysis we concurred with the management's conclusion that the impact is not expected to be significant. We also paid attention to the completeness of disclosure of the relevant information in Note 4 of the consolidated financial statements according to IAS 8 "*Accounting policies, Changes in Accounting Estimates and Errors*" and concluded

Key audit matter	How our audit addressed the key audit matter
See notes 4, 5 and 7 of the consolidated financial statements for management's disclosures of the related accounting policies, judgements and estimates and more detailed information about the revenue of the Group for further information	that it is sufficient.
Contingent liabilities related to legal proceedings The Group is a defendant in certain legal proceedings and the likelihood of a negative outcome for them in these cases has been assessed by management. Given the materiality of certain claims against the Group and uncertainty about the outcome of the legal proceedings, the assessment of the outcome involves significant judgement, and the audit of this issue requires a significant amount of audit effort and therefore it was the focus of the audit. *Information on material court cases is disclosed in Note 36 to the consolidated financial statements.*	We performed audit procedures to assess the probability of various potential outcomes of the legal proceedings, and our work included: • considering how reasonable the position of the Group's management and their internal lawyers is regarding further actions to protect the Group's position in court; • obtaining and assessing the Group's external lawyers' view on the matter, including an assessment of the most likely outcome; • an independent assessment by our legal experts of the likelihood of the outcome taking into account the requirements of Russian accounting law when considering current court practices; • obtaining written representations from the Group's management on the assessment performed to determine the likelihood of a negative outcome for the Group from the legal proceedings. We also assessed the adequacy of disclosures on contingent liabilities related to legal proceedings in Note 36 to the consolidated financial statements, and we assessed their compliance with the disclosure requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Based on the work performed we concluded that judgements used by the Group management with respect to the probability of a negative outcome of the legal proceeding are justifiable and no adjustments are required to the consolidated financial statements as at 31 December 2017 and that disclosure of the matter is sufficient and appropriate. While we found management's estimates regarding contingent liabilities to be acceptable for the purpose of these consolidated financial statements, this does not guarantee that

Key audit matter	How our audit addressed the key audit matter
	inherently uncertain future events could lead to outcomes that are significantly different to these estimates.

How we tailored our group audit scope

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

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

The group engagement team determined significance of other components for each consolidated financial statement line individually. We performed selected audit procedures for subsidiaries situated in the Republic of Tatarstan in the Russian Federation, as well as on a subsidiary located in Finland. Our audit scope addressed 95% of the Group's revenues and more than 97% of the Group's total assets.

Other information

Management is responsible for the other information. The other information comprises the annual report of PAO Nizhnekamskneftekhim for 2017 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Issuer's Report for the first quarter of 2018, which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal controls 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 controls that we identify during our audit.

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

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

The certified auditor responsible for the audit resulting in this independent auditor's report is Denis Petrovich Derevyankin.

AO PricewaterhouseCoopers Audit

30 March 2018
Moscow, Russian Federation

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

Audited entity: PAO Nizhnekamskneftekhim

State registration certificate № 399/к-4(53), issued by State Registration Bureau of Republic Tatarstan on 3 July 2001

Certificate of inclusion in the Unified State Register of Legal Entities issued on 5 November 2002 under registration №1021602502316

423574, Russian Federation, Republic of Tatarstan, Nizhnekamsk

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Member of the Russian Union of auditors (Association, Self-regulated organisation of auditors)

ORNZ 11603050547 in the register of auditors and audit organisations

(in millions of Russian roubles unless otherwise stated)

Consolidated Statement of Comprehensive Income

	Note	2017	2016
Revenue	**7**	167,628	158,798
Cost of sales	**8**	(118,963)	(108,846)
Gross profit		**48,665**	**49,952**
Selling, general and administrative expenses	**9**	(17,852)	(17,051)
Other operating expenses, net	**10**	(81)	(1,976)
Operating profit		**30,732**	**30,925**
Interest income		1,047	1,298
Interest expense		(125)	(149)
Loss on disposal of subsidiaries		(269)	-
Foreign exchange gain/(loss), net		89	(856)
Share of results of associates	**14**	70	(64)
Profit before income tax		**31,544**	**31,154**
Income tax expense	**11**	(6,693)	(6,821)
Profit		**24,851**	**24,333**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale investments	**15**	(179)	297
Reclassification of revaluation on disposal of a financial asset		-	133
Exchange differences on translation of foreign subdivisions to presentation currency		93	(256)
Income tax attributable to items that may be reclassified to profit or loss	**11**	36	(86)
Total items that may be reclassified to profit or loss		**(50)**	**88**
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	**26**	(127)	(70)
Total items that will not be reclassified to profit or loss		**(127)**	**(70)**
Total other comprehensive (loss)/income		**(177)**	**18**
Total comprehensive income		**24,674**	**24,351**
Profit attributable to:			
Shareholders of the parent company		24,793	24,262
Non-controlling interest		58	71
Profit		**24,851**	**24,333**
Total comprehensive income attributable to:			
Shareholders of the parent company		24,588	24,392
Non-controlling interest		86	(41)
Total comprehensive income		**24,674**	**24,351**
Basic and diluted earnings per share (in Russian roubles)	**23**	**13.55**	**13.26**

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

(in millions of Russian roubles unless otherwise stated)

Consolidated Statement of Financial Position

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	12	81,496	72,474
Intangible assets	13	323	351
Investments in associates	14	544	542
Financial assets	15	1,768	1,888
Deferred income tax assets	11	586	677
Goodwill	16	83	83
Other non-current assets	17	1,366	801
Total non-current assets		**86,166**	**76,816**
Current assets			
Inventories	18	22,082	19,529
Trade and other receivables	19	6,109	6,636
Income tax prepayments		1,016	368
Other prepaid and recoverable taxes	20	7,147	7,696
Other financial assets	15	-	40
Prepayments	21	2,641	14,044
Cash and cash equivalents	22	24,373	7,108
Total current assets		**63,368**	**55,421**
Total assets		**149,534**	**132,237**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	23	6,332	6,332
Revaluation reserve for financial assets		(85)	58
Currency translation reserve		276	211
Retained earnings		126,696	102,031
Total equity attributable to shareholders of the parent company		**133,219**	**108,632**
Non-controlling interest		697	629
Total equity		**133,916**	**109,261**
Non-current liabilities			
Non-current loans and borrowings	24	50	49
Deferred income tax liabilities	11	3,100	3,044
Other non-current liabilities	25	1,042	989
Total non-current liabilities		**4,192**	**4,082**
Current liabilities			
Current loans and borrowings	24	472	967
Trade and other payables	28	4,810	6,642
Advances received and accrued liabilities	29	5,163	8,119
Income tax payable		7	2
Other taxes payable	30	951	3,047
Dividends payable		23	117
Total current liabilities		**11,426**	**18,894**
Total liabilities		**15,618**	**22,976**
Total equity and liabilities		**149,534**	**132,237**

A.Sh. Bikmurzin
General Director
30 March 2018

I.R. Yakhin
Chief Accountant

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

(in millions of Russian roubles unless otherwise stated)

