Tatneft Group

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2019

Contents

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Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of PJSC Tatneft:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PJSC Tatneft and its subsidiaries (together – the "Group")] as of 31 March 2019 and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

7 June 2019

Moscow, Russian Federation

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

Audited entity: PJSC Tatneft

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

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

	Note	31 March 2019	31 December 2018
Assets			
Cash and cash equivalents	4	38,988	65,489
Banking: Mandatory reserve deposits with CB RF		2,024	1,875
Accounts receivable, net	5	93,592	80,762
Banking: Loans to customers	6	55,239	53,797
Other short-term financial assets	7	46,865	32,901
Inventories	8	48,851	50,606
Prepaid expenses and other current assets	9	21,320	23,090
Prepaid income tax		850	852
Banking: Non-current assets held for sale		2,140	2,360
Total current assets		**309,869**	**311,732**
Long-term accounts receivable, net	5	3,002	2,930
Banking: Loans to customers	6	88,368	92,508
Other long-term financial assets	7	86,346	81,513
Investments in associates and joint ventures		706	637
Property, plant and equipment, net		711,933	701,922
Right-of-use assets	3	15,577	-
Deferred income tax assets		3,775	3,548
Other long-term assets		6,201	6,498
Total non-current assets		**915,908**	**889,556**
Total assets		**1,225,777**	**1,201,288**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	11,498	11,953
Accounts payable and accrued liabilities	12	41,601	42,989
Dividends payable	13	592	50,711
Banking: Other financial liabilities at fair value through profit and loss		205	1,190
Banking: Due to banks and CB RF		10,158	13,765
Banking: Customer accounts		179,411	183,654
Taxes payable	10	46,250	38,771
Income tax payable		4,037	3,254
Other short-term liabilities		619	533
Total current liabilities		**294,371**	**346,820**
Long-term debt, net of current portion	11	3,627	3,084
Banking: Due to banks and CB RF		4,326	4,660
Banking: Customer accounts		358	682
Decommissioning provision, net of current portion		35,089	34,338
Lease obligations, net of current portion	3	13,040	-
Deferred income tax liability		33,319	31,486
Other long-term liabilities		3,572	3,437
Total non-current liabilities		**93,331**	**77,687**
Total liabilities		**387,702**	**424,507**
Shareholders' equity			
Preferred shares (authorised and issued at 31 March 2019 and 31 December 2018 – 147,508,500 shares; nominal value RR1.00)		746	746
Ordinary shares (authorised and issued at 31 March 2019 and 31 December 2018 – 2,178,690,700 shares; nominal value RR1.00)		11,021	11,021
Additional paid-in capital		84,437	84,437
Accumulated other comprehensive income		2,864	1,804
Retained earnings		743,659	683,508
Less: Ordinary shares held in treasury, at cost (75,483,000 shares at 31 March 2019 and 31 December 2018)		(10,251)	(10,251)
Total Group shareholders' equity		**832,476**	**771,265**
Non-controlling interest		**5,599**	**5,516**
Total shareholders' equity		**838,075**	**776,781**
Total liabilities and equity		**1,225,777**	**1,201,288**

Approved for issue and signed on behalf of the Board of Directors on 07/06 2019

Voskoboinikov V.A.
Director of International Reporting

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

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

	Note	Three months ended 31 March 2019	Three months ended 31 March 2018
Sales and other operating revenues on non-banking activities, net	17	**227,326**	**188,345**
Costs and other deductions on non-banking activities			
Operating expenses		(31,920)	(27,013)
Purchased oil and refined products		(10,450)	(16,632)
Exploration		(82)	(186)
Transportation		(9,685)	(9,582)
Selling, general and administrative		(11,295)	(10,615)
Depreciation, depletion and amortization	17	(7,450)	(6,725)
Impairment losses on financial assets net of reversal		1,475	(2,107)
Impairment losses on property, plant and equipment and other non-financial assets net of reversal		(146)	-
Taxes other than income taxes	10	(76,587)	(60,616)
Maintenance of social infrastructure and transfer of social assets		(1,345)	(1,233)
Total costs and other deductions on non-banking activities		**(147,485)**	**(134,709)**
Gain on disposals of interests in subsidiaries and associates, net		-	92
Other operating loss, net		(699)	(310)
Operating profit on non-banking activities		**79,142**	**53,418**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities			
Interest, fee and commission income	14,15	5,451	5,973
Interest, fee and commission expense	14,15	(2,772)	(3,037)
Net income/(expense) on creating provision for credit losses associated with debt financial assets	6	489	(732)
Operating expenses		(2,711)	(1,957)
Loss arising from dealing in foreign currencies, net		(530)	(13)
Other operating income, net		201	480
Total net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities		**128**	**714**
Other income/(expenses)			
Foreign exchange loss, net	16	(2,344)	(219)
Interest income on non-banking activities	16	442	960
Interest expense on non-banking activities, net of amounts capitalised	16	(1,258)	(774)
Share of results of associates and joint ventures, net		69	-
Total other expenses, net		**(3,091)**	**(33)**
Profit before income tax		**76,179**	**54,099**
Income tax			
Current income tax expense		(14,462)	(11,646)
Deferred income tax expense		(1,482)	(535)
Total income tax expense	10	**(15,944)**	**(12,181)**
Profit for the period		**60,235**	**41,918**

	Note	Three months ended 31 March 2019	Three months ended 31 March 2018
Other comprehensive income/(loss) net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		(148)	129
Gain on debt financial assets at fair value through other comprehensive income, net		1,211	21
Items that will not be reclassified to profit or loss:			
Loss on investments in equity financial assets at fair value through other comprehensive income, net		(3)	(124)
Other comprehensive income		**1,060**	**26**
Total comprehensive income for the period		**61,295**	**41,944**
Profit/(loss) attributable to:			
- Group shareholders		60,151	42,010
- Non-controlling interest		84	(92)
		60,235	**41,918**
Total comprehensive income/(loss) attributable to:			
- Group shareholders		61,211	42,036
- Non-controlling interest		84	(92)
		61,295	**41,944**
Basic and diluted earnings per share (RR)			
Ordinary		26.72	18.66
Preferred		26.72	18.66
Weighted average shares outstanding (millions of shares)			
Ordinary		2,103	2,103
Preferred		148	148

