“SURGUTNEFTEGAS” PJSC

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

31 December 2019

Contents

(in millions of Russian rubles, unless otherwise stated)

Notes		As of 31 December 2019	As of 31 December 2018
	ASSETS		
	Current assets		
9	Cash and cash equivalents	396,234	260,346
9	Restricted cash	2,451	2,094
10	Deposits placed	820,532	839,021
13	Loans granted	11,542	14,968
	Other financial assets	1,199	2,180
11	Receivables	96,565	112,501
14	Inventories	97,736	90,323
12	Advances issued	14,351	23,941
	VAT recoverable	8,138	9,337
	Income tax receivable	17,078	30
	Other taxes recoverable	3,164	145
	Total current assets	**1,468,990**	**1,354,886**
	Non-current assets		
15	Property, plant and equipment	1,591,986	1,472,101
16	Right-of-use assets	19,027	-
17	Intangible assets	9,302	8,749
10	Deposits placed	2,145,616	2,264,130
	Other financial assets	2,171	5,552
27	Deferred tax assets	55	24
13	Loans granted	28,468	28,010
11	Receivables	1,164	1,093
	Other non-current assets	1,117	1,246
	Total non-current assets	**3,798,906**	**3,780,905**
	Total assets	**5,267,896**	**5,135,791**
	LIABILITIES AND EQUITY		
	Current liabilities		
18	Payables and liabilities accrued	54,636	49,468
19	Other financial liabilities	236,174	197,138
	Advances received	24,834	32,255
20	Other tax liabilities	81,536	67,720
	Income tax liabilities	6	22,554
21	Provisions	1,558	3,508
	Total current liabilities	**398,744**	**372,643**
	Non-current liabilities		
19	Other financial liabilities	13,069	18,933
27	Deferred tax liabilities	199,722	190,807
21	Provisions	193,523	125,727
	Other non-current liabilities	13,460	1,337
	Total non-current liabilities	**419,774**	**336,804**
	Equity		
22	Share capital	154,666	154,666
	Additional paid-in capital	4	4
22	Treasury shares	(30)	(30)
22	Share premium	57,809	57,809
	Retained earnings	4,235,364	4,214,571
	Other reserves	1,251	(964)
	Total equity attributable to shareholders	**4,449,064**	**4,426,056**
	Non-controlling interests	314	288
	Total equity	**4,449,378**	**4,426,344**
	Total liabilities and equity	**5,267,896**	**5,135,791**

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Acting Director General
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A.V.Druchinin

Chief Accountant
"Surgutneftegas" PJSC

29 April 2020

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

(in millions of Russian rubles, unless otherwise stated)

Notes		2019	2018
7	**Sales**	1,814,821	1,867,120
23	less export duties	(243,945)	(311,161)
7	**Total sales revenue:**	**1,570,876**	**1,555,959**
	sales of oil	1,003,091	988,795
	sales of oil products	525,935	525,188
	sales of gas and gas products	26,060	26,509
	sales of other products and finished goods	7,727	7,483
	other sales	8,063	7,984
24	**Operating expenses**	**(1,177,869)**	**(1,140,765)**
	Operating profit	**393,007**	**415,194**
25	Finance income	141,742	136,224
25	Finance expenses	(21,477)	(16,816)
26	Exchange differences, net	(360,961)	529,387
	Profit / (loss) from sale and other disposal of financial assets	1,994	(65)
	Other expenses	(21,370)	(25,029)
	Profit before tax	**132,935**	**1,038,895**
	Income tax		
	Current income tax	(17,438)	(159,627)
	Changes in deferred income tax	(9,300)	(28,907)
27	**Total income tax expense**	**(26,738)**	**(188,534)**
	Net profit	**106,197**	**850,361**
	Other comprehensive income / (expense) that may be reclassified subsequently to profit / (loss), net of income tax		
	Changes in fair value of financial assets	(50)	5
	Other comprehensive income / (expense) that may not be reclassified subsequently to profit / (loss), net of income tax		
	Changes in fair value of financial assets	698	(972)
21	Remeasurements of post-employment benefit obligations	(1,890)	4,616
	Total other comprehensive income / (expense), net of income tax	**(1,242)**	**3,649**
	Total comprehensive income	**104,955**	**854,010**
	Net profit		
	attributable to shareholders	106,162	850,350
	attributable to non-controlling interests	35	11
	Total comprehensive income		
	attributable to shareholders	104,920	853,998
	attributable to non-controlling interests	35	12
28	Net earnings attributable to shareholders per one ordinary share (in rubles) basic and diluted	2.76	22.16

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(in millions of Russian rubles, unless otherwise stated)

Notes		2019	2018
	Operating activities		
	Profit before tax	132,935	1,038,895
	Adjustments:		
24	Depreciation, depletion and amortisation	71,072	66,643
24	Losses from disposal of exploration and production properties	526	1,547
	Loss allowance for expected credit losses accrual / (recovery)	(1,038)	3,373
	Other provisions accrual / (recovery)	358	(913)
	Exchange differences	346,497	(512,672)
	(Profit) / loss from sale and other disposal of financial assets	(1,994)	65
	Loss from sale of subsidiaries	95	83
25	Interest (income) / expenses from discounting, net	1,192	(5,477)
25	Interest receivable	(137,034)	(126,735)
25	Interest payable	15,577	12,804
	Loss from sale and disposal of property, plant and equipment, and intangible assets	2,755	2,536
15,17	Impairment of non-financial assets	20,352	29,436
	Others, net	9	7
	Cash flows from operating activities before changes in working capital and income tax	**451,302**	**509,592**
	Change in receivables	15,002	(24,021)
	Change in advances issued	9,576	(8,449)
	Change in inventories	(6,443)	(6,058)
	Change in other assets	128	1,609
	Change payables and liabilities accrued	3,992	1,663
	Change in advances received	(7,421)	9,921
	Change in restricted cash	(357)	(45)
	Change in other taxes (other than income tax)	11,996	494
	Change in other liabilities	(1,435)	(89)
	Cash from operating activities before income tax	**476,340**	**484,617**
	Income tax paid	(57,060)	(134,103)
	Net cash from operating activities	**419,280**	**350,514**
	Investing activities		
	Capital expenditures	(159,215)	(151,291)
	Deposits placed	(900,642)	(1,105,211)
	Deposits refunded	684,121	816,942
	Loans granted	(36,688)	(39,510)
	Loans collected	40,258	38,548
	Interest received	146,052	144,337
	Proceeds from sale of a subsidiary	2,852	156
	Proceeds from sale of financial assets	6,126	6,681
	Acquisition of financial assets	(1,618)	(450)
	Proceeds from sale of property, plant and equipment	442	580
	Net cash used for investing activities	**(218,312)**	**(289,218)**
	Financing activities		
31	Net acquisition of other financial liabilities	32,779	25,679
	Dividends paid (incl. tax)	(81,334)	(33,769)
	Interest paid	(15,129)	(11,475)
	Lease liabilities settlement	(98)	-
	Net cash used for financing activities	**(63,782)**	**(19,565)**
	Net change in balances of cash and cash equivalents	**137,186**	**41,731**
	Effect of exchange rate changes against ruble on cash and cash equivalents	(1,298)	1,114
9	**Cash and cash equivalents at the beginning of the period**	**260,346**	**217,501**
9	**Cash and cash equivalents at the end of the period**	**396,234**	**260,346**

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

(in millions of Russian rubles, unless otherwise stated)

Notes		Share capital	Additional paid-in capital	Treasury shares	Share premium	Retained earnings	Other reserves	Total equity attributable to shareholders	Non-controlling interests	Total equity
22	**Balance as of 01 January 2018**	**154,666**	**4**	**(30)**	**57,809**	**3,393,449**	**9**	**3,605,907**	**298**	**3,606,205**
	Net profit for the year	-	-	-	-	850,350	-	850,350	11	850,361
	Other comprehensive income / (expense)	-	-	-	-	4,616	(968)	3,648	1	3,649
	Total comprehensive income / (expense)	**-**	**-**	**-**	**-**	**854,966**	**(968)**	**853,998**	**12**	**854,010**
6	Change in ownership interests in subsidiaries	-	-	-	-	-	-	-	(13)	(13)
22	Dividends declared	-	-	-	-	(33,850)	-	(33,850)	(9)	(33,859)
	Other changes in equity	-	-	-	-	6	(5)	1	-	1
22	**Balance as of 31 December 2018**	**154,666**	**4**	**(30)**	**57,809**	**4,214,571**	**(964)**	**4,426,056**	**288**	**4,426,344**
	Net profit for the year	-	-	-	-	106,162	-	106,162	35	106,197
	Other comprehensive income / (expense)	-	-	-	-	(1,890)	648	(1,242)	-	(1,242)
	Total comprehensive income	**-**	**-**	**-**	**-**	**104,272**	**648**	**104,920**	**35**	**104,955**
22	Dividends declared	-	-	-	-	(81,912)	-	(81,912)	(9)	(81,921)
	Other changes in equity	-	-	-	-	(1,567)	1,567	-	-	-
22	**Balance as of 31 December 2019**	**154,666**	**4**	**(30)**	**57,809**	**4,235,364**	**1,251**	**4,449,064**	**314**	**4,449,378**

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

1 General information

“Surgutneftegas” Public Joint Stock Company (the Company) is one of the leading Russian oil companies in terms of hydrocarbon production.

The Company began its oil and gas production history in 1964 when it was established as oil producing division “Surgutneft”. In 1977, the Company was recognised as a diversified production association. In 1993, pursuant to Decree of the President of the Russian Federation No. 1403 dated 17.11.1992, Production Association “Surgutneftegas” was transformed into Joint Stock Company of Open Type “Surgutneftegas”.

The Company’s shares are allocated to shareholders, neither of them being an ultimate controlling party or a party exercising a significant influence.

The core activities of the Company and its subsidiaries (together referred to as the Group) are oil and gas exploration, production and processing, sale of hydrocarbons produced as well as sale of oil and gas products.

Other financial and business activities include banking and insurance activities (till July 2019) and provision of other goods, works and services.

The Company’s location: ul.Grigoriya Kukuyevitskogo, 1, bld. 1, Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast, Russian Federation.

The average number of the Group’s employees in 2019 is 114 thousand people (in 2018 – 115 thousand people).

2 Basic principles of financial reporting

Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including all IFRS standards and interpretations adopted by the International Accounting Standards Board (IASB) and effective in the reporting period.

These consolidated financial statements have been prepared on the basis of the actual cost measurement principle, except for financial instruments initially recognised at fair value and revaluation of financial instruments measured at fair value through profit or loss and at fair value through other comprehensive income.

These consolidated financial statements have been prepared on the basis of the accounting data as set out in the accounting and reporting regulations of the Russian Federation adjusted for the purpose of fair presentation under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates some of which are critical. In addition, the management shall rely upon its judgements in applying the Group’s accounting policies. The areas of accounting, involving a higher degree of judgement or complexity, and areas where assumptions and estimates are material to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which means that the value of assets shall be duly recovered and liabilities shall be duly settled in the ordinary course of business.

3 Summary of significant accounting policies

The summary of significant accounting policies used to prepare these consolidated financial statements is presented below. These accounting policies have been consistently applied to all periods defined in these consolidated financial statements, except for changes in accounting policies resulting from applying IFRS 16 “Leases”.

Since 1 January 2019 the following significant changes in the Tax Code of the Russian Federation have entered into force:

Tax on additional income. In accordance with Federal Law No. 199-FZ “On amending parts one and two of the Tax Code of the Russian Federation” enacted on 19 July 2018, tax on additional income from production of hydrocarbons (hereinafter – AIT) was introduced for a number of fields. Several Group’s fields have implemented the new tax regime starting from 1 January 2019.