Consolidated Statement of Cash Flows

	Note	2017	2016
OPERATING ACTIVITIES			
Profit before income tax		**31,544**	**31,154**
Adjustments for:			
Depreciation charge	**8, 9**	4,690	4,977
Interest (income)/expense, net		(922)	1,149
Income from investments, net	**10, 14**	(69)	(39)
Loss on disposal of subsidiary		269	-
(Gains)/loss on disposal of property plant and equipment	**10**	(120)	606
Reversals of provision for impairment of property, plant and equipment	**10**	(158)	-
Foreign exchange loss, net		16	255
Increase in provision for doubtful debts	**19, 21**	56	25
Effect of discounting of loans issued	**8, 9**	21	79
Increase/(decrease) in provision for inventory impairment	**18**	67	(2)
Operating profit before working capital changes		**35,394**	**35,906**
Increase in inventories	**18**	(2,716)	(2,090)
Decrease/(Increase) in trade and other receivables	**19**	478	(601)
Decrease/(increase) in prepaid and recoverable taxes other than prepaid income tax	**20**	547	(3,083)
Decrease/(increase) in other assets	**17, 21**	10,843	(12,929)
(Decrease)/increase in trade and other payables and other liabilities	**25, 28**	(1,696)	472
(Decrease)/increase in advances received and accruals	**29**	(2,953)	3,674
(Decrease)/increase in taxes payable other than income tax	**30**	(2,094)	1,837
Changes in working capital		**2,409**	**(12,720)**
Interest paid		(48)	(56)
Income taxes paid		(7,253)	(7,047)
Net cash from operating activities		**30,502**	**16,083**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(13,542)	(13,369)
Proceeds from sale of property, plant and equipment		67	19
Placement of deposits (securities) and other financial assets		-	(410)
Purchase of other non-current assets		(139)	(102)
Proceeds from sale of other financial assets		-	1,178
Interest income received		971	1,297
Interest capitalised		-	(155)
Dividends received		68	33
Net cash used in investing activities		**(12,575)**	**(11,509)**
FINANCING ACTIVITIES			
Proceeds from non-current loans and borrowings	**24**	50	4,060
Proceeds from current loans and borrowings	**24**	635	1,725
Repayment of non-current loans and borrowings	**24**	(169)	(5,774)
Repayment of current loans and borrowings	**24**	(1,047)	(1,331)
Repayment of finance lease payables		(75)	(102)
Dividends paid		(113)	(7,981)
Net cash used in financing activities		**(719)**	**(9,403)**
Net increase/(decrease) in cash and cash equivalents		**17,208**	**(4,829)**
Cash and cash equivalents at the beginning of the year		7,108	12,384
Effect of exchange rate changes on cash held in foreign currencies		57	(447)
Cash and cash equivalents at the end of the year		**24,373**	**7,108**

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

(in millions of Russian Roubles unless otherwise stated)

Consolidated Statement of Changes in Equity

	Share capital	Revaluation reserve for financial assets	Currency translation reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Total equity
Balance at 1 January 2016	**6,332**	**(286)**	**355**	**86,030**	**92,431**	**985**	**93,416**
Profit	-	-	-	24,262	24,262	71	24,333
Other comprehensive income less deferred tax	-	344	(144)	(70)	130	(112)	18
Total comprehensive income	-	**344**	**(144)**	**24,192**	**24,392**	**(41)**	**24,351**
Dividends declared	-	-	-	(7,943)	**(7,943)**	(135)	**(8,078)**
Acquisition of additional interest			-	(248)	**(248)**	(180)	**(428)**
Balance at 31 December 2016	**6,332**	**58**	**211**	**102,031**	**108,632**	**629**	**109,261**
Profit	-	-	-	24,793	24,793	58	24,851
Other comprehensive income less deferred tax	-	(143)	65	(127)	(205)	28	(177)
Total comprehensive income	**-**	**(143)**	**65**	**24,666**	**24,588**	**86**	**24,674**
Dividends declared	-	-	-	(1)	(1)	(18)	(19)
Balance at 31 December 2017	**6,332**	**(85)**	**276**	**126,696**	**133,219**	**697**	**133,916**

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

Note 1. General information

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

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

For the year ended 31 December 2017 and 31 December 2016 the average headcount of the Group was 20,065 and 21,268 employees accordingly.

Note 2. Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. This operating environment has a significant impact on the Group's operations and financial position. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The improved economic situation entailed a number of upgrades in the ratings by international rating agencies. According to the experts, the reasons for the revised forecasts included Russia's improved economic and financial resilience to external geopolitical crisis and reduced dependency on oil prices.

Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Exchange rates of major foreign currencies as at 31 December 2017 were as follows: RR 57.6002 = USD 1.00 (as at 31 December 2016: RR 60.6569), as at 31 December 2017: RR 68.8668 = EUR 1.00 (as at 31 December 2016: RR 63.8111).

Note 3. Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2017, but did not have a material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7, Statement of Cash Flows (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The Group has provided the requiredby standard disclosure in these consolidated financial statements.
- Recognition of Deferred Tax Assets for Unrealised Losses– Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 "Disclosure of Interests in Other Entities" included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

Note 4. New Accounting Pronouncements

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

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

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

Note 4. New Accounting Pronouncements (Continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

No significant changes are expected to impact the measurement of financial liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Based on the management's analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date and the forecasting information, the management of the Group concluded that the adoption of the new standard on 1 January 2018 will impact the classification of financial instruments but will not have a significant impact on the classification of assets and liabilities in the consolidated financial statements, and that the amount of expected losses at 1 January 2018 insignificantly differs from the amount of provisions recognised in the consolidated financial statements as at 31 December 2017.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

The new standard introduces the concept of control transfer. The Group has used the following indicators to determine the point of control transfer: the point of title transfer, transfer of risks and benefits, the right to payment, the right to use physically, acceptance by customer. Based on the analysis performed the Group is not expecting that the standard will have a significant impact on its consolidated financial statements, since major part of revenues were received under contracts where the point of risks and benefits transfer coincides with the point of control transfer.

Note 4. New Accounting Pronouncements (Continued)

In addition, the Group assessed certain performance obligations under the contracts that include the Group's obligation to transport the goods to the customers. Based on the above analysis the Group has concluded that identification of separate performance obligations related to transportation services can have an impact on disclosure of relevant items in the consolidated financial statements of the Group but will not have any significant impact on total revenues for the reporting period.

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

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

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

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

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

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

Note 4. New Accounting Pronouncements (Continued)

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 07 February 2018 and effective for annual periods beginning on or after 01 January 2019). The amendments specify how to identify pension expenditure when there are changes in the defined benefit plan. In case of a plan amendment, curtailment or settlement, IAS 19 requires to revalue net liabilities and assets of this defined benefit plan. The amendment requires an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after the plan amendment, curtailment or settlement. Before the amendments' adoption IAS 19 did not specify how such expenses were to be identified for the period following the plan change. It is expected that amendments requiring new assumptions will provide useful information to users of financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Classification and Measurement of Share-based Payments (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Note 5. Significant Accounting Policies

Statement of compliance with IFRSs

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

Basis of preparation consolidated financial statements

The Group operates in accordance with Russian laws and statutory requirements regulating accounting and reporting procedures. The Russian accounting and reporting procedures may significantly differ from that set forth by IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

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

- recognition of assets, liabilities and contingent liabilities of acquired subsidiaries based on fair value, in accordance with IFRS 3 "Business Combinations";
- financial instruments measured at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Note 5. Significant Accounting Policies (Continued)

Basis of consolidation

Subsidiaries

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

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

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

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

Business combinations

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

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

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

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

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

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

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

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

Note 5. Significant Accounting Policies (Continued)

Purchases and sales of non-controlling interests

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

Associates

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

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

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

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

Disposals of subsidiaries or associates

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

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

Revenue and income recognition

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

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

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

Interest income is recognised on a time-proportion basis using the effective interest method.

Note 5. Significant Accounting Policies (Continued)

Finance lease

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

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

Operating lease

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

Foreign currency translations

Foreign exchange differences

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

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

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

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

Foreign exchange differences of foreign entities

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

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

Borrowing costs

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

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

Note 5. Significant Accounting Policies (Continued)

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

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

Interest income

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

Interest expense

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

Government grants

Government grants used to purchase or build assets are credited to income over the periods and in the proportions in which depreciation on those assets is charged. Grant balances at the end of the reporting period are recorded in line "Other non-current liabilities" or "Trade and other payables" in the consolidated statement of financial position subject to the estimated period of writing them off to income.

