PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

KPMG

Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Recoverability of Property, plant and equipment (PP&E) in exploration and production segment	
Please refer to the Note 13 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2019. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.	In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.

Estimation of oil and gas reserves and resources	
Please refer to the Note 4 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The principal risk is in relation to management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above.	In this area our audit procedures included the assessment of the competence, capabilities and objectivity of reservoir engineers, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation. Where volumetric movements had a material impact on the consolidated financial statements, we validated these volumes against underlying information and documentation, along with checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations. We compared the volumes of reserves and resources to the information used for the impairment test and

	accounting for depreciation, depletion and amortization.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis of Financial Condition and Results of Operations but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, the Annual Report and the Quarterly report of the issuer of securities, which are expected to be made available to us after that date.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

A.I. Oussov

JSC "KPMG"

Moscow, Russia

10 March 2020

PJSC LUKOIL
Consolidated Statement of Financial Position
(Millions of Russian rubles)

	Note	31 December 2019	31 December 2018
Assets			
Current assets			
Cash and cash equivalents	6	516,032	492,650
Accounts receivable, net	7	437,052	429,945
Other current financial assets	8	49,706	26,200
Inventories	9	413,910	381,737
Prepaid taxes	10	95,075	95,611
Other current assets	11	42,412	52,336
Total current assets		**1,554,187**	**1,478,479**
Property, plant and equipment	13	4,026,007	3,829,164
Investments in associates and joint ventures	12	220,004	228,053
Other non-current financial assets	14	38,231	82,568
Deferred income tax assets	29	28,673	31,041
Goodwill and other intangible assets	16	43,108	41,765
Other non-current assets		36,840	41,312
Total non-current assets		**4,392,863**	**4,253,903**
Total assets		**5,947,050**	**5,732,382**
Liabilities and equity			
Current liabilities			
Accounts payable	17	607,734	547,128
Short-term borrowings and current portion of long-term debt	18	130,300	99,625
Taxes payable	20	142,471	123,974
Provisions	22, 23	37,232	38,266
Other current liabilities	21	168,952	105,567
Obligation to repurchase common shares	24	120,988	-
Total current liabilities		**1,207,677**	**914,560**
Long-term debt	19	422,932	435,422
Deferred income tax liabilities	29	264,159	258,836
Provisions	22, 23	77,045	47,923
Other non-current liabilities		1,788	2,115
Total non-current liabilities		**765,924**	**744,296**
Total liabilities		**1,973,601**	**1,658,856**
Equity	24		
Share capital		968	1,015
Treasury shares (including obligation to repurchase common shares)		(308,160)	(134,810)
Additional paid-in capital		39,277	39,173
Other reserves		30,141	196,554
Retained earnings		4,203,138	3,963,628
Total equity attributable to PJSC LUKOIL shareholders		**3,965,364**	**4,065,560**
Non-controlling interests		8,085	7,966
Total equity		**3,973,449**	**4,073,526**
Total liabilities and equity		**5,947,050**	**5,732,382**

President of PJSC LUKOIL
Alekperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

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

PJSC LUKOIL
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Millions of Russian rubles, unless otherwise noted)

	Note	2019	2018
Revenues			
Sales (including excise and export tariffs)	33	7,841,246	8,035,889
Costs and other deductions			
Operating expenses		(457,710)	(464,467)
Cost of purchased crude oil, gas and products		(4,308,073)	(4,534,244)
Transportation expenses		(278,798)	(270,153)
Selling, general and administrative expenses		(197,172)	(192,433)
Depreciation, depletion and amortisation		(415,094)	(343,085)
Taxes other than income taxes		(928,190)	(899,383)
Excise and export tariffs		(425,763)	(556,827)
Exploration expenses		(9,348)	(3,582)
Profit from operating activities		**821,098**	**771,715**
Finance income	26	25,134	19,530
Finance costs	26	(44,356)	(38,298)
Equity share in income of affiliates	12	18,246	25,243
Foreign exchange gain		923	33,763
Other expenses	27	(27,691)	(38,934)
Profit before income taxes		**793,354**	**773,019**
Current income taxes		(144,615)	(137,062)
Deferred income taxes		(6,518)	(14,855)
Total income tax expense	29	**(151,133)**	**(151,917)**
Profit for the year		**642,221**	**621,102**
Profit for the year attributable to non-controlling interests		(2,043)	(1,928)
Profit for the year attributable to PJSC LUKOIL shareholders		**640,178**	**619,174**
Other comprehensive income (loss), net of income taxes			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		(164,117)	172,037
Change in fair value of equity investments at fair value through other comprehensive income		(348)	(2,393)
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability / asset of pension plan	23	(1,976)	(196)
Other comprehensive (loss) income		**(166,441)**	**169,448**
Total comprehensive income for the year		**475,780**	**790,550**
Total comprehensive income for the year attributable to non-controlling interests		(2,015)	(1,912)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		**473,765**	**788,638**
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):	24		
Basic		963.28	874.47
Diluted		934.73	865.19

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

PJSC LUKOIL
Consolidated Statement of Changes in Equity
(Millions of Russian rubles)

	Share capital	Treasury shares (including obligation to repurchase)	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2018	1,015	(134,810)	39,173	196,554	3,963,628	**4,065,560**	7,966	**4,073,526**
Profit for the year	-	-	-	-	640,178	**640,178**	2,043	**642,221**
Other comprehensive loss	-	-	-	(166,413)	-	**(166,413)**	(28)	**(166,441)**
Total comprehensive (loss) income				**(166,413)**	**640,178**	**473,765**	**2,015**	**475,780**
Dividends on common stock	-	-	-	-	(229,669)	**(229,669)**	-	**(229,669)**
Stock purchased	-	(240,767)	-	-	-	**(240,767)**	-	**(240,767)**
Equity-settled share-based compensation plan	-	-	-	-	17,359	**17,359**	-	**17,359**
Obligation to repurchase common shares	-	(120,988)	-	-	-	**(120,988)**	-	**(120,988)**
Share capital reduction	(47)	188,405	-	-	(188,358)	**-**	-	**-**
Changes in non-controlling interests	-	-	104	-	-	**104**	(1,896)	**(1,792)**
31 December 2019	**968**	**(308,160)**	**39,277**	**30,141**	**4,203,138**	**3,965,364**	**8,085**	**3,973,449**
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	**3,482,951**	7,448	**3,490,399**
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(6,831)	**(6,831)**	-	**(6,831)**
1 January 2018	1,151	(251,089)	129,641	27,090	3,569,327	**3,476,120**	7,448	**3,483,568**
Profit for the year	-	-	-	-	619,174	**619,174**	1,928	**621,102**
Other comprehensive income	-	-	-	169,464	-	**169,464**	(16)	**169,448**
Total comprehensive income				**169,464**	**619,174**	**788,638**	**1,912**	**790,550**
Dividends on common stock	-	-	-	-	(158,635)	**(158,635)**	-	**(158,635)**
Stock purchased	-	(62,916)	-	-	-	**(62,916)**	-	**(62,916)**
Equity-settled share-based compensation plan	-	-	-	-	22,284	**22,284**	-	**22,284**
Share capital reduction	(136)	179,195	(90,537)	-	(88,522)	**-**	-	**-**
Changes in non-controlling interests	-	-	69	-	-	**69**	(1,394)	**(1,325)**
31 December 2018	**1,015**	**(134,810)**	**39,173**	**196,554**	**3,963,628**	**4,065,560**	**7,966**	**4,073,526**