Excise tax on crude oil feedstock. In accordance with changes, the new excisable goods were outlined: crude oil feedstock, and application of the deduction on excise taxes using the increasing coefficient.

Subsidiaries

The consolidated financial statements include data on the operations of the Company and its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it has power that gives it the ability to direct the relevant activities (the activities that significantly affect the subsidiary’s returns), when it has rights to variable returns from its involvement with the entity and is exposed to the risks arising from such returns. The acquisition date is the date on which control over a subsidiary is transferred to the Group.

Subsidiaries are included in the consolidated financial statements from the date on which the control over their operations is transferred to the Group (the acquisition date) and are excluded from the consolidated financial statements from the date the control ceases.

Investments in subsidiaries are recorded based on the acquisition method. The acquisition cost is evaluated as the aggregate of the consideration transferred, measured at fair value at the acquisition date.

Non-controlling interest is part of the net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly, by the Group. Non-controlling interest is a separate component of the Group’s equity.

Non-controlling interest, that represents an actual ownership interest and entitles the holder to a proportionate share of the net assets in the event of liquidation, is measured either individually for each transaction – at fair value, or in proportion to the non-controlling interest in the net assets of the acquired entity.

When acquiring (selling) non-controlling interests, the difference between the consideration transferred (received) and the carrying amount of the non-controlling interest acquired (sold) is recognised as an equity transaction.

Goodwill

Goodwill arises from the acquisition of subsidiaries.

The excess of the consideration transferred, value of the acquired non-controlling interest and fair value of any interest previously held by the Group at the acquisition date over the Group’s interest in fair value of the identifiable net assets acquired is recognised as goodwill within Intangible assets in the consolidated statement of financial position. If the actual acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is directly recognised in the consolidated statement of profit and loss and other comprehensive income. Goodwill is reviewed for potential impairment at each reporting date.

Cash-generating units (CGU) to which goodwill is allocated represent the lowest level within the Group at which goodwill is monitored by the management and within the operating segment only.

Transactions eliminated during consolidation

The following is eliminated from the consolidated financial statements:

the carrying amount of the parent entity’s investments in each subsidiary, the amount of the share capital of each subsidiary as well as interests in other equity and retained earnings items;

intragroup cash flows;

balances, income and expenses resulting from intragroup transactions as well as unrealised gains and losses from such transactions, except for losses from transactions between the Group’s entities indicating an impairment and which are to be recognised as such.

Application of uniform accounting policies

The Group’s entities use uniform accounting policies and reporting periods. If the Group’s entities use different accounting policies, their financial statements are duly adjusted and included in the consolidated financial statements of the Group.

Cash and cash equivalents, restricted cash

Cash and cash equivalents include cash in hand, cash in settlement accounts, cash held with correspondent banks and other short-term highly liquid investments (with the original maturity under the contract less than three months) that are readily convertible to previously known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Restricted cash is recognised separately in the consolidated statement of financial position.

Inventories

Inventories consisting primarily of raw materials and supplies, oil and oil products are presented in the consolidated statement of financial position at the lower of the acquisition cost and the net realisable value. The cost of finished goods and work in progress comprises the cost of raw materials and supplies, direct costs as well as related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and costs necessary to make the sale.

The cost of inventories that are recognised as operating expenses is measured at the weighted average cost.

Property, plant and equipment

Property, plant and equipment are stated at actual cost of acquisition or construction, less accumulated depreciation and accumulated impairment losses, where required. The cost of property, plant and equipment also includes the initial estimate of the costs of removing an item of property, plant and equipment and the estimate of obligations for land remediation and restoration.

Minor renewals which do not contribute to any quality technical improvements are recorded in expenses of the current period. The costs of replacing major parts or components of property, plant and equipment are capitalised, and the cost of the parts to be replaced is concurrently written off. Enhancement or renovation related to the asset which has already been recognised as an item of property, plant and equipment increases its carrying amount, if future economic benefits to be most likely obtained by the Group exceed the initial asset standard estimates.

Oil and gas properties

Exploration and evaluation costs

Costs of oil and gas reserves exploration and evaluation at fields not brought into commercial production are recognised using the successful efforts method. Accordingly, costs associated with acquisition of licences for oil and gas reserves exploration and evaluation, prospecting and exploratory drilling, costs of equipment for exploratory wells and prospecting and appraisal wells, and scientific, topographical, geological and geophysical surveys costs are designated as exploration and evaluation assets until development of a field is proved to be commercially feasible and are capitalised within respective licence blocks.

These costs are recognised to be written off based on the results of the works performed. Capitalised costs which have been ineffective are recognised in operating expenses of the reporting period.

Annually, all costs are measured for impairment from technical, economic and management perspectives. If impairment is recognised, an impairment loss is expensed and the value of an asset is reduced.

If oil and gas reserves have been discovered as a result of geological exploration and a decision on bringing a field into development has been made, the capitalised costs, less losses from impairment of the respective exploration and evaluation assets, are classified as related assets.

Other costs associated with protection of lands, subsoil and other natural resources as well as costs of engineering and geological surveys are recorded in operating expenses as incurred.

Development and production costs

Costs incurred at fields brought into commercial production, which include expenses to access recoverable reserves, costs related to drilling production wells and construction, installation and equipment of other facilities directly associated with development of a field, are capitalised as part of oil and gas assets.

Oil and gas exploration and production licences

Oil and gas exploration and production licences are recorded in oil and gas exploration and production assets at actual cost, less accumulated amortisation and impairment loss.

Depletion, depreciation and amortisation

Oil and gas properties and oil and gas exploration and production licences are depreciated and amortised using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production of oil and gas.

Items of other property, plant and equipment and their respective estimated useful lives are as follows:

Buildings and structures	10-40 years
Vehicles	5-20 years
Machinery and equipment	5-25 years
Other properties	2-25 years

Capitalised costs are amortised over the useful life of an asset or its parts determined by the Group.

Abandoned, idle items of other property, plant and equipment (except for those classified as assets held for sale) are depreciated subject to general rules applied to the respective classes of assets. Items of property, plant and equipment are depreciated on a straight-line basis by writing down their historical cost to residual value within the period of their useful life.

Depreciation of an asset ceases at the earlier of the two dates: the date when the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date when the asset is derecognised.

Land and construction in progress are not depreciated.

Gain or loss from disposal of property, plant and equipment is the difference between the consideration received and the carrying amount; it is recognised in other income (expenses) as incurred.

Construction in progress

Construction in progress includes expenses directly related to the construction of items of property, plant and equipment, including respective overhead costs allocated to such construction. Depreciation of an asset begins when an asset is available for use, i.e. when it is brought to the condition usable as intended by the management.

Advances for acquisition of property, plant and equipment directly related to construction projects and advances to contractors on construction projects are accounted for construction in progress.

Recognition of asset retirement (decommissioning) obligations

The Group has obligations related to decommissioning of facilities engaged in its core activities.

The Group’s core activities are geological exploration, field development and oil and gas production associated with operation of wells, equipment and adjacent sites, oil gathering and initial treatment facilities, pipelines to oil trunk lines. Rights to perform works related to the Group’s core activities include requirements for decommissioning of oil production facilities and other facilities. According to these requirements, the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other activities. The Group’s estimates of these obligations are subject to fulfilling current decommissioning obligations in respect of such facilities to the extent that the Group is obliged to perform restoration works and include determination of discounted costs which are expected to be incurred to fulfil such obligations. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the obligations.

These obligations are reviewed at the end of each reporting period. Changes in the estimates of the obligations are subject to recognition as follows:

upon changes in the estimates influencing the future cash flows (e.g., the costs of and time frame of abandoning one well) or a discounting rate, changes in the estimates of the obligations are included in the amount of an item of property, plant and equipment. However, if a decrease in the estimate of the obligations exceeds the carrying amount of the relevant asset, the excess is recognised in profit or loss. In case of an increase in the obligations, the amount of the adjusted item of property, plant and equipment may not exceed the recoverable amount of this item;

changes in the amount of the obligations due to its nearing maturity (amortisation of discount cost) are included in finance expenses.

Future events that may affect the amount of obligations required to settle decommissioning and environmental protection obligations are reflected in the estimates of these obligations where there is sufficient objective evidence that they will occur. Due to changes in the legislation of the Russian Federation, there could be future changes related to decommissioning obligations.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of the lease, the Group shall recognise a right-of-use asset and a lease liability.

The right-of-use asset shall be initially measured at cost which comprises the amount of the lease liability at the commencement date of the lease, adjusted for any lease payments made at or before the commencement date of the contract, plus initial direct costs and an estimate of costs of dismantling, removing and restoring the underlying asset on the site of its location, less the received payments. After the commencement date of the lease, the Group shall measure the right-of-use asset applying a historical cost model, less accumulated depreciation and accumulated impairment losses; and the adjusted carrying amount due to lease modifications or to reflect revised in-substance fixed lease payments.

At the commencement date, the lease liability shall be measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group shall use the incremental borrowing rate. Subsequently, lease liabilities shall be measured at amortised cost using the effective interest method.

The right-of-use asset shall be reflected in “Right-of-use assets”, of the consolidated statement of financial position, current and non-current lease liabilities in “Payables and liabilities accrued” in current liabilities and “Other non-current liabilities” in non-current liabilities of the consolidated statement of financial position.

The expense relating to variable lease payments not included in the measurement of lease liabilities is not significant. The Group did not apply the exceptions provided for by the standard which relate to short-term leases and leases with an underlying asset of low-value.

Intangible assets

To recognise intangible assets generated by the Group’s companies, the Group subdivides the generation of an asset into a research phase and a development phase.

Research expenditures are charged to operating expenses as incurred.

Costs incurred to develop an intangible asset are capitalised once technical and economic feasibility of a product or a process has been proved. Development expenditures that were initially recognised as expenses are not subsequently capitalised even if complying with conditions for the recognition of assets.

The historical cost of acquired intangible assets represents expenditures incurred to acquire and put them into service.

Advances issued for acquisition of intangible assets are classified as non-current assets irrespective of the date when such assets have been delivered.

After initial recognition, the Group applies the cost model where an intangible asset is carried at its actual cost, less accumulated amortisation and any accumulated impairment losses, where required.

Amortisation of intangible assets begins when they are available for use. Intangible assets are amortised on a straight-line basis over their expected useful lives. The amortisation methods and expected useful lives are reviewed at each reporting date, and all the changes in the estimates are accounted for in periods of changes in estimates and in future periods.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss as other income or expense when the asset is derecognised.

Impairment of non-current non-financial assets

The Group’s non-current non-financial assets, except for deferred tax assets, are reviewed for any indication of impairment at each reporting date. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated at each reporting date.

For the purpose of impairment testing, assets are grouped into the smallest group of assets generating cash inflows from their use that are independent of the cash inflows from other cash-generating units (CGU).

The recoverable amount by the CGU is the higher of two values: the CGU value in use and its fair value, less costs of disposal.

The CGU value in use is determined using discounted cash flow models. Future cash flows projections are made to estimate the CGU value in use.

The CGU future cash flows projections are based on the forecast of external and internal factors in relation to the Group.

The forecast of external factors includes the forecast of the market macroeconomic environment (oil, gas and oil products prices, inflation and interest rates) and tax environment (tax rates, export duties, fees and charges). These forecasts are based on the assessments of the Company’s management and macroeconomic forecasts available at the reporting date.

The expected future cash flows are discounted to their present value using a pre-tax discount rate estimated on the basis of the weighted average cost of capital.

An impairment loss is recognised if the carrying amount of an asset or a group of assets (CGU) exceeds its recoverable amount. Impairment losses are recorded in other expenses. The CGU impairment losses are allocated first to reduce the carrying amount of goodwill allocated to such CGU and then to reduce the carrying amount of other assets of the CGU on a pro rata basis. An impairment loss for goodwill is not reversed.