Employee benefits

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

Pension and other post-employment benefits

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

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

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

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

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

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

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

Note 5. Significant Accounting Policies (Continued)

Income taxes

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

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

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 in the consolidated financial statements. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised (enacted or substantively enacted at the reporting date). Deferred tax assets and liabilities are offset when there is a legal right for the offset of the current tax assets and liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

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

When deciding on the necessity to recognise a deferred tax on temporary differences related to taxes accrued on dividends from subsidiaries out of subsidiaries' retained earnings, the Group takes into consideration income tax rate which applies to such dividends under the effective legislation and the existence of control over ability to reverse those temporary differences.

Uncertain tax positions

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

Property, plant and equipment

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

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

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

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

For the purpose of disclosure land owned by the Group is included in "Land, buildings, facilities and transmission devices". Land is not depreciated.

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

Note 5. Significant Accounting Policies (Continued)

Construction in progress

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

Intangible assets

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

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

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

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

Inventories

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

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

Work in progress is valued at the net unit cost of production allocated to the estimated stage of completion.

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

Value-added tax

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

Advances issued for capital expenditures are recognised within non-current assets (line "Property, plant and equipment") less VAT in the consolidated statement of financial position.VAT on advances issued for capital expenditures is recognised in the consolidated statement of financial position depending on maturity: to be settled beyond 12 months – within non-current assets (line "Other non-current assets"); to be settled within 12 months – within current assets (line "Prepayments").

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

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

Excise tax

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

Note 5. Significant Accounting Policies (Continued)

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

Prepayments

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

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

Impairment of assets except for goodwill and financial assets

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

The recoverable amount is the higher of fair value less cost of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Financial assets

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

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

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

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

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

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.

Note 5. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Financial assets at fair value through other comprehensive income (available-for-sale financial assets)

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

The securities held by the Group that are traded in an active market are measured at fair value.

Investments in unlisted shares that do not have a quoted market price in an active market are recorded at fair value determined according to the equity method approach applied with required adjustments.

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

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

Loans and receivables

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

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

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

Note 5. Significant Accounting Policies (Continued)

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

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

Impairment of financial assets

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

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

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

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

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

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

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

Derecognition of financial assets

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

Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost using the effective interest method.

Recognition of placement and repayment of deposits

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

Note 5. Significant Accounting Policies (Continued)

Share capital

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

Dividends

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

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

Earnings per share

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

Financial liabilities

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

Derecognition of financial liabilities

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

Offsetting

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

Provisions for liabilities and charges

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

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

Note 6. Critical Accounting Estimates and Judgements

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

Estimates are based on subjective factors and depend on experience, current and expected economic conditions and other information available to the Group management. Judgements that have the most significant effect on the amounts 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 are disclosed below. Actual results may differ from those estimates.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Critical Accounting Estimates and Judgements (Continued)

Income taxes

The Group's income tax liability, for the most part, is an estimate due to the complexity of the Russian legislative framework. There are transactions and calculations for which the ultimate tax determination is uncertain due to continuous changes in the regulatory environment. Where appropriate, the Group recognises additional potential tax liabilities that may result from tax audits. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and income tax provisions in the period in which such determination is made (Note 11).

Provision for environmental obligations

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

Useful lives of property, plant and equipment

Management regularly review the appropriateness of asset useful lives exercising professional judgement as to the estimated period during which they will continue to bring economic benefits to the Group. The effect of any changes in estimate is accounted for on a prospective basis (Note 12).

Impairment of assets

Management of the Group regularly test tangible and intangible assets of the Group for any indication of impairment. Management apply their judgement in estimating the timing and value of cash flows within the recoverable amount calculation for the assets. Key assumptions in management's analysis relate to determining the discounting rate, sales volume and prices, and raw materials prices (Note 12).

Fair value measurement of investments in securities

Management of the Group determined fair value of its investments in securities by reference to their market quotes at the reporting date. The fair value of investments in securities, for which there are no market quotes, was calculated using the equity method. For investments in bank securities an adjustment was made for an average market banking multiplier that reflects the market data on comparable banks. Management of the Group considered it necessary to apply the banking multiplier to assess investments in bank securities due to increasing risks in the securities market (Note 15).

Provision for impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. In determining the recoverability of receivables, the Group considers any change in the credit quality of the debtors from the date the market loan was initially granted up to the reporting date.

When evaluating the adequacy of a provision for impairment of receivables, management base their estimates on the current overall economic conditions, the ageing of receivable balances, the history of non-payments and changes in payment terms (if any).

Assessment of post-employment benefit obligations. Management of the Group has determined that certain lump sum payments to employees on retirement and fixed benefits paid to non-working retirees constitute a constructive post-employment benefit obligation of the Group. Consequently, a provision in respect of post-employment benefits has been created and recognised in the consolidated statement of financial position. Management of the Group continue to review such programs and continue to assess whether they give rise to an obligation (Note 26).

Note 7. Revenue

The following table summarises the Group's revenue by types:

	2017	**2016**
Sales of products and goods	165,068	155,602
Services provision, work performance	2,436	3,063
Other	124	133
Total	**167,628**	**158,798**

(in millions of Russian Roubles unless otherwise stated)

Note 7. Revenue (Continued)

The following table presents the analysis of revenue from sales of products and goods by sales markets:

	2017	2016
Sales within the Russian Federation	80,027	79,038
Export sales (revenue amounts to more than 10% of the total revenue):		
Europe	51,038	42,520
Asia	18,960	20,688
Other	15,043	13,356
Total	**165,068**	**155,602**

The following table presents the analysis of revenues by major customers for which sales amount to above RUB 1,000 million each:

	2017	2016
Major 34 customers (2016: 30 customers)	115,725	112,715
Other customers	51,903	46,083
Total	**167,628**	**158,798**

Note 8. Cost of Sales

	2017	2016
Raw materials and consumables	80,763	70,880
Energy and heating	21,924	19,883
Personnel costs	11,154	10,930
Depreciation	4,027	4,299
Repairs and maintenance	1,357	1,591
Rent expenses	453	475
Purchased services	446	650
Other expenses	286	170
Change in inventories of finished goods, goods despatched and work in progress	(1,447)	(32)
Total	**118,963**	**108,846**

In connection with changes in the Russian tax legislation and reduced custom duties on oil and certain types of oil products which resulted in the growth of feedstock prices for entities involved in the feedstock further processing, and introduction of excise taxes for a number of petrochemical products, the Russian Government developed a compensation mechanism for these entities in the form of a mark-up factor applied to excise amounts in accordance with paras 15 and 20, Article 200 of the Russian Tax Code. Thus, the line “Raw materials and consumables” includes excise recovered from the budget in the amount of RUB 16,636 million for 2017 (2016: RUB 10,670 million) as a partial compensation of the growing feedstock costs.