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Consolidated Interim Condensed Statement of Changes in Equity (Unaudited)
(in million of Russian Rubles)

	Attributable to Group shareholders									Non-con-trolling interest	Total equity
	Number of shares (thousands)	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Actuarial loss on employee benefit plans**	**Foreign currency translation adjustments**	**Gain/(loss) on financial assets at fair value through other compre-hensive income, net**	**Retained earnings**	**Total shareholders' equity**		
Balance at 1 January 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,871)**	**1,677**	**1,846**	**617,295**	**704,900**	**4,822**	**709,722**
Profit/(loss) for the three months	-	-	-	-	-	-	-	42,010	42,010	(92)	41,918
Other comprehensive income/(loss) for the three months	-	-	-	-	-	129	(103)	-	26	-	26
Total comprehensive income/(loss) for the three months	**-**	**-**	**-**	**-**	**-**	**129**	**(103)**	**42,010**	**42,036**	**(92)**	**41,944**
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	1	1
Balance at 31 March 2018	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,871)**	**1,806**	**1,743**	**659,305**	**746,936**	**4,731**	**751,667**
Balance at 1 January 2019	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,537)**	**1,601**	**1,740**	**683,508**	**771,265**	**5,516**	**776,781**
Profit for the three months	-	-	-	-	-	-	-	60,151	60,151	84	60,235
Other comprehensive (loss)/income for the three months	-	-	-	-	-	(148)	1,208	-	1,060	-	1,060
Total comprehensive (loss)/income for the three months	**-**	**-**	**-**	**-**	**-**	**(148)**	**1,208**	**60,151**	**61,211**	**84**	**61,295**
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at 31 March 2019	**2,250,716**	**11,767**	**84,437**	**(10,251)**	**(1,537)**	**1,453**	**2,948**	**743,659**	**832,476**	**5,599**	**838,075**

(in million of Russian Rubles)

	Three months ended 31 March 2019	Three months ended 31 March 2018
Operating activities		
Profit for the year	60,235	41,918
Adjustments:		
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities	(128)	(714)
Depreciation, depletion and amortization	7,450	6,725
Income tax expense	15,944	12,181
Impairment losses on financial assets net of reversal	(1,475)	2,107
Impairment losses on property, plant and equipment and other non-financial assets net of reversal	146	-
Gain on disposals of interests in subsidiaries and associates, net	-	(92)
Effects of foreign exchange	(494)	14
Equity investments gain net of dividends received	(69)	-
Interest income on non-banking activities	(442)	(960)
Interest expense on non-banking activities, net of amounts capitalised	1,258	774
Other	711	(191)
Changes in operational working capital, excluding cash:		
Accounts receivable	(10,819)	(12,420)
Inventories	1,925	(2,071)
Prepaid expenses and other current assets	1,771	523
Securities at fair value through profit or loss	(7)	(88)
Accounts payable and accrued liabilities	(1,512)	(3,386)
Taxes payable	7,479	4,265
Other non-current assets and liabilities	268	(74)
Net cash provided by non-banking operating activities before income tax and interest	**82,241**	**48,511**
Net interest, fee and commission and other operating income/(expenses) and gains/(losses) on banking activities	128	714
Adjustments:		
Net (income)/expense on creating provision for credit losses associated with debt financial assets	(489)	732
Provision for losses on credit related commitments	(94)	(736)
Change in fair value of financial assets through profit or loss	(37)	107
Other	(1,556)	(652)
Changes in operational working capital on banking activities, excluding cash:		
Mandatory reserve deposits with Central Bank of Russian Federation	(149)	164
Due from banks	899	328
Banking loans to customers	1,469	396
Due to banks and Central Bank of Russian Federation	(3,850)	(5,159)
Banking customers accounts	(795)	(2,567)
Debt securities issued	(184)	(1,455)
Financial assets at fair value through profit or loss	(2,891)	1,771
Other assets and liabilities	-	(314)
Net cash used in banking operating activities before income tax	**(7,549)**	**(6,671)**
Income taxes paid	(13,677)	(11,339)
Interest paid on non-banking activities	(415)	(179)
Interest received on non-banking activities	406	1,766
Net cash provided by operating activities	**61,006**	**32,088**

(in million of Russian Rubles)

	Three months ended 31 March 2019	Three months ended 31 March 2018
Investing activities		
Additions to property, plant and equipment	(19,318)	(20,014)
Proceeds from disposal of property, plant and equipment	521	344
Cash inflow from disposal of subsidiaries and associates, net of disposed cash	-	3
Purchase of financial assets at fair value through other comprehensive income	(14,072)	(7,906)
Purchase of financial assets at amortised cost	-	(9,039)
Proceeds from disposal of financial assets at fair value through other comprehensive income	8,030	12,838
Proceeds from redemption of financial assets at amortised cost	4,166	7,093
Proceeds from sale of non-current assets held for sale	155	90
Purchase of investments in associates and joint ventures	-	(15)
Proceeds from redemption of bank deposits	10	-
Placement of bank deposits	(15,971)	(402)
Proceeds from redemption of loans and notes receivable	300	175
Issuance of loans and notes receivable	(426)	(93)
Net cash used in investing activities	**(36,605)**	**(16,926)**
Financing activities		
Proceeds from issuance of debt from non-banking activities	15,482	23,000
Repayment of debt from non-banking activities	(15,482)	(41,123)
Repayment of principal portion of lease liabilities	(331)	-
Issuance of bonds	897	-
Redemption of bonds	(60)	(3,379)
Repayment of subordinated debt	-	(2)
Dividends paid to shareholders	(50,119)	(5,688)
Dividends paid to non-controlling shareholders	-	(3)
Net cash used in financing activities	**(49,613)**	**(27,195)**
Net change in cash and cash equivalents	**(25,212)**	**(12,033)**
Effect of foreign exchange on cash and cash equivalents	(1,289)	26
Cash and cash equivalents at the beginning of the period	65,489	42,797
Cash and cash equivalents at the end of the period	**38,988**	**30,790**

Note 1: Organisation

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

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

The Group does not have an ultimate controlling party.