Impairment losses relating to other assets recognised in prior reporting periods are assessed at each reporting date to confirm whether there is any indication that they may exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed in the manner that the value of an asset shall not exceed the carrying amount of an asset (net of amortisation or depreciation) if no impairment loss had been recognised.

Financial assets

The Group recognises a financial asset in the consolidated statement of financial position only when it becomes a party to the contract concerning this financial instrument.

All purchases and sales of financial assets that require delivery within the timeframe established by the regulation or market convention (“regular way” purchases and sales) are recorded at the trade date, i.e. the date at which the Group commits to purchase or sell a financial asset. All other purchases and sales are recognised at the delivery date.

The Group classifies financial assets into the following three measurement categories: financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost.

Financial assets at fair value through profit or loss are initially recognised at fair value. All other financial assets, except for trade receivables, are initially recorded at fair value plus transaction costs. Trade receivables at initial recognition are recorded at transaction price.

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 of a financial asset is the price in an active market.

Active market is the market in which transactions for the certain asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Financial assets are classified as measured at amortised cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise at specified dates to collect cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are classified as measured at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise at specified dates to collect cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are classified as measured at fair value through profit or loss unless they are included in other categories.

At initial recognition, the Group at its discretion may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for contingent consideration recognised by an acquirer in a business combination.

The Group recognises gain or loss on financial assets, measured at fair value through other comprehensive income in other comprehensive income, except for impairment losses, interest (calculated with use of the effective interest method) and gains or losses from changes in the foreign exchange rates.

The Group recognises gain or loss from changes in fair value of financial assets measured at fair value through profit or loss in other income (expenses) in the consolidated statement of profit and loss and other comprehensive income.

Financial assets measured at amortised cost are further measured using the effective interest method, less the loss allowance for expected credit losses. Amortised cost of discounts or premiums calculated with use of the effective interest method is recorded in finance income (expenses) in the consolidated statement of profit and loss and other comprehensive income.

The Group reclassifies financial assets only when it changes its business model used for managing financial assets. There were no such reclassifications during the reporting period.

Impairment of financial assets: loss allowance for expected credit losses

As of each reporting date, the Group assesses whether credit risks on financial assets have increased significantly since their initial recognition. When making the assessment, the Group considers the change in the risk of a default occurring over the expected life of the financial asset by means of comparison of the risk as of the reporting date with the risk as of the date of initial recognition and analysis of reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition of the relative instruments.

At each reporting date, the Group recognises the loss allowance for expected credit losses for the following categories of financial assets:

financial assets measured at amortised cost;

financial assets measured at fair value through other comprehensive income.

The amount of expected credit losses (or reversal) adjusting the loss allowance as of the reporting date is recognised in profit or loss as an impairment gain or loss. In this case, the loss allowance on financial assets measured at fair value through other comprehensive income is recognised in other comprehensive income and does not decrease the carrying amount of the financial asset in the statement of financial position.

The loss allowance is equal to the lifetime expected credit losses if credit risk on the financial asset increased significantly since its initial recognition. If there is no significant increase in credit risk, the loss allowance is equal to 12-month expected credit losses (the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date).

The Group applies a simplified approach stipulated in IFRS 9 to measurement of expected credit losses in which a loss allowance for the lifetime expected credit losses for trade receivables is used.

Trade and other receivables were grouped on the basis of shared credit risk characteristics and a number of past due days in order to measure expected credit losses.

Expected credit losses on financial instruments are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort at the reporting date.

Derecognition of financial assets

The Group derecognises financial assets when the maturity period of the contractual rights to cash flows from this financial asset expires, or when it transfers the financial asset and the transfer qualifies for the derecognition requirements.

The transfer qualifies for the derecognition requirements when the Group has transferred substantially all the risks and rewards of ownership of the financial asset, or neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset but lost control over it.

Financial liabilities

Financial liabilities of the Group are trade and other accounts payable, loans and credits received. Financial liabilities are recognised at amortised cost.

The Group derecognises a financial liability (or a part of a financial liability) if it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recorded in other income (expenses) in the statement of profit and loss.

Value added tax

The amount of value added tax (VAT) payable to the budget at the end of each tax period is defined as output VAT, less input VAT, paid on the purchase of goods (works, services). The tax base is determined on delivery where delivery is recognised at the earliest of the dates: date of dispatch (transfer) of goods (works, services), property rights or date of payment or partial payment against future deliveries of goods (works, services), transfer of property rights.

Zero rate is applicable to export of goods. This application is substantiated by the documents which are submitted to the taxation authorities as required by the legislation of the Russian Federation. Input VAT related to zero-rated transactions is deductible.

VAT payable and VAT recoverable are recognised in the statement of financial position on a gross basis in assets and liabilities. Where a loss allowance for expected credit losses has been made for receivables, the impairment loss is recognised for the full amount receivable, including VAT.

Mineral extraction tax

Mineral extraction tax (MET) related to oil production is charged based on the quantity of mineral resources extracted and calculated on a monthly basis as the product of the quantity of mineral resources produced and a fixed tax rate (in 2019 – RUB 919 per tonne, in 2018 – RUB 919 per tonne) adjusted depending on the monthly average global market prices of the Urals oil and the USD/RUB exchange rate for the preceding month as well as on the indicator which characterises the specifics of oil production.

The Company qualifies for MET relief, i.e. fixed rate discounts subject to production areas, the degree of depletion and reserves availability at the subsoil area and the complexity of extraction. MET is recorded in operating expenses within “Taxes, excluding income tax”.

Tax on additional income

The AIT rate is 50% charged on income from production of hydrocarbons calculated as the difference between the estimated revenue and certain costs associated with production and treatment of hydrocarbons as well as with the estimated export duty and transportation expenses. At the same time, mineral extraction tax for these fields is charged at a reduced rate.

AIT is classified as the expense from the ordinary course of business similarly and is presented in the consolidated statement of profit and loss and other comprehensive income in operating expenses within “Taxes, excluding income tax”.

Excise tax on crude oil feedstock

Regressive excise tax decreases the amount of the excise tax accrued to payment which is reflected in operating expenses within “Taxes, excluding income tax” in the consolidated statement of profit and loss and other comprehensive income.

Customs duties

Hydrocarbons exported outside the territory of the Customs Union are subject to customs export duties, the amount of which is adopted on a monthly basis by the Government of the Russian Federation and reviewed depending on the average global market prices of the Urals oil for the preceding period.

Income tax

The income tax expenses for the reporting period comprise current tax and deferred tax. Income tax is fully recognised in profit or loss, except if it arises from transactions which are directly recorded in equity or other comprehensive income.

The concept of the consolidated group of taxpayers was introduced in the Russian legislation in 2012. Currently, the Group continues to apply the concept. Income tax in relation to companies which do not belong to the consolidated group of taxpayers is calculated based on the income stated in their individual tax returns.

These consolidated financial statements include deferred income tax assets and liabilities estimated by the Group under IAS 12 “Income taxes”.

Current income tax is the amount expected to be paid to the budget in respect of the taxable profit taking into consideration the loss for the current and prior periods.

Deferred income tax is recorded in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amount in the consolidated financial statements.

Deferred taxes are not recorded for:

temporary differences at initial recognition of assets or liabilities in transactions other than business combinations and which do not affect neither accounting nor taxable profit (tax loss);

temporary differences associated with investments in subsidiaries, joint ventures and associates if the Group controls the reversal of such temporary differences and it is highly probable that they will not reverse in the foreseeable future;

temporary differences arising from the initial recognition of goodwill.

Deferred tax is measured at tax rates which are expected to apply to the period when the temporary differences will reverse based on the legal provisions effective or substantively brought into effect at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities, and if they relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities to the extent when they intend either to settle current tax assets and liabilities on a net basis, or to realise the tax assets and settle the tax liabilities simultaneously.

In accordance with the tax law of the Russian Federation, tax effect of loss incurred in prior reporting periods can be recognised as a deferred tax asset.

Deferred tax assets are recognised only to the extent that it is highly probable that future taxable profit will be available against which the occurred temporary differences can be utilised. The amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer highly probable that the respective benefit will be derived from its utilisation.

Deferred tax assets and liabilities are recognised in non-current assets and non-current liabilities respectively.

Uncertain tax positions

The Group’s uncertain tax positions are assessed by the Group’s management at the end of each reporting period. Obligations are recorded for income tax positions that are determined by the Group’s management as more likely, than not, to result in additional taxes being levied if the Group’s tax position was to be challenged by the taxation authorities. Such assessment is based on the interpretation of tax laws that have been effective or substantively brought into effect at the end of the reporting period, and any known court or other rulings on such issues. Obligations for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Employee benefits

Post-employment benefit obligations

Costs related to post-employment benefits are accrued and recognised in payroll expenses. Post-employment benefit obligations are measured at current cost of the estimated cash outflows using the interest rates applicable to government securities which maturity is nearly the same as that of the obligations. Costs related to post-employment benefit obligations are measured using the projected unit credit method. Actuarial gains and losses are recorded in other comprehensive income within Remeasurements of post-employment benefit obligations in the period in which they occur.

In accordance with its collective agreements, the Group pays additional post-employment benefits and other post-employment benefits to its employees. Pursuant to its corporate plan, the Group makes employee contributions to JSC “NPF “Surgutneftegas”. Once contributions to JSC “NPF “Surgutneftegas” have been made and benefits due to employees have been paid, pension liabilities to the employees are regarded as covered, hence the Group does not incur actuarial and investment risks. Besides, the Group does not have assets attributed to post-employment benefit plans.

In the ordinary course of business, the Group contributes to the Pension Fund of the Russian Federation on behalf of its employees. Obligations in respect to such contributions are recognised as employee benefits expenses incurred during the period when the respective services have been rendered by employees under employment agreements.

Revenue recognition

Revenue is recognised at transaction price. Transaction price is consideration which the Group expects to receive in exchange for transferring control over promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when (or as soon as) the Group fulfils a performance obligation by transferring the promised goods or service (i.e. an asset) to the buyer. The asset is transferred when (or as soon as) the buyer takes control over such an asset. The transfer of control occurs at a different time subject to the relevant terms of each sale and purchase agreement.

Domestic sales of oil and gas as well as oil products and other materials are recognised when title passes.

Export sales of crude oil (transfer of title and risks of accidental loss) are FOB based (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail at the designated port), DAF based (delivered at frontier) or DAP based (delivered at place). Title passes at the time when the goods pass the tanker’s permanent hose connection at the loading port, the border of the Russian Federation, or when the seller places the goods at the disposal of the buyer on the transport vehicle ready for unloading, at the named place, subject to delivery terms and conditions. Oil products sales are FOB based (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail at the designated port), CPT based (transportation is paid up to a point specified in the contract and the risk is transferred during the moment of transferring the goods to the first carrier) and FCA based (the delivery to a carrier specified by the buyer at a named place). The Group covers transportation expenses on such sales up to a point specified in the contract. In most contracts control is transferred at the moment of delivery to the buyer (consignee), transportation is not a separate performance obligation.

Revenue from sales is presented in the consolidated statement of profit and loss and other comprehensive income, less relevant duties and taxes on such sales.

Functional and presentation currency

The currency of the Russian Federation is Russian ruble (RUB) which is the functional currency of the Group’s companies and is used as the presentation currency of these consolidated financial statements.

All values presented in rubles are rounded to the nearest million, unless otherwise indicated.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency of the Group’s entities at the exchange rate effective at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate effective at this date. Non-monetary assets and liabilities in foreign currencies measured at fair value are translated into the functional currency at the exchange rate effective at the date when their fair value has been determined. Exchange differences resulting from the translation of currencies are recognised in other income and expense.

Net earnings per share

Earnings per share are calculated by dividing net income attributable to the holders of the Company’s ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period, net of average number of treasury ordinary shares bought back by the Group’s entities.