PJSC LUKOIL
Consolidated Statement of Cash Flows
(Millions of Russian rubles)

	Note	2019	2018
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		**640,178**	**619,174**
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		415,094	343,085
Equity share in income of affiliates, net of dividends received		(11,387)	(17,956)
Dry hole write-offs		7,694	1,667
Loss on disposals and impairments of assets		16,975	26,061
Income tax expense		151,133	151,917
Non-cash foreign exchange gain		(1,120)	(33,041)
Finance income		(25,134)	(19,530)
Finance costs		44,356	38,298
Allowance for expected credit losses		9,340	(949)
Equity-settled share-based compensation plan		31,366	31,366
All other items – net		1,823	6,076
Changes in operating assets and liabilities:			
Trade accounts receivable		(48,023)	23,877
Inventories		(69,171)	71,565
Accounts payable		88,977	(92,508)
Other taxes		24,053	(8,460)
Other current assets and liabilities		(2,617)	(28,066)
Income tax paid		(148,314)	(133,064)
Dividends received		6,636	7,527
Interests received		19,985	19,612
Net cash provided by operating activities		**1,151,844**	**1,006,651**
Cash flows from investing activities			
Acquisition of licenses		(8,925)	(153)
Capital expenditures		(449,975)	(451,526)
Proceeds from sale of property, plant and equipment		1,759	4,765
Purchases of financial assets		(7,198)	(7,535)
Proceeds from sale of financial assets		17,774	36,309
Sale of subsidiaries, net of cash disposed		9,261	-
Sale of equity method affiliates		259	-
Acquisitions of interests in the projects and subsidiaries, net of cash acquired		(71,693)	-
Acquisitions of equity method affiliates		(1,388)	(2,252)
Net cash used in investing activities		**(510,126)**	**(420,392)**
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		264	19,502
Principal repayments of short-term borrowings		(6,186)	(10,909)
Proceeds from issuance of long-term debt		-	39,786
Principal repayments of long-term debt		(106,625)	(256,771)
Interest paid		(41,589)	(39,921)
Dividends paid on Company common shares		(180,747)	(158,370)
Dividends paid to non-controlling interest shareholders		(4,040)	(1,995)
Financing received from non-controlling interest shareholders		297	118
Purchase of Company's stock		(243,691)	(59,993)
Sale of non-controlling interest		-	4
Purchases of non-controlling interest		(27)	-
Net cash used in financing activities		**(582,344)**	**(468,549)**
Effect of exchange rate changes on cash and cash equivalents		(35,992)	44,550
Net increase in cash and cash equivalents		**23,382**	**162,260**
Cash and cash equivalents at beginning of year		492,650	330,390
Cash and cash equivalents at end of year	6	**516,032**	**492,650**

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

Note 1. Organisation and environment

The primary activities of PJSC LUKOIL (the "Company") and its subsidiaries (together, the "Group") are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree No. 1403, issued on 17 November 1992. Under this decree, on 5 April 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution No. 861 issued on 1 September 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The accompanying consolidated financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

Note 2. Basis of preparation

Statement of compliance

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

These consolidated financial statements have been prepared on a historical cost basis, except certain assets and liabilities measured at fair value.

The consolidated financial statements were authorised by the President of the Company on 10 March 2020.

Functional and presentation currency

The functional currency of each of the Group's consolidated companies is the currency of the primary economic environment in which the company operates. The management has analysed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency. The functional currency of the Company is the Russian ruble ("RUB").

The presentation currency of the Group is the RUB. All financial information presented in the RUB has been rounded to the nearest million, except when otherwise indicated.

The results and financial position of Group companies whose functional currency is different from the presentation currency of the Group are translated into presentation currency using the following procedures. Assets and liabilities are translated at period-end exchange rates, income and expenses are translated at rates which approximate actual rates at the date of the transaction. Resulting exchange differences are recognised in other comprehensive income.

Note 3. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of operations of the Company and controlled subsidiaries. A company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in companies that the Group does not control, but where it has the ability to exercise significant influence (Group's interests are between 20% and 50%) over operating and financial policies, are accounted for using the equity method. These investments include the Group's interests in associates, joint ventures and investments where the Company owns the majority of the voting interest but has no control. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Group's share in jointly controled operations is recognised in the consolidated financial statements based on its share in assets, liabilities, income and expenses. Jointly controlled operations are arrangements in which parties that have joint control over operating or financial policies have respective rights to use assets and responsibility for liabilities in the arrangements.

Certain of Group's unincorporated joint exploration and production activities are conducted through arrangements that are not jointly controlled, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. Such activities where control can be achieved through agreement between more than one combination of involved parties are considered to be outside the scope of IFRS 11 *Joint Arrangements*. In relation to its interests in these arrangements, the Group recognises its share of any assets, liabilities, income and expenses.

Business combinations

For each business combination the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Note 3. Summary of significant accounting policies (continued)

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the fair value of acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated during the process of consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of financial assets measured at fair value through other comprehensive income which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in a way that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Note 3. Summary of significant accounting policies (continued)

Revenues

Revenues are recognised when a customer obtains control of the goods or services which usually occurs when the title is passed, provided that risks and rewards of ownership are assumed by the customer and the customer obtains obligation to pay for the goods or services.

Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenue from the production of oil and natural gas in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts.