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

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

Note 2: Basis of preparation

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

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

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), and applicable accounting and reporting standards of countries outside the Russian Federation. A number of entities of the Group prepare their financial statements in accordance with IFRS. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post-retirement benefits, (11) business combinations and goodwill and (12) lease liabilities and right-of-use assets recognition.

Note 2: Basis of preparation (continued)

The accounting policies adopted are consistent with those of the previous financial year except for the effect of new standards adopted from 1 January 2019 or another indicated date, as described below, also changes were made due to Changes in Tax Code.

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

Returnable excise on crude oil refined and negative excise on gasoline and diesel fuel sold on domestic market. Effective 1 January 2019, changes have been made to the Tax Code, which introduces new excisable commodity - oil fuel, as well as applying excise deduction using a multiplying factor. The mechanism of "returnable (negative) excise" is a tax refund with a multiplying factor. A refundable (negative) excise tax is deducted from excise taxes.

The following new standard was adopted by the Group starting from the annual period beginning on 1 January 2019:

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

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

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

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

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

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

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

Note 2: Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

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

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

(in million of Russian Rubles)

Note 2: Basis of preparation (continued)

The official rate of exchange, as published by the Central Bank of Russian Federation ("CB RF"), of the Russian Ruble ("RR") to the US Dollar ("US $") at 31 March 2019 and 31 December 2018 was RR 64.73 and RR 69.47 to US $, respectively. Average rate of exchange for the three months ended 31 March 2019 and 2018 were RR 66.13 and RR 56.88 per US $, respectively.

Note 3: Adoption of new or revised standards and interpretations

Adoption of IFRS 16, Leases. The Group has adopted IFRS 16 – Leases from 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income.

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

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

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

Right-of-use assets comprise the following:

	Service equipment	Other assets	Total
As of 1 January 2019	**13,654**	**2,414**	**16,068**
Additions	-	31	31
Depreciation	(446)	(76)	(522)
Modification and remeasurement	-	-	-
As of 31 March 2019	**13,208**	**2,369**	**15,577**

(in million of Russian Rubles)

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

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

	At 31 March 2019
Assets	
Exploration and production	13,268
Refining and marketing	376
Petrochemicals	1,212
Banking	637
Corporate and other	84
Total assets	**15,577**

The reconciliation between undiscounted lease liabilities and their present value as of 31 March 2019 is presented in the table below:

	At 31 March 2019
Lease liabilities	
Less than one year	3,089
Between one and five years	10,150
More than five years	13,905
Total undiscounted lease liabilities	**27,144**
Lease liabilities	**15,929**
Of which are:	
Current lease liabilities, presented in Accounts payable and accrued liabilities (Note 12)	2,889
Non-current lease liabilities	13,040

Earnings per share for the three months ended 31 March 2019 decreased by RR 0.07 as a result of the adoption of IFRS 16.

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

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

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

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

(in million of Russian Rubles)

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

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted. The full list of such standards, interpretations and amendments to standards was disclosed in the consolidated financial statements as of and for the year ended 31 December 2018. No additional new standards, amendments and interpretations to existing standards have been issued since the Group published its last annual consolidated financial statements.

Note 4: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31 March 2019	At 31 December 2018
Cash on hand and in banks	35,669	42,340
Term deposits with original maturity of less than three months	2,850	22,078
Due from banks	469	1,071
Total cash and cash equivalents	**38,988**	**65,489**

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

Note 5: Accounts receivable

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

	At 31 March 2019	At 31 December 2018
Short-term accounts receivable:		
Trade receivables	91,561	79,088
Other financial receivables	7,753	8,150
Other non-financial receivables	158	144
Less credit loss allowance	(5,880)	(6,620)
Total short-term accounts receivable	**93,592**	**80,762**
Long-term accounts receivable:		
Trade receivables	1,569	1,569
Other financial receivables	3,194	3,063
Less credit loss allowance	(1,761)	(1,702)
Total long-term accounts receivable	**3,002**	**2,930**
Total trade and other receivables	**96,594**	**83,692**

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

(in million of Russian Rubles)

Note 6: Banking: Loans to customers

	At 31 March 2019	At 31 December 2018
Loans to legal entities	103,394	106,538
Loans to individuals	38,317	39,935
Loans to customers at AC before credit loss allowance	**141,711**	**146,473**
Credit loss allowance	(10,773)	(13,069)
Total loans to customers at AC	**130,938**	**133,404**
Loans to customers at FVTPL	12,669	12,901
Total loans to customers	**143,607**	**146,305**
Less: long term loans at FVTPL	(12,669)	(12,901)
Less: long term loans at AC	(80,822)	(85,905)
Less: credit loss allowance for long term loans	5,123	6,298
Total short term loans to customers and current portion of long term loans to customers at AC	**55,239**	**53,797**

As at 31 March 2019 and 31 December 2018 the Group granted loans to 16 and 20 customers totalling RR 46,261 million and RR 51,743 million respectively, which individually exceeded 5% of the Bank ZENIT equity.

As at 31 March 2019 and 31 December 2018, the total amount of pledged loans to legal entities is RR 1,507 million and RR 1,742 million and loans to individuals is RR 5,118 million and RR 5,422 million respectively. The loans are pledged against the funds accounted within Due to banks and CB RF.