Equity

Ordinary and preference shares

The share capital is divided into ordinary and preference shares. Preference shares are entitled to vote on matters in respect of reorganisation and liquidation of the Company, and matters related to releasing the Company from an obligation to disclose or provide information required by the legislation of the Russian Federation on securities; introducing amendments and addenda to the Company’s charter which restrict the rights of holders of the preference shares of this type; filing an application for listing or delisting of preference shares of this type.

If dividends on preference shares per year have not been declared or paid, preference shares are entitled to vote on a par with ordinary shares unless dividends on preference shares are declared and paid.

Additional paid-in capital

Additional paid-in capital represents profit (loss) on operations, financial results of which shall be recognised directly in equity, including gains and losses from sale of treasury shares and gains and losses from purchase (sale) of a non-controlling interest (whole or its part) provided that the control is retained.

Treasury shares

If the Group purchases the Company’s shares, these shares are deducted from equity. Treasury shares are recorded at the acquisition cost. Gains and losses associated with purchase, sale, issue or cancellation of treasury shares shall be recorded directly in equity.

Share premium

Share premium represents the excess of contributions received over the par value of the Company’s ordinary shares issued, less flotation costs.

Non-controlling interests

Non-controlling interests are part of profit or loss and net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly through subsidiaries, by the Company.

Non-controlling interests are presented in equity, separately from the Group’s equity, in the consolidated statement of financial position.

Dividends

Dividends are recorded as liabilities and are deducted from equity in the period in which they are declared.

Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for annual periods beginning on 1 January 2019:

IFRS 16 “Leases” (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard establishes principles for recognition, measurement, presentation and disclosure of information on leases in the financial statements. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, as 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 required by IAS 17 and, instead, introduces a single lessee accounting model.

The Group’s management took a decision to apply the standard using a modified retrospective method without recalculation of comparative figures.

When transferring to IFRS 16, the Group has recognised lease liabilities which were previously classified as operating leases in accordance with IAS 17. Lease liabilities shall be measured at the present value of future lease payments discounted using the incremental borrowing rate as of 1 January 2019:

(in millions of Russian rubles, unless otherwise stated)

Future minimum lease payments for operating leases as of 31 December 2018	**46,183**
Effect from discounting at the incremental borrowing rate at the date of initial application	(32,970)
Total lease liabilities as of 01 January 2019	**13,213**

The impact of initial application of IFRS 16 on the consolidated statement of financial position is presented in the table below:

	As of 31 December 2018	Effect from application of IFRS 16	**As of 01 January 2019**
Right-of-use assets	-	13,213	13,213
Payables and liabilities accrued	49,468	1,252	50,720
Other non-current liabilities	1,337	11,961	13,298

IFRIC 23 “Uncertainty over Income Tax Treatments”. IAS 12 specifies guidance for current and deferred tax treatments, but there is no guidance for recognition of uncertainty effects. The interpretation clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

This interpretation had no material impact on the Group’s consolidated financial statements.

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19. The amendments specify how to determine post-employment benefits when changes in the defined benefit plan occur. When the plan is being amended – revision, curtailment or settlement – IAS 19 requires to remeasure the net defined benefit liabilities or assets. The amendments require to use updated assumptions of such a remeasurement to determine the current service cost and net interest for the remainder of the reporting period after the plan amendment.

These amendments had no material impact on the Group’s consolidated financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 – these amendments had no material impact on the Group’s consolidated financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 – these amendments had no material impact on the Group’s consolidated financial statements.

Annual improvements to IFRSs, 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 – these amendments had no material impact on the Group’s consolidated financial statements.

4 Critical accounting judgements, estimates and assumptions

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

Judgements that significantly affect the indicators recognised in the consolidated financial statements and estimates that may require significant adjustments of the carrying amount of assets and liabilities within the next financial year include:

Estimation of oil and gas reserves

Estimates of oil recoverable reserves are imprecise as hydrocarbon reservoirs lie at a significant depth and they are characterised by variability of geological structure; due to this reserve estimations are subject to regular revision, either upward or downward, based on new information such as from the drilling of wells, research, observation of long-term reservoir performance under development.

Reserves are estimated on the basis of technical and economic feasibility of bringing them into development taking into consideration additions of reserves and mineral extraction. Reserve estimations are reviewed annually.

Oil and gas reserves are estimated for the purpose of these statements in accordance with the provisions of Federal Budgetary Institution “State Reserves Committee” (FBU “GKZ”).

Oil and gas estimation is used for depreciation of oil and gas assets and for impairment determination. Oil and gas estimation is made based on possible assumptions and is reviewed on an annual basis.

Reserve estimations have an impact on certain amounts of consolidated financial statements: oil and gas assets depreciation value and impairment losses. Depreciation of oil and gas assets is calculated using the unit-of-production method for each field based on initial recoverable reserves under the Russian classification. Oil and gas estimation under the Russian classification is used for calculations of future cash flows to be one of the main evidence of asset impairment.

Useful life of other property, plant and equipment and intangible assets

The Group estimates the remaining useful life of other property, plant and equipment at least once a year at the end of the financial year. If expected values differ from previous estimations, changes are recognised as changes in accounting estimates in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The Group’s Management determines the useful life for property, plant and equipment and intangible assets subject to physical properties and terms during which they bring benefit to the Group.

Impairment of goodwill and other assets

When assessed for possible impairment of other assets, forecast of cash flows requires a number of significant assumptions and estimates of such indicators as oil and gas production output, natural gas, oil and refined products prices, operating expenses, capital expenditures, hydrocarbon reserves, including such macroeconomic indicators as the inflation rate and discount rate. Besides, assumptions are applied for determining generating groups of assets subject to assessment for impairment. Value of assets and generating groups of assets related to oil and gas production is determined based on production output projections.

Asset retirement (decommissioning) and environmental protection obligation

Production and exploration operations of the Group are governed by a number of environmental safety regulations and statutory acts. The Group assesses environmental protection obligations based on the Group’s Management awareness of the current legislation, terms and conditions for subsoil use and in-house engineering judgements. Decommissioning obligations are recognised on a net discounted basis at the moment at which the relevant obligations arose. Actual deferred expenses may significantly differ from the amount of obligations formed. Additionally, such provision may be influenced by future changes in environmental safety statutory acts, expected terms of field development and discount rates.

Post-employment benefit obligations

Post-employment benefit obligations are assessed based on assumptions. Actual amounts may differ from the estimated values of the Group and may be adjusted in the future based on modified expectations of the Group.

Expected survival assumptions are based on published statistics and demographic tables of mortality. At present, the retirement age in the Russian Federation is 65 and 60 years for men and women respectively.

5 New interpretations and standards

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2020 and which the Group has not early adopted.

Amendments to Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework for financial reporting contains a chapter on measurement, guidances on recording financial performance in the statements, updated definitions and guidances (in particular, the definition of liabilities) and explanations of key matters such as the objective of management, prudence and measurement uncertainty in preparation of the financial statements. The Group’s management is currently analysing the impact of the amendments on the consolidated financial statements.

It is expected that the following standards and interpretations, on their entry into force, will not have a material impact on the Group’s consolidated financial statements:

Definition of Materiality – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020).

(in millions of Russian rubles, unless otherwise stated)

Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020).

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued in September 2019 and effective for annual periods beginning on or after 1 January 2020).

IFRS 17 “Insurance Contracts” (issued in May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 which allowed the entities to continue accounting for insurance contracts, which are otherwise similar, using existing practices. IFRS 17 is a single standard for presentation of all types of insurance contracts, including contracts of reinsurance of the insurer.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued in January 2020 and effective for annual periods beginning on or after 1 January 2022). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning after the date defined by the International Accounting Standards Board).

6 Subsidiaries

The Company has the following subsidiaries registered and doing business in the Russian Federation:

Description	Area of activity	As of 31 December 2019, ownership interest (%)	As of 31 December 2018, ownership interest (%)
Oil and gas exploration and production			
“Surgutneftegas” PJSC	Oil and gas exploration and production	Parent company	Parent company
Oil refining			
LLC “KINEF”	Oil refining	100%	100%
Oil products sales			
LLC “Novgorodnefteproduct”	Oil products sales	100%	100%
LLC “Pskovnefteproduct”	Oil products sales	100%	100%
LLC “Kaliningradnefteproduct”	Oil products sales	100%	100%
LLC “MA “Tvernefteproduct”	Oil products sales	100%	100%
LLC “KIRISHIAVTOSERVIS”	Oil products sales	100%	100%
Other companies			
LLC “Insurance Company “Surgutneftegas”	Insurance	-	100%
Joint Stock Company “Surgutneftegasbank”	Banking operations	97.7591%	97.7591%
LLC “Surgutmebel”	Manufacture of wood construction items	100%	100%
LLC “Media-Invest”	Regional and corporate television and radio broadcasting	100%	100%
LLC “Lengiproneftekhim”	Engineering	100%	100%
LLC “DmitrovMontazhGrupp”	Construction of buildings and structures	97.7591%	97.7591%
LLC “Rion”	Securities management	100%	-

(in millions of Russian rubles, unless otherwise stated)

This list of subsidiaries is complete, the Group has no subsidiaries outside the Russian Federation.

In July 2019, the Group disposed of its subsidiary LLC “Insurance Company “Surgutneftegas”. Disposal of this entity had no material impact on the consolidated financial statements.

As of 31 December 2019, non-controlling interests in the amount of RUB 314 million (as of 31 December 2018 – RUB 288 million) are not material for the Group.

7 Segment information

Individual executive body represented by director general of the Company and deputies of director general covering different operations (the Management) act as a manager making operational decisions and consider the information about the Group to comprise the following operating segments:

exploration and production segment is part of the Company’s activity related to exploration, evaluation, production of oil and gas, and oil and gas sales;

refining and sale segment is part of the Company’s activity related to oil and gas processing, and sales of refined products, and the activity of the Group’s subsidiaries involved in oil refining and refined products sales;

other activities segment represents other non-significant activities and segments having no similar economic performance and includes banking operations, insurance (till July 2019) and production of other goods, works and services.

On a monthly basis the Management estimates performance results of the segments based on the analysis of the revenue, profit and operating expenses to resolve on resource distribution and operating efficiency.

Results of separate significant operations and a number of adjustments required to bring accounting (financial) statements of the Company prepared in accordance with Russian Accounting Statements (RAS) in line with the relevant IFRS amounts are considered by the Management across the whole Group without breakdown by operational segments.