Revenues from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold. If the fair value of the non-cash consideration cannot be reasonably estimated, the consideration shall be measured indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Financial assets

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

A financial asset is 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 on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is 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 on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Company may make an irrevocable election at initial recognition for particular instruments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Group initially recognises as financial assets loans and receivables on the date when they are originated and debt securities on the date when they are acquired. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Note 3. Summary of significant accounting policies (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivative instruments

The Group uses various derivative financial instruments to hedge its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. The Group does not use hedge accounting.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other delivery costs. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The disposal of finished goods is accounted for using the first-in first-out principle, the disposal of other inventories by using the “average cost” method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment of major subsidiaries at 1 January 2014, the Group’s date of transition to IFRSs, was determined by reference to its fair value at that date.

The Group recognises exploration and evaluation costs using the successful efforts method. Under this method, all costs related to exploration and evaluation are capitalised and accounted for as construction in progress in the amount incurred less impairment (if any) until the discovery (or absence) of economically feasible oil and gas reserves has been established. When the technical feasibility and commercial viability of reserves extraction is confirmed, exploration and evaluation assets should be reclassified into property, plant and equipment. Prior to reclassification these assets should be reviewed for impairment and impairment loss (if any) expensed to the financial results. If the exploration and evaluation activity is evaluated as unsuccessful, the costs incurred should be expensed.

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Note 3. Summary of significant accounting policies (continued)

Depreciation, depletion and amortisation of the capitalised costs of oil and gas properties related to risk service contract is calculated using a depletion factor calculated as the ratio of value of the applicable crude oil production for the period to the total capitalised costs to be recovered.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	3 – 20 years

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Production and related overhead costs are expensed as incurred.

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalised only to the extent that they are expected to result in future economic benefits to the Group. If capitalised, they are depreciated over their estimated economic lives.

Impairment of non-current non-financial assets

The carrying amounts of the Group's non-current non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or related cash-generating unit ("CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to group of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date. 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 only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Note 3. Summary of significant accounting policies (continued)

Asset retirement obligations

The Group records the present value of the estimated future costs to settle its legal obligations to abandon, dismantle or otherwise retire tangible non-current non-financial assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related non-current non-financial assets is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired. Changes in the estimates of asset retirement obligations ("ARO") occur as a result of changes in cost and timing of liquidation or change of discount rates and are accounted as part of cost of property, plant and equipment in the current period.

Assets classified as held for sale

Assets classified as held for sale are separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the consolidated statement of financial position.

Income taxes

Deferred income tax assets and liabilities are recognised in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated statement of financial position and their respective tax bases. But as opposed to deferred tax liabilities, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Similarly a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available. At the end of each reporting period realizability of deferred tax assets (both recognised and unrecornized) should be reassessed. In case of existence of previously unrecognised deferred tax assets, they can be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Note 3. Summary of significant accounting policies (continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Treasury shares

Purchases by Group companies of the Company's outstanding shares are recorded at cost and classified as treasury shares within equity. Shares shown as Authorised and Issued include treasury shares. Shares shown as Outstanding do not include treasury shares.

Earnings per share

Basic earnings per share is computed by dividing profit available for distribution to common shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting profit available for distribution to common shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Provisions and contingencies

Certain conditions may exist as of the consolidated financial statements date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

Liabilities of the Group with high level of probability of loss are recognised in the consolidated financial statements as provisions. Liabilities of the Group with the level of probability that do not meet the conditions in order to be recognised as provisions are considered to be contingent liabilities. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements if probability of disposal of certain resources aimed to settle this liability is not remote. If probability of disposal of certain resources is remote the information about such contingencies is not disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognised no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Share-based payments

The Group accounts for cash-settled share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognised over the vesting period. Equity-settled share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

(Millions of Russian rubles, unless otherwise noted)

Note 3. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standard IFRS 16 *Leases* effective as of 1 January 2019.

IFRS 16, issued in January 2016, replaced existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, a contract is, or contains, a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. The Company has elected not to apply exemptions for short-term leases and leases for which the underlying asset is of low value. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The nature of expenses related to new assets and liabilities recognised for operating leases changed because the Group recognises a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously the Group recognised lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group applied IFRS 16 using the modified retrospective approach by one-off recognition of non-current assets and financial liabilities of 162 billion RUB at 1 January 2019 measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Lease liabilities reconciliation

Operating lease commitments at 31 December 2018	**182,742**
Payments for the rent of land related to exploration and evaluation	(30,417)
Leases not yet commenced	(22,835)
Effect of discounting using incremental borrowing rate as of the date of initial application	(33,754)
Other	(847)
Discounted using incremental borrowing rate	**94,889**
Extension and termination options reasonably certain to be exercised	10,721
Service agreements classified as lease	56,585
Other	(144)
Additional lease liabilities at 1 January 2019	**162,051**
Finance lease liabilities at 31 December 2018	25,973
Total lease liabilities at 1 January 2019	**188,024**

For further disclosures please refer to Note 28 "Lease".

Note 4. Use of estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(Millions of Russian rubles, unless otherwise noted)

Note 4. Use of estimates and judgments (continued)

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are the following:

- estimation of oil and gas reserves;
- estimation of useful lives of property, plant and equipment;
- impairment of non-current assets;
- assessment and recognition of provisions and contingent liabilities;
- definition of leases.

Oil and gas reserves estimates that are used for the reporting purposes are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission. Estimates are reassessed on an annual basis.

Note 5. New standards and interpretations not yet adopted

The following amendments to the standards and clarifications are effective for annual periods beginning on 1 January 2020, available for early adoption:

- amendments to references to Conceptual Framework in IFRS Standards;
- definition of a business (amendments to IFRS 3 *Business Combinations*);
- definition of a material (amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

However, the Group did not make an early adoption of the amended standards in the preparation of these consolidated financial statements, which are not expected to have a significant impact on the Group's consolidated financial statements.