The analysis of changes in credit loss allowance for the three months ended 31 March 2019 is presented in the table below:

	Loans to legal entities	Loans to individuals	Total
Credit loss allowance as at 1 January 2019	**(11,533)**	**(1,536)**	**(13,069)**
Net reversal of provision for credit loss allowance during the period	486	3	489
Cession	183	-	183
Reclass	1,624	-	1,624
Credit loss allowance as at 31 March 2019	**(9,240)**	**(1,533)**	**(10,773)**

The analysis of changes in credit loss allowance for the three months ended 31 March 2018 is presented in the table below:

	Loans to legal entities	Loans to individuals	Total
Credit loss allowance as at 1 January 2018	**(10,605)**	**(1,154)**	**(11,759)**
Net provision for credit loss allowance during the period	(473)	(259)	(732)
Credit loss allowance as at 31 March 2018	**(11,078)**	**(1,413)**	**(12,491)**

(in million of Russian Rubles)

Note 7: Other financial assets

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

	At 31 March 2019	At 31 December 2018
Financial assets at AC		
Notes receivable (net of credit loss allowance of RR 548 million as of 31 March 2019 and 249 million as of 31 December 2018)	22	136
Other loans (net of credit loss allowance of RR 277 million as of 31 March 2019 and RR 261 million as of 31 December 2018)	3,287	3,220
Bank deposits (net of credit loss allowance of RR 5,476 million as of 31 March 2019 and RR 5,544 million 31 December 2018)	15,971	11
Due from banks	524	997
REPO with banks	110	537
Securities held by the Group (net of credit loss allowance of RR 44 million as of 31 March 2019 and RR 47 million as of 31 December 2018):	4,915	4,632
Russian government and municipal debt securities	742	675
Corporate debt securities	4,173	3,957
Securities pledged under sale and repurchase agreements (net of credit loss allowance of RR 37 million as of 31 December 2018):	-	8,267
Russian government and municipal debt securities	-	2,272
Corporate debt securities	-	5,995
Financial assets at FVTPL		
Securities held by the Group:	4,707	4,017
Russian government and municipal debt securities	1,346	287
Corporate debt securities	3,207	2,018
Corporate shares	125	186
Derivatives	29	1,526
Securities pledged under sale and repurchase agreements:	837	-
Russian government and municipal debt securities	837	-
Financial assets at FVOCI		
Securities held by the Group:	16,056	11,084
Russian government and municipal debt securities	13,965	176
Corporate debt securities	642	10,719
Corporate shares	1,449	189
Securities pledged under sale and repurchase agreements:	436	-
Russian government and municipal debt securities	436	-
Total short-term financial assets	**46,865**	**32,901**

(in million of Russian Rubles)

Note 7: Other financial assets (continued)

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

	At 31 March 2019	At 31 December 2018
Financial assets at AC		
Notes receivable (net of credit loss allowance of RR 318 million as of 31 March 2019 and 31 December 2018)	320	320
Loans to employees (net of credit loss allowance of RR 1,842 million as of 31 March 2019 and RR 1,776 million as of 31 December 2018)	905	1,046
Other loans (net of credit loss allowance of RR 20,036 million as of 31 March 2019 and RR 17,746 million as of 31 December 2018)	25,832	25,450
Bank deposits	624	646
Due from banks	854	1,018
Securities held by the Group (net of credit loss allowance of RR 133 million as of 31 March 2019 and RR 138 million as of 31 December 2018):	24,168	19,867
Russian government and municipal debt securities	4,097	2,301
Corporate debt securities	20,071	17,566
Financial assets at FVTPL		
Other loans	117	117
Securities held by the Group:	205	757
Corporate shares	205	757
Financial assets at FVOCI		
Securities held by the Group:	33,321	32,292
Russian government and municipal debt securities	34	36
Corporate shares	12,315	12,317
Corporate debt securities	7,843	6,851
Investment fund units	13,129	13,088
Total long-term financial assets	**86,346**	**81,513**

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

As at 31 March 2019 and 31 December 2018 RR 3,230 million and RR 10,083 million of due to banks respectively was received under sale and repurchase agreements, fair value of securities pledged amounts to RR 1,273 million and RR 8,268 million, respectively.

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

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

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

Corporate shares at FVTPL include quoted shares of Russian companies and banks. At 31 March 2019 and 31 December 2018 unquoted securities at FVOCI include investment in AK BARS Bank ordinary shares (17.24%) in the amount of RR 7,300 million.

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

(in million of Russian Rubles)

Note 8: Inventories

	At 31 March 2019	At 31 December 2018
Materials and supplies	14,974	17,640
Crude oil	10,403	12,003
Refined oil products	12,617	11,621
Petrochemical supplies and finished goods	10,857	9,342
Total inventories	**48,851**	**50,606**

Note 9: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 31 March 2019	At 31 December 2018
Prepaid export duties	2,462	3,818
VAT recoverable	7,018	7,873
Advances	6,968	8,670
Prepaid transportation expenses	1,347	1,752
Returnable excise	2,204	-
Other	1,321	977
Prepaid expenses and other current assets	**21,320**	**23,090**

Note 10: Taxes

Income tax expense comprises the following:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Current income tax expense	(14,462)	(11,646)
Deferred income tax expense	(1,482)	(535)
Income tax expense	**(15,944)**	**(12,181)**

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Profit before income tax	76,179	54,099
Theoretical income tax expense at statutory rate	(15,236)	(10,820)
(Increase)/decrease due to:		
Non-deductible expenses, net	(1,036)	(1,319)
Other	328	(42)
Income tax expense	**(15,944)**	**(12,181)**

(in million of Russian Rubles)

Note 10: Taxes (continued)

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

	Three months ended 31 March 2019	**Three months ended 31 March 2018**
Mineral extraction tax	74,452	58,804
Property tax	1,759	1,458
Other	376	354
Total taxes other than income taxes	**76,587**	**60,616**

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

	At 31 March 2019	**At 31 December 2018**
Mineral extraction tax	26,363	21,692
Value Added Tax	11,146	7,622
Excise	2,944	2,683
Export duties	1,431	2,493
Property tax	2,713	1,549
Other	1,653	2,732
Total taxes payable	**46,250**	**38,771**