Sales operations among operational segments recorded as intersegment sales are performed based on market prices.
Performance results of operating segments for 2019:

	Exploration and production	**Refining and sale**	**Other activities**	**Intersegment sales**	**Total**
Sales revenue, including:					
revenues from oil sales	1,003,091	-	-	-	1,003,091
revenues from oil products sales	-	601,388	-	(75,453)	525,935
revenues from gas and gas products sales	15,740	10,335	-	(15)	26,060
revenues from sales of other products and finished goods	3,807	3,605	1,470	(1,155)	7,727
other sales revenue	5,965	1,166	1,560	(628)	8,063
Total sales revenue	**1,028,603**	**616,494**	**3,030**	**(77,251)**	**1,570,876**
Operating expenses	(740,985)	(509,606)	(5,044)	77,766	(1,177,869)
Operating profit / (loss)	**287,618**	**106,888**	**(2,014)**	**515**	**393,007**
Finance income					141,742
Finance expenses					(21,477)
Exchange differences					(360,961)
Loss from sale and other disposal of financial assets					1,994
Other expenses					(21,370)
Profit before tax					**132,935**
Income tax					(26,738)
Net profit					**106,197**

(in millions of Russian rubles, unless otherwise stated)

Performance results of production segments for 2018:

	Exploration and production	Refining and sale	Other activities	Intersegment sales	Total
Sales revenue, including:					
revenues from oil sales	1,011,909	-	-	(23,114)	988,795
revenues from oil products sales	-	603,642	-	(78,454)	525,188
revenues from gas and gas products sales	15,634	10,884	-	(9)	26,509
revenues from sales of other products and finished goods	3,681	3,099	1,442	(739)	7,483
other sales revenue	5,460	1,029	1,909	(414)	7,984
Total sales revenue	**1,036,684**	**618,654**	**3,351**	**(102,730)**	**1,555,959**
Operating expenses	(738,542)	(496,784)	(8,592)	103,153	(1,140,765)
Operating profit / (loss)	**298,142**	**121,870**	**(5,241)**	**423**	**415,194**
Finance income					136,224
Finance expenses					(16,816)
Exchange differences					529,387
Loss from sale and other disposal of financial assets					(65)
Other expenses					(25,029)
Profit before tax					**1,038,895**
Income tax					(188,534)
Net profit					**850,361**

Sales comprise the following (based on the buyer’s registration country):

Sales	**For 2019**	**For 2018**
Sales of oil, oil products – Eurasia, other than Russia	1,479,843	1,470,796
Domestic sales of oil, gas, oil and gas products	310,925	370,653
Other international and domestic sales	24,053	25,671
Total sales	**1,814,821**	**1,867,120**
Less export duties	(243,945)	(311,161)
Total sales revenue	**1,570,876**	**1,555,959**

The Management does not believe that the Group depends on any individual buyer.

8 Related party transactions

Parties are generally considered to be related if one party has the ability to control the other party or can exercise a significant influence over the other party in its financial and business activities as well as in making operational and financial decisions. While considering each possible related party’s relationship, the economic essence of such relationship, not merely the legal form, is taken into account.

The related parties may enter into transactions, which unrelated parties might not exercise, and transactions between the related parties may not be affected on the same terms and conditions as transactions between unrelated parties.

Within 2019 and 2018, the Group entered into transactions with JSC “NPF “Surgutneftegas” to provide post-employment benefits to employees retired within the year, and other related parties.

Within 2019 and 2018, the Group contributed to JSC “NPF “Surgutneftegas” RUB 1,179 million and RUB 1,263 million respectively.

As of 31 December 2019, the Group had RUB 12,701 million (as of 31 December 2018 – RUB 6,221 million) of loans received from the related parties (funds of the customers of the Group’s bank).

(in millions of Russian rubles, unless otherwise stated)

The amount of compensation subject to the regional coefficient and Northern allowance (the salary for the reporting period with taxes and other obligatory budget and non-budget payments accrued, annual paid leave for the work performed in the reporting period and similar payments) to the key management personnel (10,216 people in 2019 and 10,107 people in 2018), including business units and subsidiaries of the Company, authorised to plan, manage and control the Group’s operations in 2019 equalled RUB 37,656 million (for 2018 – RUB 35,977 million). Post-employment benefits are provided to the management personnel on a non-preferential basis.

9 Cash and cash equivalents, restricted cash

Cash and cash equivalents represent the following:

	As of 31 December 2019	As of 31 December 2018
Cash in hand and at settlement accounts	25,252	13,379
Deposits with original contractual maturity less than 3 months	370,982	246,967
Total cash and cash equivalents	**396,234**	**260,346**

Restricted cash represents obligatory reserves of the Group’s bank at the accounts of the Central Bank of the Russian Federation.

The additional information on cash and cash equivalents is presented in Note 31.

10 Deposits placed

Placed deposits comprise the following:

	As of 31 December 2019	As of 31 December 2018
Short-term deposits	821,641	840,222
loss allowance for expected credit losses	(1,109)	(1,201)
Long-term deposits	2,150,932	2,269,757
loss allowance for expected credit losses	(5,316)	(5,627)
Total deposits placed, including:	**2,966,148**	**3,103,151**
short-term	820,532	839,021
long-term	2,145,616	2,264,130

Placed deposits represent short-term bank deposits with original contractual maturity more than three months and long-term bank deposits. Interest is paid mainly together with return of the principal amount to the settlement account. In accordance with deposit agreements, the Group loses its right to part of the accrued interest in case of early return of the principal amount.

The additional information on deposits placed is presented in Note 31.

Information on the fair value of deposits is presented in Note 32.

11 Receivables

Accounts receivable include:

	As of 31 December 2019	As of 31 December 2018
Trade receivables	95,301	108,140
loss allowance for expected credit losses	(196)	(184)
Other receivables	2,877	5,975
loss allowance for expected credit losses	(253)	(337)
Total receivables, including:	**97,729**	**113,594**
short-term	96,565	112,501
long-term	1,164	1,093

(in millions of Russian rubles, unless otherwise stated)

Analysis of changes in the loss allowance for expected credit losses of accounts receivable for 2019 is presented below:

	Trade receivables	**Other receivables**
Loss allowance for expected credit losses of accounts receivable as of 01 January 2019	**(184)**	**(337)**
Loss allowance for expected credit losses accrued	(20)	(360)
Loss allowance for expected credit losses used	3	20
Loss allowance for expected credit losses recovered	5	424
Loss allowance for expected credit losses of accounts receivable as of 31 December 2019	**(196)**	**(253)**

Analysis of changes in the loss allowance for expected credit losses of accounts receivable for 2018 is presented below:

	Trade receivables	**Other receivables**
Loss allowance for expected credit losses of accounts receivable as of 01 January 2018	**(178)**	**(201)**
Loss allowance for expected credit losses accrued	(10)	(188)
Loss allowance for expected credit losses used	-	13
Loss allowance for expected credit losses recovered	4	39
Loss allowance for expected credit losses of accounts receivable as of 31 December 2018	**(184)**	**(337)**

The additional information on accounts receivable is presented in Note 31.

12 Advances issued

Advances issued include:

	As of 31 December 2019	**As of 31 December 2018**
Export customs duties	7,204	15,914
Oil transport	5,422	5,763
Other advances issued	1,725	2,264
Total advances issued	**14,351**	**23,941**

13 Loans granted

Short-term and long-term loans granted are represented by credits of the Group’s bank and other loans:

	As of 31 December 2019	**As of 31 December 2018**
Not past due credits and loans	43,307	50,745
Past due credits and loans	7,325	3,383
Loss allowance for expected credit losses	(10,622)	(11,150)
Total loans granted, including:	**40,010**	**42,978**
short-term	11,542	14,968
long-term	28,468	28,010

Analysis of changes in the loss allowance for expected credit losses of loans granted is presented below:

	2019	**2018**
Loss allowance for expected credit losses as of 01 January	**(11,150)**	**(6,111)**
provision (accrual) / recovery	528	(5,039)
Loss allowance for expected credit losses as of 31 December	**(10,622)**	**(11,150)**

The additional information on loans granted as well as information on the fair value of the collateral are presented in Note 31.

(in millions of Russian rubles, unless otherwise stated)

14 Inventories

Inventories include:

	As of 31 December 2019	As of 31 December 2018
Oil and oil products	21,258	24,474
impairment provision	(1)	(1)
Materials and supplies	67,866	55,615
impairment provision	(5,029)	(3,418)
Other reserves	8,443	8,450
impairment provision	(135)	(65)
Goods for resale	994	1,527
impairment provision	-	(2)
Work in progress	4,307	3,714
Gas and gas products	33	29
Total inventories	**97,736**	**90,323**

(in millions of Russian rubles, unless otherwise stated)

15 Property, plant and equipment

	Oil and gas exploration and production	Refining and sale	Other properties	Construction in progress	Total
Historical cost as of 31 December 2017	**1,463,358**	**289,481**	**190,985**	**14,296**	**1,958,120**
Construction and acquisition	146,811	3,927	18,009	3,954	172,701
Reclassifications	-	3,921	680	(4,601)	-
Internal movements	(499)	100	399	-	-
Changes in asset retirement (decommissioning) obligations	(6,524)	-	-	-	(6,524)
Disposals, retirements and other movements	(11,084)	(387)	(2,364)	(394)	(14,229)
Historical cost as of 31 December 2018	**1,592,062**	**297,042**	**207,709**	**13,255**	**2,110,068**
Construction and acquisition	153,446	5,650	8,633	9,377	177,106
Reclassifications	-	6,704	1,100	(7,804)	-
Internal movements	11,931	(2,961)	(8,970)	-	-
Changes in asset retirement (decommissioning) obligations	58,273	-	-	-	58,273
Disposals, retirements and other movements	(12,612)	(914)	(2,828)	(1,026)	(17,380)
Historical cost as of 31 December 2019	**1,803,100**	**305,521**	**205,644**	**13,802**	**2,328,067**
Accumulated depletion, depreciation and amortisation as of 31 December 2017	**(352,105)**	**(113,280)**	**(61,975)**	**-**	**(527,360)**
Accrual for the period	(61,483)	(15,927)	(12,217)	-	(89,627)
Internal movements	156	53	(209)	-	-
(Impairment) / reversal of impairment	(28,799)	(247)	(114)	-	(29,160)
Disposals, retirements and other movements	5,824	517	1,839	-	8,180
Accumulated depletion, depreciation and amortisation as of 31 December 2018	**(436,407)**	**(128,884)**	**(72,676)**	**-**	**(637,967)**
Accrual for the period	(63,799)	(14,418)	(10,300)	-	(88,517)
Internal movements	(3,968)	2,221	1,747	-	-
(Impairment) / reversal of impairment	(20,783)	317	114	-	(20,352)
Disposals, retirements and other movements	8,088	466	2,201	-	10,755
Accumulated depletion, depreciation and amortisation as of 31 December 2019	**(516,869)**	**(140,298)**	**(78,914)**	**-**	**(736,081)**
Carrying amount as of 31 December 2017	**1,111,253**	**176,201**	**129,010**	**14,296**	**1,430,760**
Carrying amount as of 31 December 2018	**1,155,655**	**168,158**	**135,033**	**13,255**	**1,472,101**
Carrying amount as of 31 December 2019	**1,286,231**	**165,223**	**126,730**	**13,802**	**1,591,986**

As of 31 December 2019, property, plant and equipment included advances for acquisition of property, plant and equipment directly related to construction projects and construction of property, plant and equipment in the amount of RUB 96 million (as of 31 December 2018 – RUB 718 million).

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of assets below their carrying amount. In 2019, the Group reversed the loss from impairment of the exploration and production assets in the amount of RUB 1,564 million and recognised the loss from impairment of the exploration and production assets in the amount of RUB 22,347 million. As of 31 December 2019, the amount of the loss from impairment of the exploration and production assets is RUB 53,762 million (as of 31 December 2018 – RUB 33,782 million).

(in millions of Russian rubles, unless otherwise stated)

In 2019, the Group reversed the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 317 million. As of 31 December 2019, the amount of the loss from impairment of property, plant and equipment of sales companies is RUB 672 million (as of 31 December 2018 – RUB 996 million).

In 2019, the Group reversed the loss from impairment of property, plant and equipment of other companies in the amount of RUB 114 million. As of 31 December 2019, there is no loss from impairment of property, plant and equipment of other companies (as of 31 December 2018 – RUB 114 million).

Impairment losses are recorded in other expenses in the consolidated statement of profit and loss and other comprehensive income.

Depreciation on property, plant, and equipment includes the amount capitalised in construction in progress for 2019 in the amount of RUB 18,935 million (for 2018 – RUB 23,808 million).