Note 6. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash held in RUB	189,055	201,073
Cash held in US dollars	303,046	264,538
Cash held in EUR	14,909	18,350
Cash held in other currencies	9,022	8,689
Total cash and cash equivalents	**516,032**	**492,650**

Note 7. Accounts receivables, net

	31 December 2019	31 December 2018
Trade accounts receivable (net of allowances of 26,593 million RUB and 23,031 million RUB at 31 December 2019 and 2018, respectively)	428,415	411,247
Other current accounts receivable (net of allowances of 4,694 million RUB and 4,767 million RUB at 31 December 2019 and 2018, respectively)	8,637	18,698
Total accounts receivable, net	**437,052**	**429,945**

Note 8. Other current financial assets

	31 December 2019	31 December 2018
Financial assets measured at amortised cost		
Short-term loans	6,814	19,008
Other financial assets	-	295
Financial assets measured at fair value through profit or loss		
Short-term loans	42,892	6,897
Total other current financial assets	**49,706**	**26,200**

(Millions of Russian rubles, unless otherwise noted)

Note 9. Inventories

	31 December 2019	31 December 2018
Crude oil and petroleum products	358,372	325,563
Materials for extraction and drilling	22,811	23,128
Materials and supplies for refining	4,449	4,084
Other goods, materials and supplies	28,278	28,962
Total inventories	**413,910**	**381,737**

Note 10. Prepaid taxes

	31 December 2019	31 December 2018
Income tax prepaid	17,120	12,165
VAT and excise tax recoverable	30,660	37,832
Export duties prepaid	11,968	23,093
VAT prepaid	30,199	18,498
Other taxes prepaid	5,128	4,023
Total prepaid taxes	**95,075**	**95,611**

Note 11. Other current assets

	31 December 2019	31 December 2018
Advance payments	10,246	19,851
Prepaid expenses	23,673	22,139
Other assets	8,493	10,346
Total other current assets	**42,412**	**52,336**

Note 12. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

		Ownership			
Name of the company	**Country**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Joint ventures:					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	119,924	121,204
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	40,670	39,346
South Caucasus Pipeline Holding Company (SCPC)	Azerbaijan	10.0%	10.0%	30,241	34,789
Others				655	623
Associates:					
Associates				28,514	32,091
Total				**220,004**	**228,053**

TCO is engaged in development of hydrocarbon resources in Kazakhstan. The Group has classified its interest in TCO as a joint venture as it has rights to the net assets of the arrangement.

31 December 2019	TCO	CPC	SCPC	Others	Associates	Total
Current assets	127,066	21,376	10,196	3,183	36,785	**198,606**
Non-current assets	2,641,370	410,517	315,987	1,770	193,540	**3,563,184**
Current liabilities	195,807	88,698	9,311	568	136,443	**430,827**
Non-current liabilities	825,320	17,838	14,467	3,076	31,737	**892,438**
Net assets (100%)	1,747,309	325,357	302,405	1,309	62,145	**2,438,525**
Share in net assets	119,924	40,670	30,241	655	28,514	**220,004**

(Millions of Russian rubles, unless otherwise noted)

Note 12. Investments in associates and joint ventures (continued)

31 December 2018	TCO	CPC	SCPC	Others	Associates	Total
Current assets	187,272	22,601	9,458	3,354	57,928	**280,613**
Non-current assets	2,390,973	537,226	364,658	1,852	190,463	**3,485,172**
Current liabilities	242,501	129,442	8,303	716	57,173	**438,135**
Non-current liabilities	692,411	115,621	17,921	3,245	117,117	**946,315**
Net assets (100%)	1,643,333	314,764	347,892	1,245	74,101	**2,381,335**
Share in net assets	121,204	39,346	34,789	623	32,091	**228,053**

2019	TCO	CPC	SCPC	Others	Associates	Total
Revenues	1,055,783	146,646	37,944	6,988	122,041	**1,369,402**
Net income (100%)	296,060	46,918	18,234	167	(8,219)	**353,160**
Share in net income	12,474	5,865	1,823	84	(2,000)	**18,246**

2018	TCO	CPC	SCPC	Others	Associates	Total
Revenues	1,080,376	137,675	27,166	8,592	317,802	**1,571,611**
Net income (100%)	364,678	47,238	16,001	1,794	722	**430,433**
Share in net income	16,097	5,905	1,600	897	744	**25,243**

Note 13. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2018	4,476,824	1,373,743	75,882	**5,926,449**
Adjustment on adoption of IFRS 16	54,335	102,189	5,527	**162,051**
1 January 2019	4,531,159	1,475,932	81,409	**6,088,500**
Additions	397,031	120,221	2,133	**519,385**
Acquisitions	72,171	529	-	**72,700**
Disposals	(55,461)	(19,197)	(2,833)	**(77,491)**
Foreign currency translation differences	(165,027)	(71,067)	(1,804)	**(237,898)**
Other	15,801	4,097	(2,659)	**17,239**
31 December 2019	**4,795,674**	**1,510,515**	**76,246**	**6,382,435**
Depreciation and impairment				
31 December 2018	(1,586,508)	(513,668)	(19,380)	**(2,119,556)**
Depreciation for the period	(288,349)	(121,721)	(4,064)	**(414,134)**
Impairment loss	(21,559)	(1,324)	-	**(22,883)**
Impairment reversal	9,797	-	-	**9,797**
Disposals	36,114	15,289	789	**52,192**
Foreign currency translation differences	83,848	27,564	723	**112,135**
Other	82	4,224	779	**5,085**
31 December 2019	**(1,766,575)**	**(589,636)**	**(21,153)**	**(2,377,364)**
Advance payments for property, plant and equipment				
31 December 2018	5,916	15,669	686	**22,271**
31 December 2019	**6,791**	**13,314**	**831**	**20,936**
Carrying amounts				
31 December 2018	2,896,232	875,744	57,188	**3,829,164**
31 December 2019	**3,035,890**	**934,193**	**55,924**	**4,026,007**

(Millions of Russian rubles, unless otherwise noted)

Note 13. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2017	3,902,267	1,236,552	72,543	**5,211,362**
Additions	365,329	91,676	2,189	**459,194**
Disposals	(37,837)	(14,859)	(1,331)	**(54,027)**
Foreign currency translation differences	245,644	60,352	2,465	**308,461**
Other	1,421	22	16	**1,459**
31 December 2018	**4,476,824**	**1,373,743**	**75,882**	**5,926,449**
Depreciation and impairment				
31 December 2017	(1,230,717)	(403,445)	(15,617)	**(1,649,779)**
Depreciation for the period	(247,940)	(94,405)	(3,673)	**(346,018)**
Impairment loss	(11,093)	(634)	-	**(11,727)**
Disposals	26,777	7,762	619	**35,158**
Foreign currency translation differences	(122,439)	(23,406)	(775)	**(146,620)**
Other	(1,096)	460	66	**(570)**
31 December 2018	**(1,586,508)**	**(513,668)**	**(19,380)**	**(2,119,556)**
Advance payments for property, plant and equipment				
31 December 2017	10,732	2,717	133	**13,582**
31 December 2018	**5,916**	**15,669**	**686**	**22,271**
Carrying amounts				
31 December 2017	2,682,282	835,824	57,059	**3,575,165**
31 December 2018	**2,896,232**	**875,744**	**57,188**	**3,829,164**

The cost of assets under construction included in property, plant and equipment was 369,926 million RUB and 335,312 million RUB at 31 December 2019 and 2018, respectively.