Note 9. Selling, General and Administrative Expenses

	2017	2016
Transportations expenses	5,105	5,482
Personnel costs	4,304	4,574
Advertising and other services	2,744	1,629
Taxes other than on income	1,354	1,347
Materials	1,125	983
Repairs and maintenance	854	520
Depreciation	663	678
Insurance	444	448
Energy and heating	209	174
Rent expenses	177	165
Other expenses	873	1,051
Total	**17,852**	**17,051**

(in millions of Russian Roubles unless otherwise stated)

Note 10. Other Operating Expenses, Net

	2017	2016
Maintenance of social infrastructure and charity	1,211	1,123
Gain on sale of currency	(325)	(21)
(Gain)/loss on disposal of other assets	(218)	167
Reversals of provision for impairment of property, plant and equipment	(158)	-
(Gain)/loss on disposal of property, plant and equipment	(120)	606
Increase in provision for doubtful debts	56	25
Expenses from investments	1	62
Other (income)/expenses, net	(366)	14
Total	**81**	**1,976**

Note 11. Income Tax Expense

Income tax expense includes the following components:

	2017	2016
Current income tax	6,610	6,514
Deferred income tax payable	83	306
Income tax for the previous periods payable	-	1
Total	**6,693**	**6,821**

The income tax rate applicable to the majority of the Group’s 2017 and 2016 income is 20%. As ZAO Polymatiz operates in a free-trade zone “Alabuga”and the income tax rate applied to this company is 2% in 2017 (2016: 15,5%). The reconciliation of theoretical income tax charge with the actual tax expense in consolidated statement of comprehensive income is presented below.

	2017	2016
Profit before income tax	**31,544**	**31,154**
Theoretical income tax expense	6,232	6,197
Tax effect of income and expenses which are not assessable for taxation purposes	461	623
Income tax for the previous periods	-	1
Income tax expense	**6,693**	**6,821**

	2017	2016
Deferred income tax assets	(586)	(677)
Deferred income tax liabilities	3,100	3,044
Net deferred income tax liabilities	**2,514**	**2,367**

(in millions of Russian Roubles unless otherwise stated)

Note 11. Income Tax Expense (Continued)

Temporary differences between the Russian statutory tax regulations and the amounts recorded in these consolidated financial statements give rise to the following deferred tax liabilities. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% and 2% for ZAO Polimatiz at 31 December 2017 (at 31 December 2016: at the rate of 20% and 15,5% for ZAO Polimatiz).

	31 December 2017	Effect of disposal of subsidiaries	Charged/ (Credited) to profit or loss	Credited to other comprehensive income	At 31 December 2016	Charged/ (Credited) to profit or loss	Charged to other comprehensive income	At 31 December 2015
Property, plant and equipment	2,205	62	90	-	2,053	364	-	1,689
Financial assets	120	-	(12)	(36)	168	46	86	36
Trade and other receivables	(160)	-	(152)	-	(8)	16	-	(24)
Tax losses carry forwards	(28)	-	73	-	(101)	(3)	-	(98)
Inventories	455	-	74	-	381	62	-	319
Other, net	(78)	38	10	-	(126)	(179)	-	53
Deferred income tax liabilities, net	**2,514**	**100**	**83**	**(36)**	**2,367**	**306**	**86**	**1,975**

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

(in millions of Russian Roubles unless otherwise stated)

Note 12. Property, plant and equipment

	Land, buildings, facilities and transmissi on devices	Machinery and equipment	Motor vehicles and other assets	Construc-tion in progress	Total
Carrying amount at 1 January 2016	**27,155**	**15,815**	**7,005**	**14,833**	**64,808**
Cost balance at 1 January 2016	**60,402**	**61,537**	**10,237**	**15,007**	**147,183**
Additions	2	117	2	13,403	13,524
Transfers from assets under construction	1,779	4,821	192	(6,792)	-
Reclassification to inventory	-	-	-	(187)	(187)
Disposals	(114)	(595)	(1,916)	(91)	(2,716)
Cost balance at 31 December 2016	**62,069**	**65,880**	**8,515**	**21,340**	**157,804**
Accumulated depreciation and impairment at 1 January 2016	**(33,247)**	**(45,722)**	**(3,232)**	**(174)**	**(82,375)**
Accrued for the period	(1,263)	(3,208)	(327)	-	(4,798)
Written-off on disposal	450	410	983	-	1,843
Accumulated depreciation and impairment at 31 December 2016	**(34,060)**	**(48,520)**	**(2,576)**	**(174)**	**(85,330)**
Carrying amount at 31 December 2016	**28,009**	**17,360**	**5,939**	**21,166**	**72,474**
Cost balance at 1 January 2017	**62,069**	**65,880**	**8,515**	**21,340**	**157,804**
Additions	6	18	-	13,549	13,573
Transfers from assets under construction	1,307	2,327	254	(3,888)	-
Reclassification to inventory	-	-	-	(66)	(66)
Disposals	(139)	(223)	(372)	(37)	(771)
Cost balance at 31 December 2017	**63,243**	**68,002**	**8,397**	**30,898**	**170,540**
Accumulated depreciation and impairment at 1 January 2017	**(34,060)**	**(48,520)**	**(2, 576)**	**(174)**	**(85,330)**
Accrued for the period	(1,099)	(2,996)	(437)	-	(4,532)
Written-off on disposal	102	207	351	-	660
Reversals of impairment	-	-	-	158	158
Accumulated depreciation and impairment at 31 December 2017	**(35,057)**	**(51,309)**	**(2,662)**	**(16)**	**(89,044)**
Carrying amount at 31 December 2017	**28,186**	**16,693**	**5,735**	**30,882**	**81,496**

At 31 December 2017, property, plant and equipment included assets with a carrying amount of RUB 113 million (at 31 December 2016: RUB 224 million) held under a number of finance lease agreements. At the end of the lease term the Group automatically takes the ownership of the assets. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

At 31 December 2017, the carrying amount of land included in "Land, buildings, facilities and transmission devices" was RUB 571 million (at 31 December 2016: RUB 571 million).

Included in the original cost of property, plant and equipment are fully depreciated assets which are still in service in the amount of RUB 44,672 million (at 31 December 2016: RUB 43,620 million).

Included in additions for 2017 is capitalised interest of RUB 0 million (2016: RUB 155 million). The average capitalisation rate for borrowing costs for 2016 was 6.21%. Transfer from construction in process is caused by completion of different investment programms of the Group.

The Group's property, plant and equipment with a carrying value of RUB 1,084 million (at 31 December 2016: RUB 1,118 million) have been pledged as security for non-current and current loans and borrowings.

The Company assessed property, plant and equipment for impairment. Based on the tests performed, the Company did not identify any impairment indicators related to the property, plant and equipment.

Were the estimated useful lives of assets to differ by 10% from management's estimates, the impact on depreciation charges for 2017 would be an increase by RUB 504 million or decrease by RUB 412 (2016: increase by RUB 533 million, decrease by RUB 455 million).

(in millions of Russian Roubles unless otherwise stated)

Note 13. Intangible assets

	Patents and licences	Software	Other	Total
Carrying amount at 1 January 2016	**406**	**97**	**-**	**503**
Cost balance at 1 January 2016	**575**	**208**	**262**	**1,045**
Additions	17	70	15	102
Disposals	(79)	-	(15)	(94)
Cost balance at 31 December 2016	**513**	**278**	**262**	**1,053**
Accumulated amortisation at 1 January 2016	**(169)**	**(111)**	**(262)**	**(542)**
Accrued for the period	(79)	(100)	-	(179)
Written-off on disposal	19	-	-	19
Accumulated amortisation at 31 December 2016	**(229)**	**(211)**	**(262)**	**(702)**
Carrying amount at 31 December 2016	**284**	**67**	**-**	**351**
Cost balance at 1 January 2017	**513**	**278**	**262**	**1,053**
Additions	82	29	28	139
Disposals	-	-	(18)	(18)
Cost balance at 31 December 2017	**595**	**307**	**272**	**1,174**
Accumulated amortisation at 1 January 2017	**(229)**	**(211)**	**(262)**	**(702)**
Accrued for the period	(128)	(16)	(14)	(158)
Written-off on disposal	-	-	9	9
Accumulated amortisation at 31 December 2017	**(357)**	**(227)**	**(267)**	**(851)**
Carrying amount at 31 December 2017	**238**	**80**	**5**	**323**

Note 14. Investments in associates

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

		Carrying amount		**Ownership, %**	
Associate	**Activities of an associate**	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
OOO Elastokam*	Production of polyurethane	350	352	50.00%	50.00%
OOO Gazenergoneftekhim	Production of key chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms	149	143	49.00%	49.00%
PAO Yamal-Povolzhye	Transportation of gas and derivative products via pipelines	45	47	33.40%	33.40%
OOO Tatneft-NKNK-Oil	Production of oil products	-	-	26.00%	26.00%
Total		**544**	**542**		

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

The carrying value of the Group's investment in its associate OOO Tatneft-NKNK-Oil is nil. The unrecognised share of loss of this associate is RUB 62 million for 2017 (2016: RUB 44 million). Cumulatively, the unrecognised share of losses of this associate is RUB 569 million (2016: RUB 508 million).