Exploration and evaluation assets included in the cost of property, plant and equipment of oil and gas exploration and production changed over the period as follows:

	2019	**2018**
As of 01 January	**63,098**	**51,859**
Capitalised costs	11,130	10,861
Reclassification to property, plant and equipment	(1,846)	(6)
Disposal of expenses associated with ineffective exploration and evaluation	(492)	(1,541)
(Impairment) / reversal of impairment	(319)	1,925
As of 31 December	**71,571**	**63,098**

The cost of oil and gas exploration and production licences included in exploration and production properties changed as follows:

	2019	**2018**
Historical cost as of 01 January	67,037	67,149
Impairment	(17)	-
Depreciation accrued	(4,205)	(3,471)
Carrying amount as of 01 January	**62,815**	**63,678**
Acquisition	1,560	6
Disposals and retirements	-	(118)
Impairment	(349)	(17)
Depreciation accrual	(679)	(734)
Carrying amount as of 31 December	**63,347**	**62,815**

(in millions of Russian rubles, unless otherwise stated)

16 Right-of-use assets

	Oil and gas exploration and production	Refining and sale	Other	Total
Carrying amount as of 01 January 2019	**6,740**	**4,982**	**1,491**	**13,213**
Acquisition	6,629	299	51	**6,979**
Depreciation	(424)	(113)	(73)	**(610)**
Disposal	(475)	(14)	(66)	**(555)**
Other movements	340	(322)	(18)	**-**
Carrying amount as of 31 December 2019	**12,810**	**4,832**	**1,385**	**19,027**

The impact of initial application of IFRS 16 “Leases” on the consolidated statement of financial position is presented in Note 3.

17 Intangible assets

	Software	Goodwill	Other	Total
Historical cost				
As of 31 December 2017	6,877	5,788	1,063	13,728
Acquisition	791	-	28	819
Disposal	(312)	-	(13)	(325)
As of 31 December 2018	7,356	5,788	1,078	14,222
Acquisition and reclassifications	1,487	-	(12)	1,475
Disposal	(243)	-	(18)	(261)
As of 31 December 2019	8,600	5,788	1,048	15,436
Amortisation and impairment loss				
As of 31 December 2017	(4,192)	(148)	(307)	(4,647)
Amortisation accrued	(702)	-	(124)	(826)
Impairment	-	(276)	-	(276)
Disposal	266	-	10	276
As of 31 December 2018	(4,628)	(424)	(421)	(5,473)
Amortisation accrued	(758)	-	(128)	(886)
Disposal	209	-	16	225
As of 31 December 2019	(5,177)	(424)	(533)	(6,134)
Net carrying amount as of 31 December 2017	**2,685**	**5,640**	**756**	**9,081**
Net carrying amount as of 31 December 2018	**2,728**	**5,364**	**657**	**8,749**
Net carrying amount as of 31 December 2019	**3,423**	**5,364**	**515**	**9,302**

In 2019, the amount of capitalised amortisation of intangible assets in property, plant and equipment is RUB 6 million (in 2018 – RUB 2 million).

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of assets below their carrying amount. As of 31 December 2019 and 2018, no impairment of intangible assets has been identified (excluding goodwill).

As of 31 December 2019 and 2018, the Group had no intangible assets with indefinite useful lives (excluding goodwill).

Goodwill

As of 31 December 2019 and 2018, the goodwill amount was allocated to Refining and Sale segment. This goodwill is recognised as the Company and its subsidiaries represent a business combination.

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of assets below their carrying amount.

(in millions of Russian rubles, unless otherwise stated)

In 2019, there was no loss from impairment of goodwill. In 2018, the Group recognised the loss from impairment of goodwill in the amount of RUB 276 million.

18 Payables and liabilities accrued

	As of 31 December 2019	As of 31 December 2018
Accounts payable to employees of the Company	30,351	29,460
Trade payables	13,636	11,654
Accounts payable for acquired property, plant and equipment	7,204	6,262
Dividends payable	793	726
Other accounts payable	1,363	1,366
Lease liabilities	1,289	-
Total payables and liabilities accrued	**54,636**	**49,468**
Including the financial part of the accounts payable	24,262	19,984

The additional information on the financial part of the accounts payable is presented in Note 31.

19 Other financial liabilities

Other short-term and long-term financial liabilities are settlement accounts and customer deposits of the Group’s bank.

	As of 31 December 2019	As of 31 December 2018
Current / settlement accounts and demand accounts	10,811	10,378
Fixed-term deposits	238,432	205,693
Total other financial liabilities, including:	**249,243**	**216,071**
short-term	236,174	197,138
long-term	13,069	18,933

The additional information on other financial liabilities is presented in Note 31.

20 Other tax liabilities

	As of 31 December 2019	As of 31 December 2018
Mineral extraction tax	58,696	48,221
Value added tax	7,003	7,495
Property tax	3,979	3,742
Tax on additional income from production of hydrocarbons	3,002	-
Other	8,856	8,262
Total other tax liabilities	**81,536**	**67,720**

21 Provisions

	As of 31 December 2019	As of 31 December 2018
Asset retirement (decommissioning) obligations	180,466	114,414
Post-employment benefit obligations	14,394	12,625
Other liabilities	221	2,196
Total provisions, including:	**195,081**	**129,235**
short-term	1,558	3,508
long-term	193,523	125,727

(in millions of Russian rubles, unless otherwise stated)

Asset retirement (decommissioning) obligations

Asset retirement (decommissioning) obligations represent cost estimation of land recultivation, wells decommissioning and dismantling of field facilities.

	2019	**2018**
Obligations as of 01 January	**114,414**	**117,360**
Acquisition	1,399	6,901
Changes in estimates and discounting rates	62,938	(12,450)
Discount cost amortised	4,255	4,067
Provision used	(2,540)	(1,464)
Obligations as of 31 December	**180,466**	**114,414**

Obligations recorded as of 31 December 2019 and 2018 are long-term.

The expected costs are assessed on the basis of information available at the reporting date. Upon changes of data the calculations made are adjusted.

Post-employment benefit obligations

Post-employment benefit obligations are performed by the Group at the time the employee retires. The right to post-employment benefits is given to employees who have been continuously employed by the Group for not less than five complete years and retired having reached the retirement age. The contribution to JSC “NPF “Surgutneftegas” and lump-sum payments depend on the length of service, the salary level and is defined in the collective agreement.

Expenses recognised in the consolidated statement of profit and loss and other comprehensive income and liabilities recognised in the consolidated statement of financial position are as follows:

	2019	**2018**
Obligations as of 01 January	**12,625**	**18,669**
Interest liability expenses	379	694
Current service cost	281	469
Benefits paid	(1,254)	(1,437)
Actuarial (gain) / loss	2,363	(5,770)
Obligations as of 31 December	**14,394**	**12,625**

Obligations by maturity are as follows:

	As of 31 December 2019	**As of 31 December 2018**
Short-term	1,337	1,312
Long-term	13,057	11,313
Total post-employment benefit obligations	**14,394**	**12,625**

Expenses allocated to payrolls:

	2019	**2018**
Current service cost	281	469
Interest liability expenses	379	694
Net expenses on post-employment benefit obligations	**660**	**1,163**

The main actuarial assumptions in the reporting period have the following weighted averages:

	As of 31 December 2019	**As of 31 December 2018**
Discount rate	6.42%	8.73%
Average long-term employee compensation increase rate	3.24%	3.30%
Rate of inflation and growth of post-employment benefits	3.24%	3.30%

(in millions of Russian rubles, unless otherwise stated)

22 Equity

Share capital and share premium

As of 31 December 2019 and 2018:

Share capital	
Ordinary shares:	
Number of shares issued, thousand	35,725,995
Par value (1 ruble per share)	35,726
Amount adjusted for inflation	**121,203**
Preference shares:	
Number of shares issued, thousand	7,701,998
Par value (1 ruble per share)	7,702
Amount adjusted for inflation	**33,463**
Share premium	
Amount by which the fair value of funds received exceeded the par value	35,245
Amount adjusted for inflation	**57,809**

The share capital is fully paid. In 2019 and 2018, changes in the structure of the share capital did not occur. The Company did not place any shares.

Treasury shares

As of 31 December 2019, the Group owned 669 thousand of ordinary shares (as of 31 December 2018 – 650 thousand of ordinary shares), i.e. less than 1% of the total number of shares.

Dividends

The Company’s accounting (financial) statements prepared in accordance with RAS which differ from IFRS consolidated financial statements serve as the basis for the distribution of profits to shareholders.

On 28 June 2019, the annual general shareholders’ meeting of the Company declared dividends for the year ended 31 December 2018 in the amount of RUB 0.65 per one ordinary share and RUB 7.62 per one preference share.

On 29 June 2018, the annual general shareholders’ meeting of the Company declared dividends for the year ended 31 December 2017 in the amount of RUB 0.65 per one ordinary share and RUB 1.38 per one preference share.

As of the date of these consolidated financial statements, the Company did not declare dividends for the year ended 31 December 2019.

23 Export duties

	2019	**2018**
Export duties on oil sales	189,273	245,130
Export duties on oil products sales	54,672	66,031
Total export duties	**243,945**	**311,161**

(in millions of Russian rubles, unless otherwise stated)

24 Operating expenses

	2019	**2018**
Taxes, excluding income tax	714,526	703,826
Employee benefits	113,748	101,501
Sales and storage expenses	109,008	100,593
Supplies	78,394	59,991
Depreciation, depletion and amortisation	71,072	66,643
Production services	56,276	58,035
Utility and electricity expenses	29,608	26,853
Goods for resale	7,333	9,628
Losses from disposal of exploration and production properties	526	1,547
Loss allowances for expected credit losses	(1,038)	3,373
Changes in inventory and work in progress	(12,437)	(3,935)
Other expenses	10,853	12,710
Total operating expenses	**1,177,869**	**1,140,765**

Taxes, excluding income tax, include:

	2019	**2018**
Mineral extraction tax	681,739	668,148
Tax on additional income from production of hydrocarbons	14,837	-
Excise	1,078	18,621
Property tax	15,436	15,930
Other taxes	1,436	1,127
Total taxes, excluding income tax	**714,526**	**703,826**

Employee benefits include:

	2019	**2018**
Salary and social charges	113,255	100,602
Contributions to post-employment benefit funds	493	899
Total employee benefits	**113,748**	**101,501**

(in millions of Russian rubles, unless otherwise stated)

25 Finance income and expenses

	2019	2018
Interest receivable	137,034	126,735
Interest income from discounting	4,708	9,489
Total finance income	**141,742**	**136,224**

	2019	2018
Interest payable	(14,437)	(12,804)
Interest expense from discounting	(5,900)	(4,012)
Interest expense on lease liabilities	(1,140)	-
Total finance expenses	**(21,477)**	**(16,816)**

26 Exchange differences

Exchange differences arise mainly in the result of accounting for trade receivables from buyers of oil and oil products and financial assets in a foreign currency.

The official exchange rates of the Central Bank of the Russian Federation for foreign currencies against ruble are presented in rubles below:

	As of 31 December 2019	As of 31 December 2018
Australian Dollar	43.26	48.94
Hungarian Forint	0.21	0.25
Danish Crown	9.28	10.65
US Dollar	61.91	69.47
Euro	69.34	79.46
Indian Rupee	0.87	0.99
Canadian Dollar	47.36	50.96
Chinese Yuan	8.86	10.10
Norwegian Krone	7.03	7.97
British Pound	81.15	88.28
Czech Koruna	2.72	3.09
Swedish Crown	6.64	7.75
Swiss Franc	63.60	70.58
Japanese Yen	0.57	0.63

Average exchange rates in 2019 and 2018 equalled:

	For 2019	For 2018
Australian Dollar	45.02	46.80
Hungarian Forint	0.22	0.23
Danish Crown	9.71	9.92
US Dollar	64.74	62.71
Euro	72.50	73.95
Indian Rupee	0.92	0.92
Canadian Dollar	48.77	48.37
Chinese Yuan	9.38	9.47
Norwegian Krone	7.36	7.70
British Pound	82.63	83.58
Czech Koruna	2.82	2.88
Swedish Crown	6.85	7.21
Swiss Franc	65.14	64.07
Japanese Yen	0.59	0.57

(in millions of Russian rubles, unless otherwise stated)

Exchange differences include:

	2019	**2018**
Income from exchange differences	224,424	764,233
Expense from exchange differences	(585,385)	(234,846)
Total exchange differences	**(360,961)**	**529,387**

27 Income tax

	2019	**2018**
Current income tax	(17,438)	(159,627)
Changes in deferred tax assets / liabilities	(9,300)	(28,907)
Income tax expense	**(26,738)**	**(188,534)**

In 2019 and 2018, the rate of income tax currently applied in the Russian Federation was 20%.