Exploration and evaluation assets

	2019	2018
1 January	107,105	86,134
Capitalised expenditures	41,446	31,770
Reclassified to development assets	(8,742)	(3,962)
Charged to expenses	(7,159)	(9,103)
Foreign currency translation differences	(3,537)	3,657
Other movements	838	(1,391)
31 December	**129,951**	**107,105**

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually.

In the fourth quarter of 2019, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,142 million RUB, for its international exploration and production assets in the amount of 1,270 million RUB, for its refining, marketing and distribution assets in Russia in the amount of 476 million RUB and for its international refining, marketing and distribution assets in the amount of 848 million RUB. Also the Group recognised an impairment reversal of 9,651 million RUB, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia.

(Millions of Russian rubles, unless otherwise noted)

Note 13. Property, plant and equipment (continued)

The recoverable amounts of CGUs subject to impairment and impairment reversal in 2019 in the amount of 55,822 million RUB and 100,270 million RUB, respectively, were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets in Russia – from 10% to 13%.

In the second quarter of 2018, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,010 million RUB. As a result of the test, in the fourth quarter of 2018, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,117 million RUB, for its international exploration and production assets in the amount of 966 million RUB and for its refining, marketing and distribution assets in the amount of 634 million RUB.

The recoverable amount of CGUs subject to impairment test in 2018 in the amount of 4,330 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.7%, for refining, marketing and distribution assets in Russia – from 12.8% to 15.6%.

Impairment reversal and impairment loss are included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income.

For impairment test purposes at 31 December 2019 the following Brent Blend price assumptions have been used: $62.8 per barrel in 2020, $64.0 per barrel in 2021, $66.0 per barrel in 2022, $68.0 per barrel in 2023, and $70.0 per barrel from 2024.

Downward revisions to our oil and gas price outlook based on consensus estimates at year end by 10% may lead to further impairments, which mostly relate to our international upstream portfolio and in aggregate may be material. However, considering substantial uncertainty relevant to other assumptions that would be triggered by a 10% decrease in commodity price forecast, it is impracticable to estimate the possible effect of changes in these assumptions.

Note 14. Other non-current financial assets

	31 December 2019	31 December 2018
Financial assets measured at fair value through other comprehensive income		
Equity instruments	2,656	3,388
Financial assets measured at amortised cost		
Long-term loans	26,008	19,468
Non-current accounts and notes receivable	1,371	2,469
Other financial assets	34	102
Financial assets measured at fair value through profit or loss		
Long-term loans	8,162	57,064
Other financial assets	-	77
Total other non-current financial assets	**38,231**	**82,568**

Note 15. Acquisitions of interests in the projects

In October 2019, a Group company acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National oil company for 13.8 billion RUB ($214 million).

(Millions of Russian rubles, unless otherwise noted)

Note 15. Acquisitions of interests in the projects (continued)

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo, Brazzaville) developed under the production sharing agreement. In September 2019, the transaction in the amount of 51.4 billion RUB ($768 million) was closed after all the customary conditions, including approval by the Government of the Republic of Congo, were fulfilled. At 31 December 2019, the Company had not yet completed the fair value estimation of assets and liabilities of its 25% interest in this project. Allocation of the purchase price to the fair value of assets acquired and liabilities assumed is going to be finalized within 12 months from the acquisition date.

After acquisition the Group accounted for these projects similar to accounting for jointly controlled operations.

Note 16. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2018	17,714	3,538	50,296	35,681	**107,229**
Additions as result of internal developments	1,678	1,886	-	-	**3,564**
Acquisitions	-	-	16	-	**16**
Additions - separately acquired	-	-	6,922	-	**6,922**
Disposals	(7)	(7)	(1,030)	-	**(1,044)**
Foreign currency translation differences	(289)	(2)	(3,287)	(3,344)	**(6,922)**
Other	436	(440)	(135)	-	**(139)**
31 December 2019	**19,532**	**4,975**	**52,782**	**32,337**	**109,626**
Amortisation and impairment					
31 December 2018	(14,242)	(1,001)	(38,503)	(11,718)	**(65,464)**
Amortisation for the year	(837)	(298)	(5,329)	-	**(6,464)**
Disposals	7	5	706	-	**718**
Foreign currency translation differences	274	2	2,398	1,794	**4,468**
Other	1	(14)	237	-	**224**
31 December 2019	**(14,797)**	**(1,306)**	**(40,491)**	**(9,924)**	**(66,518)**
Carrying amounts					
31 December 2018	3,472	2,537	11,793	23,963	**41,765**
31 December 2019	**4,735**	**3,669**	**12,291**	**22,413**	**43,108**

(Millions of Russian rubles, unless otherwise noted)

Note 16. Goodwill and other intangible assets (continued)

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2017	16,413	2,968	48,335	32,247	**99,963**
Additions as result of internal developments	673	1,596	-	-	**2,269**
Additions - separately acquired	-	-	4,021	269	**4,290**
Disposals	(286)	(11)	(3,496)	-	**(3,793)**
Foreign currency translation differences	209	4	1,364	3,438	**5,015**
Other	705	(1,019)	72	(273)	**(515)**
31 December 2018	**17,714**	**3,538**	**50,296**	**35,681**	**107,229**
Amortisation and impairment					
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	**(58,659)**
Amortisation for the year	(1,044)	(308)	(4,756)	-	**(6,108)**
Disposals	280	10	1,950	-	**2,240**
Foreign currency translation differences	(196)	(4)	(1,174)	(1,832)	**(3,206)**
Other	-	-	269	-	**269**
31 December 2018	**(14,242)**	**(1,001)**	**(38,503)**	**(11,718)**	**(65,464)**
Carrying amounts					
31 December 2017	3,131	2,269	13,543	22,361	**41,304**
31 December 2018	**3,472**	**2,537**	**11,793**	**23,963**	**41,765**

Goodwill was tested for impairment and no impairment was identified.