Note 11: Debt

	At 31 March 2019	**At 31 December 2018**
Short-term debt		
Bonds issued	1,056	1,056
Subordinated debt	2,166	2,160
Debt securities issued	898	1,061
US $75 mln 2011 credit facility	1,304	1,397
US $144.5 mln 2011 credit facility	2,732	2,932
EUR 55 mln 2013 credit facility	2,193	2,353
Other debt	965	994
Total short-term debt	**11,314**	**11,953**
Current portion of long-term debt	184	-
Total short-term debt, including current portion of long-term debt	**11,498**	**11,953**
Long-term debt		
Bonds issued	836	-
Subordinated debt	1,356	1,420
Debt securities issued	29	69
Other debt	1,590	1,595
Total long-term debt	**3,811**	**3,084**
Less: current portion of long-term debt	(184)	-
Total long-term debt, net of current portion	**3,627**	**3,084**

Fair value of debt is presented in Note 20. Debt issued to related parties is presented in Note 18.

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

Note 11: Debt (continued)

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

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

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

Bonds issued. At 31 March 2019 and 31 December 2018 bonds issued are bonds denominated in Russian Rubles issued by Bank ZENIT that mature between 2019 and 2025 and between 2018 and 2025, respectively. At 31 March 2019 and 31 December 2018 the annual coupon rates on these securities range from 7.5% to 8.85% and 7.5% to 8.0% respectively. The majority of bonds allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer at any time with the consent of the bond holder, may purchase/repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase/repayment of the bonds does not constitute an early redemption.

Subordinated debt. At 31 March 2019 and 31 December 2018 subordinated debt is presented by two subordinated loans raised by Bank ZENIT. Subordinated loans bear interest at rates ranging from 6.5% to 8.0% and from 6.5% to 9.5% respectively and mature from 2019 to 2024.

Bank ZENIT is obliged to comply with certain financial covenants in relation to subordinated loan maturing in December 2024 bearing an interest rate of 6,5%. At 31 March 2019 the Group did not perform an assessment of compliance to these covenants since the obligation to calculate them is provided on a semi-annual basis. At 31 December 2018 the Group was in compliance with these covenants.

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

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

As at 31 March 2019 and 31 December 2018 non-interest-bearing promissory notes of the aggregate nominal value of RR 265 million and RR 469 million respectively were issued by the Group for settlement purposes and mature primarily on demand.

(in million of Russian Rubles)

Note 12: Accounts payable and accrued liabilities

	At 31 March 2019	At 31 December 2018
Trade payables	22,343	25,728
Current portion of lease obligations	2,889	-
Other payables	1,001	1,013
Total financial liabilities within trade and other payables	**26,233**	**26,741**
Salaries and wages payable	3,468	4,465
Advances received from customers	5,904	6,197
Current portion of decommissioning provisions	119	119
Other accounts payable and accrued liabilities	5,877	5,467
Total non-financial liabilities	**15,368**	**16,248**
Accounts payable and accrued liabilities	**41,601**	**42,989**

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 March 2019 and 31 December 2018 is presented in Note 20.

Note 13: Dividends payable

In December 2018, the shareholders of the Company approved the payment of interim dividends for the nine months ended 30 September 2018, including previously paid interim dividends for the six months ended 30 June 2018, in the amount of RR 52.53 per preference and ordinary share. Dividends were paid in the beginning of 2019.

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

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

(in million of Russian Rubles)

Note 14: Interest income and expense on banking activity

	Three months ended 31 March 2019	Three months ended 31 March 2018
Interest income		
Loans to customers	3,407	4,112
Due from banks	110	114
Securities at AC	521	485
Correspondent accounts	19	5
Securities at FVTPL	66	133
Securities at FVOCI	397	314
Total interest income on banking activity	**4,520**	**5,163**
Interest expense		
Term deposits of individuals	(1,516)	(1,288)
Term deposits of legal entities	(738)	(578)
RUR-denominated bonds issued	(25)	(468)
Subordinated debt	(122)	(126)
Term placements of banks	(138)	(286)
Debt securities issued	(1)	(21)
Total interest expense on banking activity	**(2,540)**	**(2,767)**
Net interest income on banking activity	**1,980**	**2,396**

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Settlement transactions	601	539
Cash transactions	70	87
Operations with foreign currencies	83	88
Guarantees issued	56	36
Transactions with securities	19	6
Asset management	1	3
Other	101	51
Total fee and commission income on banking activity	**931**	**810**
Settlement transactions	(200)	(209)
Cash transactions	(1)	(3)
Transactions with securities	(4)	(12)
Operations with foreign currencies	(6)	(5)
Commission on guarantees received	(2)	(2)
Other	(19)	(39)
Total fee and commission expense on banking activity	**(232)**	**(270)**
Net fee and commission income on banking activity	**699**	**540**

(in million of Russian Rubles)

Note 16: Other income and expenses

Interest income on non-banking activities comprises the following:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Interest income from financial assets at AC	406	844
Unwinding of the present value discount of long-term financial assets	36	116
Total interest income on non-banking activities	**442**	**960**

Interest expense on non-banking activities comprises the following:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Bank loans	(105)	(84)
Unwinding of the present value discount of decommissioning provision	(751)	(675)
Interest expense on lease obligations	(386)	-
Unwinding of the present value discount of long-term financial assets and liabilities	(16)	(15)
Total interest expenses on non-banking activities	**(1,258)**	**(774)**

For the three months ended 31 March 2019 the Group recognised RR 2,145 million and RR 4,489 million foreign exchange gains and losses respectively in the consolidated interim condensed statement of profit or loss and other comprehensive income (for the three months ended 31 March 2018: RR 3,394 million and RR 3,613 million, respectively).

Note 17: Segment information

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

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

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

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

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

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

(in million of Russian Rubles)

Note 17: Segment information (continued)

For the three months ended 31 March 2019, revenues of RR 31,418 million or 13% and RR 25,762 million or 11% of the Group's total sales and operating revenues are derived from two external customers.