(in millions of Russian Roubles unless otherwise stated)

Note 14. Investments in associates (Continued)

In the table below changes of the Group's investments in associates are presented:

	2017	2016
Balance at the beginning of the year	**542**	**639**
Dividends received from associates	(68)	(33)
Share of Group in associates' (loss)/profit	70	(64)
Balance at the end of the year	**544**	**542**

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

Summaries of the Group's share of associates' revenue, profit/(loss) for the year, assets and liabilities for 2017 and 2016 are as follows:

	2017	2016
Total assets	1,792	1,867
Total liabilities	(652)	(731)
Net assets	**1,140**	**1,136**
The Group's share in net assets	**544**	**542**

	2017	2016
Revenue	2,742	3,825
Profit/ (loss) for the year	140	(125)
The Company's share in profit/(loss) for the year	**70**	**(64)**

Note 15. Financial Assets

	Level of fair value hierarchy	2017	2016
Non-current			
Financial assets at fair value			
Equity securities	3	1,242	1,421
Financial assets carried at amortised cost			
Loans issued	2	526	467
Total		**1,768**	**1,888**
Current			
Financial assets carried at amortised cost			
Deposits (more than 3 months)	2	-	40
Total		**-**	**40**

At 31 December 2017, the loans issued at amortised cost are presented net of impairment provision for the loan issued to an associate in the amount of RUB 410 million (at 31 December 2016: RUB 409 million). At 31 December 2017, provision for investments in equity securities amounted to RUB 17 million (at 31 December 2016: RUB 17 million).

Non-current available-for-sale investments consisted of shares of the following companies:

	% of ownership		Level of fair		
	2017	2016	value hierarchy	2017	2016
PAO AK Bars Bank	1.46%	1.84%	3	614	792
OAO Tatneftekhiminvest-holding	6.98%	6.98%	3	592	502
PAO AKB Spurt	5.05%	5.05%	3	-	87
Other	-	-	3	36	40
Total	-	-	**-**	**1,242**	**1,421**

(in millions of Russian Roubles unless otherwise stated)

Note 15. Financial Assets (Continued)

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

	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
31 December 2017	614	market multipliers for		± 34
31 December 2016	880	banks	±5%	± 36
31 December 2017	1,242	net assets of analysed		± 124
31 December 2016	1,421	companies	±10%	± 142

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

	2017	2016
Carrying amount at the beginning of the year	**1,421**	**1,344**
Revaluation reported in other comprehensive income	(87)	297
Disposals, revaluations due to changes in ownership interest	(92)	-
Reclassification of financial assets revaluation on disposal	-	133
Disposal of equity securities	-	(353)
Carrying amount at the end of the year	**1,242**	**1,421**

There were no changes in valuation technique for recurring fair value measurements during 2017.

Note 16. Goodwill

	2017	2016
Carrying amount at the beginning of the year	**83**	**83**
Carrying amount at the end of the year	**83**	**83**

Goodwill Impairment Test

The recoverable amount was determined based on the value-in-use calculations. The calculations used actual results of operations for 2017 and business plan figures for 2018-2022 (in 2016: actual results of operations for 2016 and business plan figures for 2017-2021).

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

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

Key assumptions	2017	2016
Sales growth rate	2.0%	2.0%
Pre-tax discount rate	13.1%	13.3%

The pre-tax discount rate assumption was primarily based on inflation rates with account for the Russian Central Bank's refinancing rate and risks specific to investment projects. The weighted average growth rates used in the 2017 calculations are consistent with the mid-term inflation rates.

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

Note 17. Other Non-Current Assets

	2017	2016
Catalysts	1,284	724
Other non-current assets	76	66
Non-current receivables	6	11
Total	**1,366**	**801**

(in millions of Russian Roubles unless otherwise stated)

Note 18. Inventories

	2017	2016
Inventory and supplies	13,335	12,162
Work in progress	3,664	3,033
Finished products	3,245	2,445
Goods despatched	1,914	1,898
Write down to NRV of inventories, materials and finished products	(76)	(9)
Total	**22,082**	**19,529**

At 31 December 2017, inventories amounting to RUB 315 million have been pledged as a security for bank credits and loans received by the Group (at 31 December 2016: RUB 488 million). Major part of such loans and borrowings are represented by loans and borrowings received by a trading company of the Group to finance its ordinary activities.

Movements in the provision for impairment of inventories, materials and finished products recognised in the consolidated statement of comprehensive income within profit or loss are presented as follows:

	2017	2016
Balance at the beginning of the year	**9**	**11**
Writing off to net realisable value	73	6
Release of amounts written-off in prior period	(6)	(8)
Balance at the end of the year	**76**	**9**

Note 19. Trade and Other Receivables

	2017	2016
Trade receivables	6,270	6,730
Other receivables	256	283
Provision for doubtful debt	(417)	(377)
Total	**6,109**	**6,636**

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

The Group generally creates a provision for receivables past due for over 6 months unless it has collateral or counter liabilities, because past experience is such that receivables past due for over 6 months are generally not recovered. Receivables past due for 3 months to 6 months are provided for based on estimated unrecoverable amounts, determined by reference to past default experience and are regularly reassessed based on the facts and circumstances existing as of each reporting date.

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

Major entities of the Group have implemented and use the rating score system to assess their customers: the information is partially obtained from independent rating agencies and, if such information is not available, some rating methodologies are designed by the companies themselves.

Included in the trade and other receivables at 31 December 2017 were receivables, which were past due but not impaired, and which management still considers recoverable. The Group does not hold any collateral as security.

The ageing analysis of past due but not impaired trade and other receivables is as follows:

	2017	2016
Less than three months	239	117
From three months to one year	25	60
Total	**264**	**177**

Movements in impairment provision for trade and other receivables are shown below:

	2017	2016
Balance at the beginning of the year	**377**	**357**
Increase in impairment provision	87	62
Release of impairment loss	(34)	(37)
Amounts written off as uncollectible	(13)	(7)
Increase upon merger	-	2
Balance at the end of the year	**417**	**377**

(in millions of Russian Roubles unless otherwise stated)

Note 19. Trade and Other Receivables (Continued)

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

Note 20. Other Prepaid and Recoverable Taxes

	2017	2016
Value-added tax recoverable	4,961	6,408
Excise tax recoverable	2,168	1,287
Other taxes prepaid	18	1
Total	**7,147**	**7,696**

Note 21. Prepayments

	2017	2016
Advances to suppliers	2,676	14,076
Provision for doubtful debts	(35)	(32)
Total	**2,641**	**14,044**

Impairment loss of RUB 3 million was recognised in 2017 (2016: gain of RUB 2 million).

Note 22. Cash and Cash Equivalents

	2017	2016
Current accounts:		
- in RUB	4,743	5,979
- in foreign currency	19,511	1,122
Deposits		
- in RUB	117	5
Other cash and cash equivalents	2	2
Total	**24,373**	**7,108**

Note 23. Shareholders' Equity and Earnings per Share

At 31 December 2017, the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary registered shares (31 December 2016: 1,611,256,000 ordinary registered shares) and 218,983,750 preferred registered shares (31 December 2016: 218,983,750 preferred registered shares) at the nominal value of 1 Russian rouble per share.