Note 17. Accounts payable

	31 December 2019	31 December 2018
Trade accounts payable	555,823	477,444
Other accounts payable	51,911	69,684
Total accounts payable	**607,734**	**547,128**

Note 18. Short-term borrowings and current portion of long-term debt

	31 December 2019	31 December 2018
Short-term borrowings from third parties	13,940	20,885
Short-term borrowings from related parties	2,222	7,843
Current portion of long-term debt	114,138	70,897
Total short-term borrowings and current portion of long-term debt	**130,300**	**99,625**

Short-term borrowings from third parties include amounts repayable in US dollars of 12,694 million RUB and 15,541 million RUB and amounts repayable in other currencies of 1,246 million RUB and 5,344 million RUB at 31 December 2019 and 2018, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.00% and 9.83% per annum at 31 December 2019 and 2018, respectively. At 31 December 2019, short-term borrowings from third parties are unsecured.

(Millions of Russian rubles, unless otherwise noted)

Note 19. Long-term debt

	31 December 2019	31 December 2018
Long-term loans and borrowings from third parties	117,864	161,314
7.250% non-convertible US dollar bonds, maturing 2019	-	41,584
6.125% non-convertible US dollar bonds, maturing 2020	61,866	69,385
6.656% non-convertible US dollar bonds, maturing 2022	30,905	34,663
4.563% non-convertible US dollar bonds, maturing 2023	92,769	104,079
4.750% non-convertible US dollar bonds, maturing 2026	61,786	69,321
Lease obligations	171,880	25,973
Total long-term debt	537,070	506,319
Current portion of long-term debt	(114,138)	(70,897)
Total non-current portion of long-term debt	**422,932**	**435,422**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 104,819 million RUB and 137,439 million RUB and amounts repayable in euros of 13,045 million RUB and 23,875 million RUB at 31 December 2019 and 2018, respectively. This debt has maturity dates from 2020 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.08% and 4.87% per annum at 31 December 2019 and 2018, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 48% of total long-term loans and borrowings from third parties at 31 December 2019 are secured by shares of an associated company, export sales and property, plant and equipment.

US dollar non-convertible bonds

In November 2016, a Group company issued non-convertible bonds totaling $1 billion (61.9 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion (185.7 billion RUB). The first tranche totaling $1.5 billion (92.85 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling $1.5 billion (92.85 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period. In April 2018, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1 billion (61.9 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling $800 million (49.5 billion RUB) was placed at a price of 99.081% of the bond’s face value with a resulting yield to maturity of 6.250%. The second tranche totaling $200 million (12.4 billion RUB) was placed at a price of 102.44% of the bond’s face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion (92.85 billion RUB). The first tranche totaling $900 million (55.7 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond’s face value with a resulting yield to maturity of 6.500%. The second tranche totaling $600 million (37.1 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond’s face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014 and November 2019, a Group company redeemed all issued bonds of the first and second tranches in accordance with the conditions of the bond issue.

(Millions of Russian rubles, unless otherwise noted)

Note 19. Long-term debt (continued)

In June 2007, a Group company issued two tranches of non-convertible bonds totaling $1 billion (61.9 billion RUB). $500 million (30.95 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million (30.95 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Lease obligations	Other liabilities	Total
31 December 2018	190,042	319,032	25,973	73,920	**608,967**
Adjustment on adoption of IFRS 16	-	-	162,051	-	**162,051**
1 January 2019	190,042	319,032	188,024	73,920	**771,018**
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	264	-	-	-	**264**
Principal repayments of short-term borrowings	(6,186)	-	-	-	**(6,186)**
Principal repayments of long-term debt	(26,955)	(38,232)	(41,438)	-	**(106,625)**
Interest paid	-	-	(11,258)	(30,331)	**(41,589)**
Dividends paid on Company common stock	-	-	-	(180,747)	**(180,747)**
Total changes from financing cash flows	(32,877)	(38,232)	(52,696)	(211,078)	**(334,883)**
Other changes:					
Interest accrued	-	-	11,258	32,018	**43,276**
Dividends declared on Company common stock	-	-	-	229,669	**229,669**
Changes arising from obtaining or losing control over subsidiaries	(4,100)	-	-	-	**(4,100)**
The effect of changes in foreign exchange rates	(19,407)	(33,661)	(14,757)	(555)	**(68,380)**
Non-cash additions to lease obligations	-	-	42,550	-	**42,550**
Other changes	368	187	(2,499)	11,946	**10,002**
Total other changes	(23,139)	(33,474)	36,552	273,078	**253,017**
31 December 2019	**134,026**	**247,326**	**171,880**	**135,920**	**689,152**

Note 20. Taxes payable

	31 December 2019	31 December 2018
Income tax	12,031	11,316
Mineral extraction tax	61,464	46,532
Tax on additional income from hydrocarbon production	3,380	-
VAT	38,566	34,823
Excise tax	14,359	18,887
Property tax	5,120	4,985
Other taxes	7,551	7,431
Total taxes payable	**142,471**	**123,974**

Note 21. Other current liabilities

	31 December 2019	31 December 2018
Advances received	30,868	30,249
Dividends payable	135,034	72,103
Other	3,050	3,215
Total other current liabilities	**168,952**	**105,567**

(Millions of Russian rubles, unless otherwise noted)

Note 22. Provisions

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension liabilities	Provision for unused vacations	Other provisions	Total
31 December 2019	**63,387**	**9,762**	**3,783**	**12,544**	**5,861**	**18,940**	**114,277**
Incl.: Non-current	62,667	263	1,175	10,310	153	2,477	**77,045**
Current	720	9,499	2,608	2,234	5,708	16,463	**37,232**
31 December 2018	36,424	9,401	4,014	8,910	5,968	21,472	**86,189**
Incl.: Non-current	36,042	263	1,604	5,916	178	3,920	**47,923**
Current	382	9,138	2,410	2,994	5,790	17,552	**38,266**

Asset retirement obligations changed as follows during 2019 and 2018:

	2019	2018
1 January	36,424	36,668
Provisions made during the year	2,158	3,026
Reversal of provisions	(387)	(220)
Provisions used during the year	(119)	(207)
Accretion expense	2,707	2,963
Change in discount rate	23,092	(1,331)
Changes in estimates	1,360	(7,405)
Foreign currency translation differences	(1,882)	2,902
Other	34	28
31 December	**63,387**	**36,424**

Note 23. Pension liabilities

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee).

Plan assets and pensions payments are managed by a non-state pension fund, JSC "NPF Otkritie" (former "NPF LUKOIL-GARANT"). The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2019 and 2018.

The following table sets out movement in the pension liabilities before taxation during 2019 and 2018.