For the three months ended 31 March 2018, revenue of RR 22,159 million or 12% of the Group's total sales and operating revenues are derived from one external customer.

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

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

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Exploration and production		
Domestic own crude oil	42,495	36,779
CIS own crude oil	7,435	6,061
Non-CIS own crude oil	76,386	52,651
Other	831	1,339
Intersegment sales	42,973	41,312
Total exploration and production	**170,120**	**138,142**
Refining and marketing		
Domestic sales		
Refined products	47,800	31,314
Total Domestic sales	47,800	31,314
CIS sales		
Refined products	4,091	5,002
Total CIS sales[(1)]	4,091	5,002
Non-CIS sales		
Crude oil purchased for resale	1,624	1,837
Refined products	29,065	39,574
Total non-CIS sales[(2)]	30,689	41,411
Other	2,662	1,557
Intersegment sales	277	261
Total refining and marketing	**85,519**	**79,545**
Petrochemicals		
Tires – domestic sales	4,273	5,986
Tires – CIS sales	1,959	1,626
Tires – non-CIS sales	860	586
Petrochemical products and other	1,070	785
Intersegment sales	88	190
Total petrochemicals	**8,250**	**9,173**
Banking		
Interest income	4,520	5,163
Fee and commission income	931	810
Total banking	**5,451**	**5,973**
Total segment sales	**269,340**	**232,833**
Corporate and other sales	6,775	3,248
Elimination of intersegment sales	(43,338)	(41,763)
Total sales and other operating revenues	**232,777**	**194,318**

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

(in million of Russian Rubles)

Note 17: Segment information (continued)

Segment earnings.

	Three months ended 31 March 2019	Three months ended 31 March 2018
Segment earnings		
Exploration and production	69,468	54,445
Refining and marketing	15,899	5,414
Petrochemicals	(819)	491
Banking	(204)	520
Total segment earnings	**84,344**	**60,870**
Corporate and other	(5,074)	(6,738)
Other expenses	(3,091)	(33)
Profit before income tax	**76,179**	**54,099**

For the three months ended 31 March 2019 and 2018 corporate and other loss includes Head Office administrative expenses, loss on impairments of financial assets, charity, maintenance of social infrastructure and transfer of social assets.

Segment assets

	At 31 March 2019	At 31 December 2018
Assets		
Exploration and production	399,988	368,991
Refining and marketing	407,547	406,407
Petrochemicals	36,750	32,923
Banking	246,942	252,854
Corporate and other	134,550	140,113
Total assets	**1,225,777**	**1,201,288**

As of 31 March 2019 corporate and other includes RR 32,819 million of property, plant and equipment, RR 24,339 million of securities at FVOCI, and RR 17,632 million of bank deposits at AC.

As of 31 December 2018 corporate and other includes RR 41,059 million of property, plant and equipment, RR 24,341 million of securities at FVOCI, and RR 22,378 million of bank deposits at AC.

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

(in million of Russian Rubles)

Note 17: Segment information (continued)

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Depreciation, depletion and amortization		
Exploration and production	4,421	3,917
Refining and marketing	2,513	2,051
Petrochemicals	374	437
Banking	90	74
Corporate and other	52	246
Total depreciation, depletion and amortization	**7,450**	**6,725**
Additions to property, plant and equipment		
Exploration and production	9,687	9,523
Refining and marketing	5,956	9,331
Petrochemicals	315	139
Banking	317	3
Corporate and other	1,886	996
Total additions to property, plant and equipment	**18,161**	**19,992**

Within due to banks as at 31 March 2019 and 31 December 2018 are RR 13,883 million and RR 16,523 million of correspondent accounts and term deposits from 6 and 4 Russian banks, which individually exceeded 5% of the Bank ZENIT equity.

Within customer accounts at 31 March 2019 and 31 December 2018 are RR 44,629 million and RR 48,549 million of current/settlement accounts and term deposits from 16 and 19 customers, which individually exceeded 5% of the Bank ZENIT equity.

Note 18: Related party transactions

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

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

Associates, joint ventures and other related parties

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Revenues and income		
Sales of refined products	4	4
Other sales	29	48
Interest income	12	120
Costs and expenses		
Other services	151	167
Other purchases	129	129

(in million of Russian Rubles)

Note 18: Related party transactions (continued)

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

	At 31 March 2019	At 31 December 2018
Assets		
Accounts receivable, net	196	148
Banking: Loans to customers	240	193
Other financial assets		
Notes receivable	248	249
Other loans receivable	123	51
Prepaid expenses and other current assets	304	276
Due from related parties short-term	**1,111**	**917**
Long-term accounts receivable	114	114
Banking: Loans to customers	124	-
Other financial assets		
Securities at FVOCI	3,736	5,249
Other loans receivable	911	912
Due from related parties long-term	**4,885**	**6,275**
Liabilities		
Accounts payable and accrued liabilities	(63)	(61)
Banking: Customer accounts	(1,355)	(1,668)
Due to related parties short-term	**(1,418)**	**(1,729)**

At 31 March 2019 and 31 December 2018 key management personnel customer accounts in Bank ZENIT amounted to RR 31,908 million and RR 31,290 million, respectively.