At 31 December 2017, the Company has authorised share capital comprised of 27,400,000,000 declared ordinary registered shares (31 December 2016: 27,400,000,000 shares) and 218,983,750 declared preferred registered shares (31 December 2016: 218,983,750 shares) at the nominal value of 1 Russian rouble per share.

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

The Company is controlled by OAO TAIF through OOO Telecom-Management. There are no other shareholders that own 5% plus in the Company.

(in millions of Russian Roubles unless otherwise stated)

Note 23. Shareholders’ Equity and Earnings per Share (Continued)

The Company declared and paid the following dividends:

	2017	2016
Dividends declared during the year for 2015, RUB million, including:		
- ordinary shares	-	6,993
- preferred shares	-	950
Dividends declared during the year for 2016, RUB million, including:		
- ordinary shares	-	-
- preferred shares	-	-
Dividends per share declared during the year for 2015, RUB, including:		
- per ordinary share	-	4.34
- per preferred share	-	4.34
Dividends per share declared during the year for 2016, RUB, including:		
- per ordinary share	-	-
- per preferred share	-	-

Earnings per share

	2017	2016
Profit attributable to the shareholders of the parent company, RUB million	24,793	24,262
Weighted average number of participating shares	1,830,239,750	1,830,239,750
Earnings per participating share (net and diluted earnings per share)(Russian roubles per share)	**13.55**	**13.26**

The Golden Share

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

Rights attributable to preferred shares

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

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

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

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

The statutory accounting reports of the Company are the basis for profit distribution. The Russian legislation identifies net income as the basis for distribution. For 2016, the net statutory profit of the Company as reported in the published statutory reporting forms was RUB 23,703 million (for 2016: RUB 25,052 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

(in millions of Russian Roubles unless otherwise stated)

Note 24. Loans and Borrowings

Long-term loans and borrowings33

	31 December 2017	31 December 2016
Loans and borrowings with fixed interest rate:		
Loans and borrowings in Russian roubles	75	195
Loans and borrowings with floating interest rate:		
Less: current portion repayable within one year and recognised within current loans and borrowings	(25)	(146)
Total	**50**	**49**

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

	31 December 2017	31 December 2016
One to five years	52	52
Total	**52**	**52**

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

The fair value of non-current loans and borrowings issued at a fixed interest rate with the carrying value of RUB 50 million (2016: RUB 49 million) determined based on the above methodology by applying the rate of 8.18% (2016: 9.25%) amounts to RUB 51 million (2016: RUB 49 million).

Current Loans and Borrowings

	31 December 2017	31 December 2016
Loans and borrowings with fixed interest rate:		
Loans and borrowings in US Dollars	132	167
Loans and borrowings in Euro	-	96
Loans and borrowings in RUB	-	70
Loans and borrowings with floating interest rate:		
Loans and borrowings in US Dollars	126	145
Loans and borrowings in Euro	189	343
Current portion of non-current loans and borrowings repayable within one year	25	146
Total	**472**	**967**

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

	31 December 2017	31 December 2016
Within three months	467	323
From three months to one year	14	671
Total	**481**	**994**

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

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

(in millions of Russian Roubles unless otherwise stated)

Note 24. Loans and Borrowings (Continued)

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

	31 December 2017
Carrying amount at 1 January	**1,016**
Cash flows	
Non-current loans and borrowings received	**50**
Non-current loans and borrowings repaid	**(169)**
Current loans and borrowings received	**635**
Current loans and borrowings repaid	**(1,047)**
Interest paid	**(48)**
Non-cash changes	
Interest accrued	**47**
Foreign exchange loss, net	**38**
Carrying amount at 31 December	**522**

Note 25. Other Non-current Liabilities

	2017	**2016**
Post-employment benefit obligations (Note 26)	1,017	924
Other non-current liabilities on benefits to employees (Note 26)	23	22
Non-current finance lease liabilities (Note 27)	2	39
Other	-	4
Total	**1,042**	**989**

Note 26. Non-current Liabilities on Benefits to Employees

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

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

Post-employment benefit obligations

	2017	**2016**
Obligation at the beginning of the year	**924**	**919**
Expenses charged to profit or loss, including:		
Current service cost	104	33
Interest expense	68	76
Benefits paid	(206)	(174)
Loss charged to other comprehensive income, including:		
Actuarial losses resulting from changes in financial assumptions	127	70
Obligations at the end of the year	**1,017**	**924**

Actuarial losses in 2017 are mainly caused by changes in demographical assumptions, changes in financial assumptions did not have a significant impact on actuarial losses. Actuarial losses in 2016 are mainly caused by changes in financiall assumptions, changes in demographical assumptions did not have a significant impact on actuarial losses.

Other non-current liabilities on benefits to employees

	2017	**2016**
Obligation at the beginning of the year	**22**	**23**
Current service cost	10	6
Interest expense	2	2
Benefits paid	(7)	(8)
Actuarial income	(4)	(1)
Obligations at the end of the year	**23**	**22**

(in millions of Russian Roubles unless otherwise stated)

Note 26. Non-current Liabilities on Benefits to Employees (Continued)

Key actuarial assumptions are as follows:	**2017**	**2016**
Discount rate	7.64%	8.46%
Tariff/ salary growth rates	4.00%	5.72%
Average staff turnover	5.53%	5.25%

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

1. Interest rate risk. Lower yield of state bonds will result in higher non-current employee benefit obligations.

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

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

	2017	**2016**
Discount rate – 1% lower	32	44
Tariff/salary growth rate – 1% higher	33	43

Next year, the Group plans to settle its post-employment benefit obligations of RUB 219 million.

The average term of the post-retirement benefit obligation is 8 to 10 years.

In 2017, the Group made contributions to the Russian Federation State Pension Plan of RUB 2,661 million (2016: RUB 2,489 million). These contributions are included in personnel costs within cost of sales and selling, general and administrative expenses.

Note 27. Finance Lease Liabilities

Minimum finance lease payments

	2017	**2016**
Within one year	43	70
One to five years	2	41
Total future finance lease payments	**45**	**111**
Less future finance charges	(2)	(6)
Present value of finance lease liabilities	**43**	**105**
Less amounts payable within 12 months	(41)	(66)
Non-current finance lease liabilities	**2**	**39**

Note 28. Trade and Other Payables

	2017	**2016**
Trade payables	4,640	6,381
Other payables	129	195
Current finance lease payables (Note 27)	41	66
Total	**4,810**	**6,642**

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

(in millions of Russian Roubles unless otherwise stated)

Note 28. Trade and Other Payables (Continued)

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

	2017	2016
Within three months	4,778	6,581
From three months to one year	32	61
Total	**4,810**	**6,642**

Note 29. Advances Received and Accrued Liabilities

	2017	2016
Advances received	3,182	6,120
Accruals for short-term employee benefits	1,481	1,438
Short-term employee benefit obligations	500	561
Total	**5,163**	**8,119**

Note 30. Other Taxes Payable

	2017	2016
Value-added tax	406	2,314
Property tax	191	200
Land tax	124	114
SIC	115	283
Other taxes	115	136
Total	**951**	**3,047**

Note 31. Related party transactions

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

(in millions of Russian Roubles unless otherwise stated)

Note 31. Related Party Transactions (Continued)