	2019	2018
1 January	8,910	10,367
Components of defined benefit costs recorded in profit or loss	3,182	518
Components of defined benefit costs recorded in other comprehensive loss	2,510	228
Contributions from employer	(1,385)	(1,451)
Benefits paid	(680)	(785)
Opening balance adjustment	(5)	33
Liability assumed in business combination	12	-
31 December	**12,544**	**8,910**

Note 24. Equity

Common shares

	31 December 2019 (thousands of shares)	31 December 2018 (thousands of shares)
Issued common shares, par value of 0.025 RUB each	715,000	750,000
Treasury shares	(62,119)	(53,107)
Outstanding common shares	**652,881**	**696,893**

The Company has the right to issue additional 85,000 thousands of common shares.

On 3 December 2019, at the extraordinary general shareholders' meeting a decision was made to reduce the share capital of the Company by purchase of a portion of issued shares in order to reduce the total number thereof. At 31 December 2019, the Group recognised an obligation to repurchase common shares in the amount of 120,988 million RUB. Share capital reduction to 693 million common shares by purchase and cancellation of 22 million common shares was executed on 10 February 2020. Most of the common shares were purchased from a Group company.

On 20 June 2019, at the annual general shareholders' meeting a decision was made to reduce the share capital of the Company to 715 million common shares by purchase and cancellation of 35 million common shares. Share cancellation and share capital reduction was executed on 28 August 2019. Out of 35 million common shares 15.5 million common shares were purchased from a Group company.

In 2019, a Group company purchased 24.5 million common shares and depositary receipts of the Company as part of the open market buyback programme announced on 30 August 2018.

In 2018, a Group company purchased 12.7 million common shares and depositary receipts of the Company as part of the open market buyback programme.

Dividends

At the extraordinary shareholders' meeting on 3 December 2019, interim dividends for 2019 were approved in the amount of 192.00 RUB per common share.

At the annual general shareholders' meeting on 20 June 2019, dividends for 2018 were approved in the amount of 155.00 RUB per common share. At the extraordinary general shareholders' meeting on 3 December 2018, interim dividends for 2018 were approved in the amount of 95.00 RUB per common share. Total dividends for 2018 were approved in the amount of 250.00 RUB per common share.

Dividends on the Company's shares payable of 133,514 million RUB and 70,610 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2019 and 2018, respectively.

Earnings per share

The calculation of basic and diluted earnings per share was as follows:

	2019	2018
Profit for the year attributable to PJSC LUKOIL	640,178	619,174
Weighted average number of common shares (thousands of shares)	664,578	708,059
Dilutive effect of equity-settled share-based compensation plan (thousands of shares)	20,122	7,588
Dilutive effect related to obligation to repurchase common shares (thousands of shares)	180	-
Weighted average number of common shares, assuming dilution (thousands of shares)	684,880	715,647
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):		
Basic	963.28	874.47
Diluted	934.73	865.19

(Millions of Russian rubles, unless otherwise noted)

Note 25. Personnel expenses

Personnel expenses were as follows:

	2019	2018
Salary	143,602	135,671
Statutory insurance contributions	33,417	32,531
Share-based compensation	31,366	31,300
Total personnel expenses	**208,385**	**199,502**

Note 26. Finance income and costs

Finance income was as follows:

	2019	2018
Interest income from deposits	15,452	10,595
Interest income from loans	4,878	6,484
Other finance income	4,804	2,451
Total finance income	**25,134**	**19,530**

Finance costs were as follows:

	2019	2018
Interest expenses	39,145	32,191
Accretion expenses	2,752	2,994
Other finance costs	2,459	3,113
Total finance costs	**44,356**	**38,298**

Note 27. Other income and expenses

Other income was as follows:

	2019	2018
Gain on disposal of assets	10,496	2,919
Reversal of impairment of assets	13,468	-
Other income	8,837	18,351
Total other income	**32,801**	**21,270**

Other expenses were as follows:

	2019	2018
Loss on disposal of assets	18,056	17,253
Impairment loss	22,883	11,727
Charity expenses	9,228	8,785
Other expenses	10,325	22,439
Total other expenses	**60,492**	**60,204**

Note 28. Lease

Primarily the Group leases such assets as transport (vessels, tank cars), land, drilling rigs and other equipment, storage facilities. The lease typically runs for a period of 3–5 years. Some leases include an option to renew the lease for additional period after the end of the non-cancellable period. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal option. Moreover, in determining the lease term the Group also took into account economic factors, which influence asset usage duration in its activity.

(Millions of Russian rubles, unless otherwise noted)

Note 28. Lease (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Property, plant and equipment owned	2,995,944	802,364	51,518	**3,849,826**
Right-of-use assets	39,946	131,829	4,406	**176,181**
31 December 2019	**3,035,890**	**934,193**	**55,924**	**4,026,007**

Right-of-use assets:

	Exploration and production	Refining, marketing and distribution	Other	Total
1 January 2019	54,335	125,657	5,527	**185,519**
Additions	7,513	35,011	94	**42,618**
Depreciation for the period	(13,326)	(31,850)	(818)	**(45,994)**
Other movements	(8,576)	3,011	(397)	**(5,962)**
31 December 2019	**39,946**	**131,829**	**4,406**	**176,181**

Lease liabilities:

31 December 2019	**171,880**
Incl.: Non-current	143,902
Current	27,978

Within the consolidated statement of profit or loss and other comprehensive income for 2019 the following expenses were recognized: interest on lease liabilities in the amount of 9,836 million RUB and variable lease payments not included in the measurement of lease liabilities in the amount of 9,418 million RUB. Income from sub-leasing right-of-use assets was not material.

Within the consolidated statement of cash flows for 2019 the total cash outflow under leases, including variable lease payments attributable to capital expenditure, amounted to 120,755 million RUB.

Note 29. Income tax

Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) the Federal income tax rate is set as 3.0% and the regional income tax rate is set as 17.0%. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

A number of Group companies in Russia are paying income tax as a consolidated taxpayers’ group (“CTG”). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

Income tax was as follows:

	2019	2018
Current income tax expense for the year	149,032	136,996
Adjustment for prior periods	(4,417)	66
Current income taxes	**144,615**	**137,062**
Deferred income tax	**6,518**	**14,855**
Total income tax expense	**151,133**	**151,917**

(Millions of Russian rubles, unless otherwise noted)

Note 29. Income tax (continued)

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to profit before income taxes to total income taxes.