Profit before tax recognised in the financial statements correlates with income tax expenses as follows:

	2019	**2018**
Profit before tax	132,935	1,038,895
Provisional expense on income tax	(26,587)	(207,779)
Tax effect of the preferential tax rate	3,463	24,581
Tax effect of items which are not accounted for tax purposes	(3,614)	(5,336)
Total expense on income tax	**(26,738)**	**(188,534)**

Differences between the data of these consolidated financial statements and the data of tax accounting result in temporary differences between the carrying amount of assets and liabilities and their basis for calculation of income tax.

(in millions of Russian rubles, unless otherwise stated)

Tax effect of movement of temporary differences for the year ended 31 December 2019 is given below:

	As of 31 December 2019	Changes for the period in profit (loss)	Changes for the period in other comprehensive income	Effect from application of IFRS 16	Subsidiary disposal	As of 31 December 2018
Tax effect of deductible temporary differences						
Inventories	2,272	151	-	-	-	2,121
Property, plant and equipment	48,886	16,263	-	-	-	32,623
Intangible assets	2,149	(555)	-	-	-	2,704
Financial assets	1,864	(1,473)	-	-	-	3,337
Receivables	547	(155)	-	-	-	702
Payables	2,757	(26)	-	2,643	-	140
Other accruals and additional accruals	3,104	(71)	472	-	-	2,703
Tax losses carried forward	20	(37)	-	-	-	57
Deferred tax assets	**61,599**	**14,097**	**472**	**2,643**	**-**	**44,387**
Set off deferred tax assets / (liabilities)	(61,544)					(44,363)
Total deferred tax assets	**55**					**24**
Tax effect of taxable temporary differences						
Inventories	(4,993)	245	-	-	-	(5,238)
Property, plant and equipment	(239,850)	(27,295)	-	(2,643)	-	(209,912)
Intangible assets	(12,407)	232	-	-	-	(12,639)
Financial assets	(1,247)	50	(175)	-	-	(1,122)
Receivables	(2,325)	3,416	-	-	-	(5,741)
Payables	(14)	8	-	-	-	(22)
Other accruals and additional accruals	(430)	(53)	-	-	119	(496)
Deferred tax liabilities	**(261,266)**	**(23,397)**	**(175)**	**(2,643)**	**119**	**(235,170)**
Set off deferred tax assets / (liabilities)	61,544					44,363
Total deferred tax liabilities	**(199,722)**					**(190,807)**

(in millions of Russian rubles, unless otherwise stated)

Tax effect of movement of temporary differences for the year ended 31 December 2018 is given below:

	As of 31 December 2018	Changes for the period in profit (loss)	Changes for the period in other comprehensive income	Changes for the period in equity	As of 31 December 2017
Tax effect of deductible temporary differences					
Inventories	2,121	73	-	-	2,048
Property, plant and equipment	32,623	6,203	-	-	26,420
Intangible assets	2,704	(622)	-	-	3,326
Financial assets	3,337	(1,048)	242	1,748	2,395
Receivables	702	388	-	-	314
Payables	140	(49)	-	-	189
Other accruals and additional accruals	2,703	(16)	(1,154)	-	3,873
Tax losses carried forward	57	(10,639)	-	-	10,696
Deferred tax assets	**44,387**	**(5,710)**	**(912)**	**1,748**	**49,261**
Set off deferred tax assets / (liabilities)	(44,363)				(49,242)
Total deferred tax assets	**24**				**19**
Tax effect of taxable temporary differences					
Inventories	(5,238)	(1,516)	-	-	(3,722)
Property, plant and equipment	(209,912)	(17,827)	-	-	(192,085)
Intangible assets	(12,639)	82	-	-	(12,721)
Financial assets	(1,122)	(1,086)	-	1	(37)
Receivables	(5,741)	(2,848)	-	-	(2,893)
Payables	(22)	19	-	-	(41)
Other accruals and additional accruals	(496)	(21)	-	-	(475)
Deferred tax liabilities	**(235,170)**	**(23,197)**	**-**	**1**	**(211,974)**
Set off deferred tax assets / (liabilities)	44,363				49,242
Total deferred tax liabilities	**(190,807)**				**(162,732)**

As of 31 December 2019 and 2018, the Group did not recognise a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the Group’s Management believes that the zero rate of the tax levied at the source of income in respect of the distribution of dividends will be applied for the distribution of these dividends.

28 Net earnings per share

Basic earnings per share were calculated based on profit, attributable to holders of the Company’s ordinary shares and the weighted average number of outstanding ordinary shares. The Company has no potential ordinary shares that have a dilutive effect.

	2019	**2018**
Weighted average number of shares for the year ended 31 December, thousand	**35,725,341**	**35,725,345**
Net income for the reporting year attributable to shareholders	106,162	850,350
Dividends on preference shares	(7,471)	(58,689)
Basic and diluted earnings per share, rubles	2.76	22.16

(in millions of Russian rubles, unless otherwise stated)

29 Contingencies and commitments

Court proceedings

At the reporting date, the Group is a party to legal proceedings related to the Group’s operations. The Group’s Management believes that the results of these proceedings will not significantly affect the business operations and financial position of the Group.

Tax exposure

Due to the constant changes in the tax system of the Russian Federation relating to the improvement of tax control mechanisms and regulation, the Group is exposed to tax risks associated with another approach of the taxation authorities to solve issues arising from uncertainty in the interpretation of the tax legislation.

The Management believes that the Group fully complies with the applicable tax legislation, so the results of tax audits have not affected and cannot significantly affect the business operations and financial position of the Group.

Third-party commitments

As of 31 December 2019, the Group has commitments in the form of surety in the amount of RUB 22,924 million (as of 31 December 2018 – RUB 22,006 million).

Credit related commitments

Credit related commitments of the Group’s bank equal:

	As of 31 December 2019	**As of 31 December 2018**
Commitments to extend credit	3,386	3,195
Import letters of credit	157	415
Guarantees issued	4,634	3,354
Total credit related commitments	**8,177**	**6,964**

Environmental issues

The Group complies with all the legal environmental standards and requirements. The Management believes that the Group effectively minimises environmental risks by adhering to industry standards and requirements, continuously monitoring its production facilities, employing modern machinery, technology and equipment and improving employees’ HSE expertise.

30 Operational risks

The Group’s activity is exposed to many risks typical of oil and gas industry, the major of which are the drop in oil and oil products prices and the growth of prices for raw materials and services purchased.

The Group’s financial performance relates to the hydrocarbons market environment. Oil and oil products prices depend on many factors which are beyond the Group’s control. The drop in prices may lead to a decrease in the Company’s revenue, income and cash flow. The significant or prolonged drop in hydrocarbon prices may lead to a decrease in profitable oil production, review of feasibility of implementation of new projects in the sphere of oil and gas production and processing, impairment of assets, slowdown of reserves recovery and future production. Besides, a prolonged period of low oil and oil products prices may influence the financial stability of the Group’s counterparties which increases risks of cooperation with them.

In order to mitigate this risk the Group applies scenario approaches which provide for different options of oil and oil products prices levels and relevant adjustments of production and investment programmes. The Group takes into consideration this risk when planning investments in new projects in the sphere of production and processing of hydrocarbons.

Risk of an increase in current and capital expenditures resulting from the growth of expenses on purchase of raw materials and supplies, equipment, fuel and power, oil and oil products transportation services significantly influences the Group’s financial performance. In order to mitigate this risk the Company uses tender procedures when purchasing machinery, supplies and equipment, monitors the quality of procurements and services, develops in-house production in key areas, electrical and thermal energy generation, diversifies the ways of transportation of the finished goods. In preparation of plans the Group also takes into consideration high risks of a decrease in economic benefit from projects which are technically complicated and remote from transport infrastructure.

(in millions of Russian rubles, unless otherwise stated)

31 Capital and financial risk management

The Group’s activity is exposed to different financial risks among which are market risk, credit risk and liquidity risk.

These risks may worsen the Group’s financial performance due to a decrease in assets profitability and their impairment, the growth of expenses on purchase of goods and services.

The Group does not apply derivative financial instruments to hedge financial risks, but the Group takes into consideration their possible application when investing in new projects and making plans and budgets. In order to mitigate financial risks in production activities the Company uses insurance mechanisms to protect its assets and operations.

Credit risk

Credit risk is the probability of forming financial losses of the Group in case a counterparty fails to discharge its contractual obligations on the financial asset under the contract.

The Group’s exposure to credit risk occurs in relation to receivables and financial assets in case counterparties fail to timely fulfil contract obligations.

In order to mitigate this risk the Group applies the system of integrated assessment of counterparties which takes into consideration their financial position, credit history and the state of budget settlement. The Group uses payback mechanisms when making advance payments to counterparties. In order to mitigate credit risk when placing financial assets, the Company monitors the credit quality of financial organisations using its own formalised method of analysis of financial position and different aspects of their activities.

Cash and cash equivalents. Cash and cash equivalents are placed with major banks having credit ratings given by the international agencies. The balances at all settlement accounts and short-term bank deposits with original contractual maturity less than three months are not past due and not impaired.

Analysis of the credit quality of the banks used by the Group to allocate cash and cash equivalents based on external credit ratings assigned to the banks at the reporting date is presented in the table below. The relevant ratings are published by Standard & Poor’s and other credit-rating agencies. The ratings are reconciled with the classification of Standard & Poor’s:

	As of 31 December 2019	**As of 31 December 2018**
Cash in hand	1,205	1,419
Central bank of the Russian Federation	213,469	168,147
Commercial banks:		
Rating from A- to AA+	349	1,726
Rating from BBB- to BBB+	108,631	61,527
Rating from BB- to BB+	72,530	27,130
Rating from B- to B+	12	335
No rating	38	62
Total cash and cash equivalents	**396,234**	**260,346**

Deposits placed. The Group avoids excessive concentration of credit risk while placing the temporarily free cash in deposits with the banks. The Group has developed the methodology for assessment of the financial position of the banks that includes the analysis of the following criteria: the financial performance, the credit portfolio quality, the compliance of the norms with the accepted standards, the structure of the capital, other financial and non-financial, qualitative and quantitative indicators describing the position of a credit institution. The Group monitors the financial position of counterparty banks during the whole maturity period for its cash placement.

On the basis of this assessment the Group determines the reliability of the banks, where the deposits are placed, as high, and, therefore, the Group’s Management believes that there are no impairment indicators of investments in deposits at the reporting date.

(in millions of Russian rubles, unless otherwise stated)

Receivables. While concluding a contract, the Group assesses the creditworthiness of buyers, their financial position and credit history. Afterwards, the Group is constantly controlling completeness and accuracy of settlements with counterparties.

The loss allowance for expected credit losses of trade receivables is calculated in the amount which is equal to the lifetime expected credit losses. For other receivables, the Group calculates a loss allowance for expected credit losses in the amount which is equal to 12-month expected credit losses due to the lack of a significant increase in credit risk since its initial recognition.