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

	Revenue	Purchases of materials and services	Purchases of property, plant and equipment	Other expenses/(income)	Changes in provision for doubtful debts and loans issued
2017					
PAO Nizhnekamskneftekhim					
- shareholders	-	43	-	-	-
- associates	380	25	-	1	(9)
- other related parties	6,401	55,105	379	(11)	-
Subsidiaries					
- shareholders	-	-	-	-	-
- associates	-	-	-	-	-
- other related parties	438	172	-	(4)	-
Total	**7,219**	**55,345**	**379**	**(14)**	**(9)**
2016					
PAO Nizhnekamskneftekhim					
- shareholders	-	41	-	-	-
- associates	524	25	-	2	(13)
- other related parties	6,684	44,506	177	(7)	-
Subsidiaries					
- shareholders	-	-	-	-	-
- associates	-	-	-	-	-
- other related parties	445	125	-	(2)	-
Total	**7,653**	**44,697**	**177**	**(7)**	**(13)**

	Loans issued	Trade and other receivables and prepayments	Provision for doubtful debt and loans issued	Trade and other payables and advances received
2017				
PAO Nizhnekamskneftekhim				
- shareholders	-	-	-	4
- associates	410	198	(607)	32
- other related parties	-	315	-	799
Subsidiaries				
- shareholders	-	-	-	-
- associates	-	-	-	-
- other related parties	-	28	-	2
Total	**410**	**541**	**(607)**	**837**
2016				
PAO Nizhnekamskneftekhim				
- shareholders	-	-	-	4
- associates	409	270	(598)	29
- other related parties	-	11,789	-	3,007
Subsidiaries				
- shareholders	-	-	-	-
- associates	-	-	-	-
- other related parties	-	28	-	2
Total	**409**	**12,087**	**(598)**	**3,042**

At 31 December 2017 and 31 December 2016, the Group has outstanding commitments on purchase or supply of goods or services to the companies under common control which determine the volumes of purchases and supplies in subsequent periods. As the prices are not fixed in the above agreements but linked to international quotations, these commitments are not subject to monetary estimation.

(in millions of Russian Roubles unless otherwise stated)

Note 31. Related Party Transactions (Continued)

Transactions with Russian government entities and state companies

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

The following transactions account for major part of the Group's transactions with these entities in 2017 and 2016:

	2017	2016
Revenue	11,262	7,023
Purchase of materials and services	14,315	10,387
Movements in property, plant and equipment and other non-current assets	241	667
Other expenses, net	198	661
Interest income on bank deposits	-	95

Balances on the above transactions were as follows:

	31 December 2017	31 December 2016
Receivables and prepayments	1,620	986
Provision for impairment of receivables	(110)	(108)
Cash and cash equivalents	3	4
Payables	87	333
Advances received	55	5
Loans and borrowings received	75	244

Directors' compensation

The remuneration paid to key management personnel for the year ended 31 December 2017 in the form of salaries and other short-term employee benefits (including insurance contributions) amounted to RUB 224 million (for 2016: RUB 223 million).

Note 32. Segment Information

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

- Business activities of companies;
- Product nature.

The first operating segment "Production and sales of petrochemicals" contains the results of the parent company PAO Nizhnekamskneftekhim and income from associates (Note 14). This segment derives its revenue primarily from the manufacture and sale of petrochemical products.

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

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

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

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment Information (Continued)

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

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

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

The Group's financial performance by operating segments for the year ended 31 December 2016:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue				
External sales	148,093	7,369	3,368	158,830
Inter-segmental sales	5,320	-	5,575	10,895
Total revenue	**153,413**	**7,369**	**8,943**	**169,725**
Result				
Gross profit	36,408	379	1,045	37,832
Profit/(loss) from sales	22,274	219	(228)	22,265
Foreign exchange gain/(loss), net	(857)	1	(1)	(857)
Interest income	1,287	30	12	1,329
Interest expense	(155)	(47)	(34)	(236)
Income tax expense	(6,397)	(41)	(76)	(6,514)
Net profit/(loss)	25,052	161	(439)	24,774
Other information				
Depreciation	**(5,098)**	**-**	**(333)**	**(5,431)**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment Information (Continued)

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

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

Reportable segment revenues for the year ended 31 December 2016 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	**153,413**	**7,369**	**8,943**	**169,725**
Intercompany transactions	(5,320)	-	(5,575)	(10,895)
Other adjustments	(30)	(2)	-	(32)
Revenue, IFRS	**148,063**	**7,367**	**3,368**	**158,798**

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

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

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

Reportable segment capital expenditure for the period ended 31 December 2016 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	**18,099**	**-**	**56**	**18,155**
Reclassification of advances paid for assets under construction	3,151	-	(5)	3,146
Interest capitalised	155	-	-	155
Other adjustments	(68)	-	(48)	(116)
Capital expenditure, IFRS	**21,337**	**-**	**3**	**21,340**

(in millions of Russian Roubles unless otherwise stated)

Note 32. Segment Information (Continued)

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

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Profit/(loss) from sales	**13,652**	**110**	**275**	**14,037**
Difference in RSA and IFRS excise tax recoverability disclosure	16,636	-	-	16,636
Reclassification of other income/ (expenses)	14	(1)	(94)	(81)
Differences in IFRS and RSA depreciation	415	-	70	485
Differences in RSA and IFRS provisions	(66)	-	(2)	(68)
Other adjustments	(950)	1	672	(277)
Operating profit/(loss), IFRS	**29,701**	**110**	**921**	**30,732**

Reportable segment operating profit for the year ended 31 December 2016 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Profit/(loss) from sales	**22,274**	**219**	**(228)**	**22,265**
Difference in RSA and IFRS excise tax recoverability disclosure	10,671	-	-	10,671
Reclassification of other income/ (expenses)	(975)	(31)	(970)	(1,976)
Differences in IFRS and RSA depreciation	370	-	84	454
Differences in RSA and IFRS provisions	(22)	-	3	(19)
Other adjustments	(809)	8	331	(470)
Operating profit/(loss), IFRS	**31,509**	**196**	**(780)**	**30,925**

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

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

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

Reportable segment net profit for the year ended 31 December 2016 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit/(loss)	**25,052**	**161**	**(439)**	**24,774**
Reversal of RSA deferred tax	317	-	(89)	228
Differences in RSA and IFRS depreciation	370	-	84	454
Differences in RSA and IFRS provisions	(22)	-	3	(19)
Other adjustments	(535)	(83)	(557)	(1,175)
Net profit, IFRS	**25,182**	**78**	**(998)**	**24,262**

(in millions of Russian Roubles unless otherwise stated)

Note 33. Principal Subsidiaries

Subsidiary	Business activity	Percentage of voting interest held 31 December 2017	31 December 2016
OOO Trest TSNKHRS	General equipment repairs and construction	100.0%	100.0%
OOO RMZ-NKNK	Repairs and maintenance	100.0%	100.0%
OOO Nizhnekamskneftekhim–Service	Lease and management of non-residential property (own or leased)	100.0%	100.0%
OOO UOP Neftehim	Food supplies and catering	100.0%	100.0%
ZAO Polymatiz	Production of non-woven textile materials	100.0%	100.0%
OOO UETP-NKNK	Transportation of gas and derivative products via pipelines	100.0%	100.0%
OOO Upravleniye Avtomobilnogo Transporta – NKNK	Road freight transport activity	100.0%	100.0%
OOO Neftekhimik Hockey Club	Other sports activities	100.0%	100.0%
OOO Kataliz-Prom	Petrochemicals production	100.0%	100.0%
AO SOV-NKNK	Water purification	67.3%	67.3%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56.3%	56.3%
OOO Neftekhimagroprom	Agriculture	-	100.0%

The Board of Directors decided for PAO Nizhnekamskneftekhim to withdraw its participation from OOO Neftekhimagroprom via sales of its shareholding in the share capital. A relevant entry was made in the Unified State Register of Legal Entities on 10 March 2017.