(in million of Russian Rubles)

Note 18: Related party transactions (continued)

Government related companies

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

	At 31 March 2019	At 31 December 2018
Assets		
Cash and cash equivalents	17,582	16,810
Banking: Mandatory reserve deposits with CB RF	2,024	1,875
Accounts receivable	4,153	6,795
Banking: Loans to customers	6,813	7,496
Other financial assets		
Bank deposits	10,871	-
Securities at FVOCI	14,302	10,209
Securities at AC	1,364	8,349
Securities at FVTPL	4,127	1,679
Other loans receivable	40	40
Prepaid expenses and other current assets	3,042	5,067
Due from related parties short-term	**64,318**	**58,320**
Long-term accounts receivable	1,256	1,221
Banking: Loans to customers	5	500
Other financial assets		
Bank deposits	324	346
Securities at FVOCI	11,883	11,001
Securities at AC	13,869	8,192
Other loans receivable	181	192
Advances for construction	1,416	1,430
Due from related parties long-term	**28,934**	**22,882**
Liabilities		
Accounts payable and accrued liabilities	(1,613)	(1,420)
Banking: Due to banks and CB RF	(3,359)	(100)
Banking: Customer accounts	(5,541)	(6,298)
Debt		
Other debt	(2,912)	(3,121)
Due to related parties short-term	**(13,425)**	**(10,939)**
Banking: Due to banks and CB RF	(2,682)	(2,631)
Due to related parties long-term	**(2,682)**	**(2,631)**

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

	Three months ended 31 March 2019	Three months ended 31 March 2018
Sales of refined products	5,528	3,150
Other sales	1,374	1,170
Interest income	780	1,024
Interest expense	173	345
Purchases of refined products	5,238	7,557
Purchases of electricity	4,709	4,021
Purchases of transportation services	7,469	5,742
Other services	1,123	1,123
Other purchases	89	226

(in million of Russian Rubles)

Note 19: Contingencies and commitments

Operating Environment of the Group

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

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019.

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

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

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

Capital commitments. As of 31 March 2019 and 31 December 2018 the Group has outstanding capital commitments of approximately RR 33,641 million and RR 38,327 million, respectively, mainly for the construction of the TANECO refinery complex and superviscous oil fields facilities construction. These commitments are expected to be paid between 2019 and 2024.

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

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

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

Outstanding credit related commitments are as follows:

	At 31 March 2019	**At 31 December 2018**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	18,300	18,810
Guarantees issued	15,808	20,467
Import letters of credit	1,205	271
Less: credit loss allowance	(310)	(426)
Less: commitments collateralised by cash deposits under guarantees issues	(17)	(29)
Less: commitments collateralised by cash deposits under import letters of credit	(914)	(806)
Total credit related commitments	**34,072**	**38,287**

Note 19: Contingencies and commitments (continued)

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

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

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

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

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

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

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

Ukrtatnafta. In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of 27 November 1998 (“Russia-Ukraine BIT”) in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest. Ukraine filed a request for annulment of the award in the Court of Appeal in Paris, France (seat of arbitration), which on 29 November 2016 rejected the request for annulment. In March 2017 Ukraine filed a cassation appeal against the Paris Court of Appeal decision of 29 November 2016 rejecting its request for annulment. Tatneft filed a motion with the Court of Cassation to exclude Ukraine’s cassation appeal from the Cassation Court docket without prejudice due to Ukraine’s failure to perform the decision of the Court of Appeal requiring Ukraine to compensate Tatneft’s legal expenses in relation to the appeal and commence performance of the tribunal’s award. On 9 November 2017, Tatneft’s motion was granted.

Note 19: Contingencies and commitments (continued)

At this time, it is not clear whether and when the cassation appeal will be heard. Filing of the cassation appeal does not preclude Tatneft from commencing enforcement of the award. Accordingly, Tatneft has commenced recognition and enforcement procedures in relation to this arbitration award in the USA, England and the Russian Federation. In March 2017, Tatneft filed a petition to recognize and enforce the award in the U.S. District Court for the District of Columbia, which is now pending and is subject to various procedural actions by Tatneft and Ukraine. On 19 March 2018, the U.S. District Court for the District of Columbia denied Ukraine's challenge to the U.S. court's jurisdiction, Ukraine's motion to stay the enforcement proceedings pending the outcome of the French proceedings and Ukraine's motion for jurisdictional discovery. On 17 April 2018, Ukraine appealed this decision to the United States Court of Appeals for the District of Columbia Circuit; the District Court has stayed proceedings on Ukraine's remaining objections to enforcement of the award in the United States pending this appeal. The hearing before the United States Court of Appeals took place on 28 November 2018. On 28 May 2019, the United States Court of Appeals affirmed the District Court's decision. Ukraine has 30 days to move for rehearing en banc in the United States Court of Appeals, and 90 days to move for certiorari by the US Supreme Court.

In April 2017, Tatneft filed an application for recognition of the award and permission to enforce the award in the High Court of England and Wales. In May 2017, the High Court approved Tatneft's application to enforce the award, however the order granting Tatneft's application and the enforcement procedure are subject to challenge by Ukraine. Ukraine challenged the jurisdiction of the English courts to consider Tatneft's petition for recognition and enforcement of the award and a hearing on this threshold issue was held in the High Court of England and Wales in June 2018. On 13 July 2018, the High Court rejected Ukraine's challenge to jurisdiction in its entirety. Ukraine was granted the permission to appeal the High Court's judgment to the Court of Appeal solely on one ground while all other grounds were rejected. The appeal was scheduled for hearing in May 2019, but due to Ukraine's failure to comply with an order of the Court of Appeal relating to the costs of the appeal (the "Security for Costs Order"), Ukraine's appeal was struck-out (the "Strike-Out"). As a consequence of the Strike-Out, Ukraine is required to set out its remaining objections as to recognition and enforcement in England and Wales by 31 May 2019.

On 27 June 2017 the Arbitration Court of the City of Moscow terminated the proceedings in relation to Tatneft's application for recognition and enforcement of the award due to Ukraine's alleged jurisdictional immunity and lack of effective jurisdiction of the Arbitration Court of the City of Moscow to consider the application. On 22 August 2017, the Arbitration Court of the Moscow District overturned this ruling. Tatneft's petition for enforcement of the award was returned to the Arbitration Court of the City of Moscow for further consideration. Several hearings took place in 2017-2018. On 22 June 2018 the Arbitration Court of the City of Moscow transferred the case for consideration by the Arbitration Court of Stavropol Region because Ukraine's property was identified in that region. Tatneft appealed this ruling to the Arbitration Court of the Moscow District. On 2 August 2018, the Arbitration Court of the Moscow District upheld the ruling of the Arbitration Court of the City of Moscow. On 28 February 2019 the Arbitration Court of Stavropol Region recognised the award and gave permission to enforce it in Russia. The ruling of the Arbitration Court of Stavropol Region has entered in force immediately. Ukraine appealed the ruling of the Arbitration Court of Stavropol Region to the Arbitration Court of the North Caucasian District and the hearing there is scheduled for 19 June 2019.