Analysis of receivables by the period of delay from the due date is given below:

As of 31 December 2019	**Amount receivable**	**Amount of the loss allowance for expected credit losses**	**Amount receivable, less allowance**
Trade receivables			
Not past due	95,030	-	95,030
past due less than 30 days	-	-	-
past due between 30 and 90 days	49	-	49
past due between 91 and 180 days	10	-	10
past due between 181 and 365 days	36	(20)	16
past due more than 365 days	176	(176)	-
Total trade receivables	**95,301**	**(196)**	**95,105**
Other receivables			
Not past due	2,573	(11)	2,562
past due less than 30 days	22	(3)	19
past due between 30 and 90 days	31	(3)	28
past due between 91 and 180 days	3	(3)	-
past due between 181 and 365 days	44	(42)	2
past due more than 365 days	204	(191)	13
Total other receivables	**2,877**	**(253)**	**2,624**

As of 31 December 2018	**Amount receivable**	**Amount of the loss allowance for expected credit losses**	**Amount receivable, less allowance**
Trade receivables			
Not past due	107,597	-	107,597
past due less than 30 days	10	-	10
past due between 30 and 90 days	37	(2)	35
past due between 91 and 180 days	295	-	295
past due between 181 and 365 days	19	(3)	16
past due more than 365 days	182	(179)	3
Total trade receivables	**108,140**	**(184)**	**107,956**
Other receivables			
Not past due	5,634	(85)	5,549
past due less than 30 days	46	(4)	42
past due between 30 and 90 days	29	(3)	26
past due between 91 and 180 days	13	(5)	8
past due between 181 and 365 days	37	(35)	2
past due more than 365 days	216	(205)	11
Total other receivables	**5,975**	**(337)**	**5,638**

The greater part of trade receivables is mainly formed by receivables due from large Russian and foreign buyers of oil and oil products.

The redemption of receivables may be influenced by economic factors, but the Management believes that there is no significant risk of losses to the Group exceeding the formed loss allowance for expected credit losses of receivables.

(in millions of Russian rubles, unless otherwise stated)

Loans granted. Short-term and long-term loans granted are represented by credits of the Group’s bank and other loans. Credit risk management of the loan portfolio, granted by the Group’s bank, is carried out by way of the volume limitation of credit operations as well as portfolio diversification according to the sectors and regions, the change in the amount and kind of the collateral, provisions accrual as provided by the internal regulatory documents and the development of the optimal conditions for restructuring loans.

Loan analysis by credit quality is presented below:

As of 31 December 2019	Amount of credits and loans	Amount of the loss allowance for expected credit losses	Amount of credits and loans, less allowance
Not past due credits and loans:			
Borrowers with a credit history less than 1 year	3,638	(166)	3,472
Borrowers with a credit history between 1 and 3 years	8,909	(413)	8,496
Borrowers with a credit history more than 3 years	30,760	(3,426)	27,334
Past due credits and loans:			
Past due less than 30 days	252	(23)	229
Past due between 30 and 90 days	28	(7)	21
Past due between 91 and 180 days	47	(21)	26
Past due between 181 and 365 days	95	(28)	67
Past due more than 365 days	6,903	(6,538)	365
Total credits and loans	**50,632**	**(10,622)**	**40,010**

As of 31 December 2018	Amount of credits and loans	Amount of the loss allowance for expected credit losses	Amount of credits and loans, less allowance
Not past due credits and loans:			
Borrowers with a credit history less than 1 year	13,088	(290)	12,798
Borrowers with a credit history between 1 and 3 years	20,123	(787)	19,336
Borrowers with a credit history more than 3 years	17,534	(7,438)	10,096
Past due credits and loans:			
Past due less than 30 days	303	(119)	184
Past due between 30 and 90 days	38	(12)	26
Past due between 91 and 180 days	105	(46)	59
Past due between 181 and 365 days	209	(141)	68
Past due more than 365 days	2,728	(2,317)	411
Total credits and loans	**54,128**	**(11,150)**	**42,978**

Past due credits are supported by the collateral the fair value of which, as of 31 December 2019, equalled RUB 935 million (as of 31 December 2018 – RUB 1,412 million).

Liquidity risk

Liquidity risk has no significant influence on the Group’s activities as the Group owns a sufficient amount of its liquid assets and does not raise borrowed funds in money and capital markets to finance its current operating activities and invest in new projects. The budgeting system of the Company helps to build the appropriate structure of cash flows and keep the sufficient level of liquidity to settle all its liabilities in timely manner.

(in millions of Russian rubles, unless otherwise stated)

Information about the maturity of the financial liabilities of the Group in accordance with the contract dates remained to maturity dates is presented below. The sums show contractual undiscounted cash flows with future interest payments taken into consideration:

As of 31 December 2019	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**
Financial part of the accounts payable	24,262	-	-	-	**24,262**
Other financial liabilities	239,881	14,062	529	12	**254,484**
Lease liabilities	1,380	2,695	2,617	37,304	**43,996**
Other liabilities	-	292	-	-	**292**
Total financial liabilities	**265,523**	**17,049**	**3,146**	**37,316**	**323,034**

As of 31 December 2018	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**
Financial part of the accounts payable	19,984	-	-	-	**19,984**
Other financial liabilities	198,432	22,420	455	24	**221,331**
Other liabilities	-	263	-	-	**263**
Total financial liabilities	**218,416**	**22,683**	**455**	**24**	**241,578**

Reconciliation of changes in liabilities arising from financing activities

Analysis of changes in liabilities arising from financial activities of the Group is presented below. Items of these liabilities are recorded in financing activities in the consolidated statement of cash flows:

	2019	**2018**
As of 01 January	**216,071**	**188,312**
Cash flow, including:		
Net acquisition of other financial liabilities	32,779	25,679
Interest paid	(13,989)	(11,475)
Interest accrued	14,441	12,701
Discount	491	-
Exchange (gain) / loss	(550)	854
As of 31 December	**249,243**	**216,071**

Market risk

Market risk is the risk that changes in currency rates, interest rates or commodity and service prices will have a negative effect on assessment of financial assets, financial liabilities and future cash flows of the Group. The Group’s Management has developed the policies and guides used for market risk management.

(a) Currency risk

Currency risk characterised by exchange rate fluctuations may significantly influence the Group’s financial performance.

Foreign economy activities and financial assets nominated in a foreign currency expose the Group to this risk.

In order to manage this risk the Group controls the key parameters and the structure of financial assets, planning of cash flows, assessment of the impact of risk of changes in currency rates on efficiency of its current activities and investments in new projects.

(b) Interest rate risk

Interest rate risk has no material impact on the Group’s financial performance as operational expenses and capital expenditures are financed from its own funds.

However, the Group analyses the actual levels and dynamics of interest rates, takes into consideration the level of risk and profitability when determine the best options for placement of financial assets in money and capital markets.

(c) Commodity price risk (inflation risk)

Inflation risk relates to the growth of expenses, decrease in profitability of current activities and efficiency of investments in new projects. The Group considers possibility of different scenarios of price changes on purchased goods and services, controls the cost increase at all stages of production activities, evaluates investments in production, processing of raw materials and sales of finished goods with consideration of inflation risk. Besides, the Company regularly holds tenders to choose the most appropriate options for goods and services purchase with consideration of their quality and cost, and reliability of the counterparty.

Capital management

The Group’s capital management seeks to continue as a going concern and to maximise the profit in the foreseeable future.

The Management believes equity (capital attributable to shareholders) and borrowed funds (other financial liabilities) to be the principal elements of capital management. The Group’s objective when managing capital risks is the ability to continue as a going concern in order to provide returns and benefits for shareholders.

The Group finances its operations mainly from its own funds.

32 Fair value of assets and liabilities

Fair value measurements are analysed and distributed by levels in the fair value hierarchy as follows: (a) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (b) Level 2 measurements are valuation techniques with all significant inputs observable for the asset or liability, either directly (e.g. price) or indirectly (e.g. calculated on the basis of the price); and (c) Level 3 measurements are valuations not based only on observable market data (i.e. a significant amount of unobservable data is required for assessment).

(a) Recurring fair value measurements

Recurring fair value measurements are those that the financial reporting standards require or permit in the statement of financial position at the end of each reporting period.

The levels in the hierarchy of the fair value measurement for financial instruments recorded at fair value are given below:

(in millions of Russian rubles, unless otherwise stated)

As of 31 December 2019	**Quoted prices in active markets (Level 1)**	**Valuation technique based on observable data (Level 2)**	**Valuation technique based on a significant amount of non-observable data (Level 3)**
Deposits placed	-	2,966,148	-
Financial assets measured at amortised cost	1,199	-	-
Financial assets measured at fair value through other comprehensive income	45	-	2,126
Total financial assets measured at fair value on a recurring basis	**1,244**	**2,966,148**	**2,126**

As of 31 December 2018	**Quoted prices in active markets (Level 1)**	**Valuation technique based on observable data (Level 2)**	**Valuation technique based on a significant amount of non-observable data (Level 3)**
Deposits placed	-	3,103,151	-
Financial assets measured at amortised cost.	1,028	-	-
Financial assets measured at fair value through other comprehensive income	3,116	-	3,588
Total financial assets measured at fair value on a recurring basis	**4,144**	**3,103,151**	**3,588**

As of 31 December 2019 and 2018, the Group has no liabilities measured at fair value on a recurring basis.

The estimated fair value of a financial instrument is determined by the Group with reference to available market information (if any) and other valuation techniques as considered appropriate. The Management has used all available market information in estimating the fair value of financial instruments.

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

Within 2019 and 2018, there were no changes in valuation technique for Level 3 recurring fair value measurements.

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

Financial assets measured at amortised cost. The estimated fair value of instruments with the fixed interest rate is based on the method of discounting expected future cash flows coupled with applying current interest rates to new instruments with the similar credit risk and similar maturity period. The discount rate used depends on the credit risk of the counterparty. Fair value of financial assets measured at amortised cost has been determined by quotations of the demand.

The comparison of the fair value and carrying amount of deposits and other financial assets measured at amortised cost is presented below. The carrying amounts of the remaining financial assets are approximately equal to their fair value.

(in millions of Russian rubles, unless otherwise stated)

	As of 31 December 2019		**As of 31 December 2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Deposits placed	2,966,148	3,046,682	3,103,151	3,108,233
Financial assets measured at amortised cost	1,199	1,024	1,028	1,025

A reconciliation of classes of financial assets with the estimated categories is presented below:

As of 31 December 2019

	Financial assets measured at fair value through other comprehensive income	**Financial assets measured at amortised cost**	**Total**
Cash and cash equivalents	-	396,234	**396,234**
Restricted cash	-	2,451	**2,451**
Deposits placed	-	2,966,148	**2,966,148**
Loans granted	-	40,010	**40,010**
Other financial assets	2,171	1,199	**3,370**
Receivables	-	97,729	**97,729**
Total financial assets	**2,171**	**3,503,771**	**3,505,942**

As of 31 December 2018

	Financial assets measured at fair value through other comprehensive income	**Financial assets measured at amortised cost**	**Total**
Cash and cash equivalents	-	260,346	**260,346**
Restricted cash	-	2,094	**2,094**
Deposits placed	-	3,103,151	**3,103,151**
Loans granted	-	42,978	**42,978**
Other financial assets	6,704	1,028	**7,732**
Receivables	-	113,594	**113,594**
Total financial assets	**6,704**	**3,523,191**	**3,529,895**

Liabilities measured at amortised cost

All financial liabilities of the Group are measured at amortised cost. Financial liabilities are mainly funds of the Group’s bank customers, accounts payable to suppliers and contractors and other accounts payable.

The fair value of liabilities is determined by using appropriate valuation techniques. The estimated fair value of instruments with the fixed interest rate and the fixed period for sales is based on expected discounted cash flows coupled with applying interest rates to new instruments with the similar credit risk and similar maturity period.

The carrying amount of liabilities measured at amortised cost is approximately equal to their fair value.

33 Subsequent events

Significant events, which have influenced or may influence the financial performance, the cash flow or operating results of the Group, did not take place in the period between the reporting date and the date these consolidated financial statements of the Group were signed.