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

Note 34. Fair Value of Financial Instruments

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

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

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

Financial instruments carried at fair value. Securities available for sale and held for sale are recorded in the consolidated statement of financial position at their fair value and included in level 3 of the fair value hierarchy (Note 15).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The carrying amount of trade receivables and loans issued approximates their fair values and belongs to level 2 of the fair value hierarchy, and impaired receivables belong to level 3 of the fair value hierarchy (Notes 15 and 17).

Liabilities carried at amortised cost. The carrying amount of trade payables approximates their fair values and belongs to level 2 of the fair value hierarchy (Note 28). The fair value of loans and borrowings received is included in level 2 of fair value hierarchy (Note 24).

(in millions of Russian Roubles unless otherwise stated)

Note 35. Commitments

Investment commitments

Contractual commitments for future acquisition of property, plant and equipment amounted to RUB 5,575 million at 31 December 2017 (31 December 2016: RUB 10,661 million). The Group is planning to finance its capital commitments using the Group's own funds and borrowings.

Operating lease commitments

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

	2017	2016
Within one year	164	549
One to five years	363	278
Over five years	1,386	1,453
Total	**1,913**	**2,280**

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

Social commitments

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

Letters of credit

At 31 December 2017, the Group has unsecured uncovered letters of credit for RUB 445 million (31 December 2016: RUB 10 million).

Note 36. Contingent liabilities

Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business.

In 2017, the Company was involved in legal proceedings with the Russian Central Bank to invalidate the agreements entered into by the Company with third parties in 2016 on debt assignment under loan agreements with PAO Tatfondbank for the total amount of RUB 4,000 mln and to enforce implications of invalidated transactions. The Arbitrazh Court of the Republic of Tatarstan by its decision dated 11 August 2017 satisfied the claims, and the rulings issued by the appellate court upheld the court's decision. The court orders were appealed in the cassation court. Resolutions of the Volga District Arbitrazh Court dated 27 March 2018 overturned the appellate decisions, the case was submitted to the appeal court for a new consideration. At the date of signing of the consolidated financial statements the Group does not recognize any liabilities under the loan agreements to PAO Tatfondbank, including interest. At the issue date of the financial statements the Company assesses the risk of unfavourable outcome as possible.

Tax contingencies in the Russian Federation

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

Environmental matters

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

(in millions of Russian Roubles unless otherwise stated)

Note 36. Contingent liabilities (Continued)

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

Note 37. Financial Risk and Capital Management

Capital management

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

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

The Group's overall strategy for managing capital remains unchanged from 2016.

The capital structure of the Group consists of borrowings, which include non-current and current loans and borrowings disclosed in Note 24, less cash and cash equivalents disclosed in Note 22, and equity attributable to the shareholders of the parent company as disclosed in the consolidated statement of financial position.

The debt to equity ratio at the year-end was as follows:

	2017	**2016**
Borrowings	522	1,016
Cash and cash equivalents	(24,373)	(7,108)
Net debt	**(23,851)**	**(6,092)**
equity	**133,219**	**108,632**
Net debt to equity ratio	**-**	**-**

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

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

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

According to the concluded loan agreements the Group should be in compliance with certain terms and limitations, including requirements to maintain certain financial ratios. 2017 and 2016, the Group's companies complied with all externally imposed capital requirements and other financial indicators. These are set out in the loan agreements of the Group's companies based on which they are required to maintain a ratio of net debt to EBITDA at a level prescribed by the agreement.

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

Major categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings (Note 24), finance leases (Note 27), and trade and other payables (Note 28). The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables (Notes 17, 19), investments in securities and other financial assets (Note 15), and cash and cash equivalents (Note 22).

	Notes	31 December 2017	31 December 2016
Financial assets			
Financial assets at amortised cost			
Cash and cash equivalents	22	24,373	7,108
Trade and other receivables	17,19	6,115	6,647
Loans issued	15	526	467
Deposits	15	-	40
Total assets at amortised cost		**31,014**	**14,262**
Financial assets at fair value			
Equity securities	15	1,242	1,421
Total financial assets		**32,256**	**15,683**

	Note	31 December 2017	31 December 2016
Financial liabilities at amortised cost			
Loans and borrowings	24	522	1,016
Trade and other payables	28	4,769	6,576
Financial lease liabilities	27	43	105
Dividends payable		23	117
Total financial liabilities		**5,357**	**7,814**

Key financial risk factors and risk management system

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

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

Interest rate risk

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

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

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

	Profit (after taxation) and equity	
	31 December 2017	31 December 2016
EURIBOR	3	4
Total	**3**	**4**

If interest rates at 31 December 2017 had been 100 basis points (2016: 100 basis points) lower, with all other variables held constant, profit after tax for the year and equity would have been RUB 3 million (2016: RUB 4 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 100 basis points (2016: 100 basis points) higher, with all other variables held constant, profit after tax for the year and equity would have been RUB 3 million (2016: RUB 4 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

Currency risk

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

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

	2017	2016
Assets		
Trade and other receivables	**4,211**	**3,514**
- US Dollar	2,584	1,962
- Euro	1,627	1,552
Cash	**19,511**	**1,122**
- US Dollar	17,910	884
- Euro	1,601	238
Total assets	**23,722**	**4,636**
Liabilities		
Loans and borrowings received	**447**	**751**
- US Dollar	258	312
- Euro	189	439
Finance lease liabilities	**34**	**82**
- US Dollar	34	82
Trade and other payables	**1,586**	**1,329**
- US Dollar	666	648
- Euro	920	681
Total liabilities	**2,067**	**2,162**
Total net position	**21,655**	**2,474**
- US Dollar	**19,536**	**1,804**
- Euro	**2,119**	**670**

Had the US Dollar and Euro strengthened or weakened by 20% at 31 December 2017 (31 December 2016: 20%) against the Russian rouble, with all other variables held constant, profit after tax as of the year-end would have been lower/higher by the following:

Changes in exchange rate:	**Profit (after taxation) and equity**	
	2017	**2016**
US Dollar	3,126	289
Euro	339	107

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables, cash and cash equivalents. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for doubtful debts already recorded.

The Group is not economically dependent on a limited number of customers because of the existence of a liquid market.

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

Credit risk is managed at the Group level. For wholesale customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The following ratings have been assigned to Groups' financial assets:

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

(in millions of Russian Roubles unless otherwise stated)

Note 37. Financial Risk and Capital Management (Continued)

The maximum exposure to credit risk comprises the following carrying amounts:

	Rating A	Rating B
31 December 2017		
Cash and cash equivalents	24,373	-
Trade and other receivables	6,115	-
Loans issued	526	-
Total	**31,014**	**-**
31 December 2016		
Cash and cash equivalents	7,108	-
Deposits	40	-
Trade and other receivables	6,647	-
Loans issued	467	-
Total	**14,262**	**-**

The analysis of credit quality of banks with which the Group has account balances based on the rating agencies data is presented below:

		31 December 2017		31 December 2016	
Rating	**Rating agency**	**Cash and cash equivalents**	**Deposits**	**Cash and cash equivalents**	**Deposits**
A++	Expert RA	-	-	6,989	40
ruA+	Expert RA	24,115	-	-	-
Aa3	Moody's	102	-	98	-
B1	Moody's	4	-	-	-
Ba1	Moody's	149	-	-	-
Other	Other	3	-	21	-
Total		**24,373**	**-**	**7,108**	**40**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they become due. Notes 24, 27 and 28 analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the notes are the contractual undiscounted cash flows. The Group is managing its liquidity position. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate resources available to meet its payment obligations.

Operational risk

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

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

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

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

Note 38. Events after the Reporting Date

No subsequent events occurred after the reporting date that could have a material effect on the financial statements.