On 9 April 2019 the bailiff initiated enforcement proceedings in relation to Ukraine due to its failure to pay the amounts due under the award recognized in Russia. On 17 May 2019 Ukraine filed an application with the Arbitration Court of the City of Moscow to stay the enforcement proceedings pending the cassation review in the the Arbitration Court of the North Caucasian District. The hearing on this matter with the Moscow Arbitrazh Court is scheduled for 7 June 2019.

On 23 March 2016 Tatneft commenced court proceedings in England against Gennady Bogolyubov, Igor Kolomoisky, Alexander Yaroslavsky and Pavel Ovcharenko. Tatneft alleges that in 2009 those individuals fraudulently diverted to themselves sums owed to Tatneft for oil it had supplied to Kremenchug refinery (Ukrtatnafta). Tatneft claims damages of US$ 334.1 million plus interest. On 8 November 2016, the High Court refused the claim. On 23 November 2016, Tatneft requested from the Court of Appeals permission to appeal the judgement of 8 November 2016. Tatneft's appeal was heard by the Court of Appeals at the end of July 2017. On October 18 the Court of Appeals found that Tatneft's claim should not have been dismissed by the High Court and that the case may proceed to trial. The trial has been listed for autumn 2020.

(in million of Russian Rubles)

Note 19: Contingencies and commitments (continued)

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

As of 31 March 2019 the Group had approximately RR 5,120 million of assets associated with its Libyan operations of which RR 4,899 million is related to capitalised exploration costs, RR 210 million of inventories, RR 9 million of cash and RR 2 million of advances issued. As of 31 December 2018 the Group had approximately RR 5,116 million of assets associated with its Libyan operations of which RR 4,899 million is related to capitalised exploration costs, RR 210 million of inventories, RR 5 million of cash and RR 2 million of advances issued.

Note 20: Fair values

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

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

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

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

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

Recurring fair value measurements

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

				At 31 March 2019
		Fair value		
	Level 1	Level 2	Level 3	**Carrying value**
Banking: Loans to customers at FVTPL	-	-	12,669	**12,669**
Securities at FVTPL	5,186	358	205	**5,749**
Other loans at FVTPL	-	-	117	**117**
Securities at FVOCI	24,797	9,015	16,001	**49,813**
Investment property	-	-	912	**912**
Banking: Other financial liabilities at FVTPL	(205)	-	-	**(205)**
Total	**29,778**	**9,373**	**29,904**	**69,055**

(in million of Russian Rubles)

Note 20: Fair values (continued)

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

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

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

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

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

(in million of Russian Rubles)

Note 20: Fair values (continued)

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

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

	At 31 March 2019				At 31 December 2018			
	Fair value			Carrying value	Fair value			Carrying value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets								
Cash and cash equivalents								
Cash on hand and in banks	3,861	31,808	-	35,669	5,451	36,889	-	42,340
Term deposits	-	2,850	-	2,850	-	22,078	-	22,078
Due from banks	-	469	-	469	-	1,071	-	1,071
Banking: Mandatory reserve deposits with CB RF	2,024	-	-	2,024	1,875	-	-	1,875
Accounts receivable								
Trade receivables	-	-	91,257	91,257	-	-	78,417	78,417
Other financial receivables	-	-	5,179	5,179	-	596	4,535	5,131
Banking: Loans to customers at AC	-	-	130,564	130,938	-	-	133,404	133,404
Other financial assets								
Bank deposits	-	16,595	-	16,595	-	657	-	657
Due from banks	-	1,378	-	1,378	-	2,015	-	2,015
REPO with banks	-	110	-	110	-	537	-	537
Notes receivable	-	-	342	342	-	-	456	456
Loans to employees	-	-	905	905	-	-	1,046	1,046
Other loans at AC	-	-	29,119	29,119	-	-	28,670	28,670
Securities at AC	26,149	937	-	29,083	31,276	1,490	-	32,766
Total financial assets	**32,034**	**54,147**	**257,366**	**345,918**	**38,602**	**65,333**	**246,528**	**350,463**
Liabilities								
Trade and other financial payables								
Trade payables	-	-	22,343	22,343	-	272	25,456	25,728
Dividend payable	-	-	592	592	-	-	50,711	50,711
Other payables	-	-	1,001	1,001	-	500	513	1,013
Debt								
Bonds issued	-	1,883	-	1,892	1,056	-	-	1,056
Subordinated debt	-	3,736	-	3,522	-	3,580	-	3,580
Debt securities issued	-	927	-	927	-	1,130	-	1,130
Credit facilities	-	-	6,229	6,229	-	-	6,682	6,682
Other debt	-	-	2,555	2,555	-	-	2,589	2,589
Banking: Due to banks and CB RF	1,613	12,933	-	14,484	1,526	16,899	-	18,425
Banking: Customer accounts	-	178,203	-	179,769	-	182,970	-	182,970
Other short-term liabilities	-	-	-	-	-	-	533	533
Total financial liabilities	**1,613**	**197,682**	**32,720**	**233,314**	**2,582**	**205,351**	**86,484**	**294,417**

Note 20: Fair values (continued)

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

Note 21: Subsequent events

In April 2019 the Board of Directors recommended to approve dividends on the preference and ordinary shares for the 2018 in the amount of RR 84.91 per preference and ordinary share with the consideration of earlier paid interim dividends for the nine months ended 30 September 2018 in the amount of RR 52.53 per preference and ordinary share. Total amount of dividends recommended for approval represents in aggregate about 100% of net income of PJSC Tatneft under Russian Accounting Standards for corresponding period. The decision on payment of dividends based on the results of 2018 will be taken by annual shareholders meeting on 21 June 2019.