	2019	**2018**
Profit before income taxes	793,354	773,019
Notional income tax at the Russian statutory rate	158,671	154,604
Increase (reduction) in income tax due to:		
Non-deductible items, net	18,056	21,711
Domestic and foreign rate differences	(17,709)	(25,932)
Adjustment for prior periods	(4,417)	66
Change in recognised deductible temporary differences	(3,468)	1,468
Total income tax expense	**151,133**	**151,917**

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

	31 December 2019	**31 December 2018**
Property, plant and equipment	5,332	8,251
Investments	60	-
Inventories	4,768	5,972
Accounts receivable	1,583	1,106
Accounts payable and provisions	11,052	11,251
Tax loss carry forward	35,344	32,989
Other	514	532
Total deferred income tax assets	58,653	60,101
Set off of tax	(29,980)	(29,060)
Deferred income tax assets	**28,673**	**31,041**
Property, plant and equipment	(276,175)	(267,422)
Investments	(1,517)	(2,326)
Inventories	(4,557)	(4,748)
Accounts receivable	(8,551)	(10,251)
Accounts payable and provisions	(1,518)	(902)
Other	(1,821)	(2,247)
Total deferred income tax liabilities	(294,139)	(287,896)
Set off of tax	29,980	29,060
Deferred income tax liabilities	**(264,159)**	**(258,836)**
Net deferred income tax liabilities	**(235,486)**	**(227,795)**

	31 December 2018	**Recognition in profit or loss**	**Acquisitions and disposal**	**Foreign currency translation differences and other**	**31 December 2019**
Property, plant and equipment	(259,171)	(12,358)	(1,477)	2,163	(270,843)
Investments	(2,326)	835	-	34	(1,457)
Inventories	1,224	(1,016)	-	3	211
Accounts and notes receivable	(9,145)	1,742	-	435	(6,968)
Accounts payable and provisions	10,349	(217)	-	(598)	9,534
Tax loss carry forward	32,989	4,264	(4)	(1,905)	35,344
Other	(1,715)	232	-	176	(1,307)
Net deferred income tax liabilities	**(227,795)**	**(6,518)**	**(1,481)**	**308**	**(235,486)**

(Millions of Russian rubles, unless otherwise noted)

Note 29. Income tax (continued)

	31 December 2017	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2018
Property, plant and equipment	(248,290)	(8,254)	-	(2,627)	(259,171)
Investments	(3,348)	502	-	520	(2,326)
Inventories	(177)	1,603	-	(202)	1,224
Accounts and notes receivable	(4,143)	(4,083)	-	(919)	(9,145)
Accounts payable and provisions	10,868	(2,711)	-	2,192	10,349
Tax loss carry forward	33,516	(2,243)	-	1,716	32,989
Other	(1,278)	331	-	(768)	(1,715)
Net deferred income tax liabilities	**(212,852)**	**(14,855)**	**-**	**(88)**	**(227,795)**

Deferred tax assets have not been recognised in respect of the temporary differences related to the following items:

	31 December 2019	31 December 2018
Property, plant and equipment	1,412	2,416
Tax loss carry forward	10,374	12,695
Other	1,043	1,186
Total unrecognised deferred tax assets	**12,829**	**16,297**

Management believes that it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

Amounts recognised in other comprehensive income during 2019:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(164,117)	-	(164,117)
Change in fair value of financial assets at fair value through other comprehensive income	(348)	-	(348)
Remeasurements of defined benefit liability/asset of pension plan	(2,510)	534	(1,976)
Total	**(166,975)**	**534**	**(166,441)**

Amounts recognised in other comprehensive income during 2018:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	172,037	-	172,037
Change in fair value of financial assets at fair value through other comprehensive income	(2,393)	-	(2,393)
Remeasurements of defined benefit liability/asset of pension plan	(228)	32	(196)
Total	**169,416**	**32**	**169,448**

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 1,109,000 million RUB and 1,103,660 million RUB at 31 December 2019 and 2018, respectively. This liability was not recognised because the Group considers such amounts to be indefinitely invested, i.e. management believes that they will not be returned in the foreseeable future. Moreover the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends.

The consequences of taxation in Russia of certain profits of controlled foreign corporations in accordance with applicable tax legislation are accounted for within current and deferred tax liabilities.

Note 30. Commitments and contingencies

Capital commitments

Capital commitments of the Group relating to construction and acquisition of property, plant and equipment amount to 517,977 million RUB and 473,615 million RUB at 31 December 2019 and 2018, respectively.

Insurance

To provide insurance protection, the Group uses the services of Russian and international insurance companies with high ratings. The Group's most significant risks are reinsured at the first-class foreign markets. In respect of liability to third parties for damages to property and the environment resulting from accidents related to the Group's property or activities, the Group has insurance coverage that is generally higher than the limits set by law. Management believes that the Group has sufficient insurance coverage of its core operating assets, as well as risks, which could have a material effect on the Group’s operations and financial position.

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years, which resulted in certain environmental consequences. Environmental regulations are currently in development stage in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their environmental obligations in response to new and changing legislation.

As liabilities in respect of the Group’s environmental obligations are able to be determined, they are recognised in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a material adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose substantial fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors significantly increase taxation risks in the Russian Federation and other emerging markets where Group companies operate, comparing to other countries where taxation regimes have been subject to development and clarification over longer periods.

Note 30. Commitments and contingencies (continued)

The tax authorities in each region of the Russian Federation may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessfully defended by the Group in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation. The Group is subject to tax authority audits on an ongoing basis, which is a normal practice in the Russian Federation and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met the requirements and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

In July 2015, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company’s credit and money laundering. Similar charges were brought against LUKOIL Europe Holdings B.V., a Group company, for 2010–2014. On 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. Upon preliminary hearings the Prosecutor’s Office revised the amount of damage claimed from $2.2 billion (136.2 billion RUB) to $1.5 billion (92.85 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018. At the final hearing on the case which was held on 23 October 2018 the court issued a not guilty decision to all the accused, including general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. themselves. As a result freezing injunction in the amount of approximately $1.5 billion (92.85 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor’s Office to the Ploesti Court of Appeals. On 27 November 2019, the Ploesti Court of Appeals issued a decision to return the case for a new examination in the court of first instance. On 24 December 2019, the defendants appealed the decision in an order of extraordinary appeal to the Ploesti Court of Appeals. Consideration of the complaint is scheduled for 16 March 2020. Management does not believe that the outcome of this matter will have a material adverse effect on the Group’s financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with the Republic of Kazakhstan with respect to cost recovery in 2010–2015 (the “CR”) and the calculation of the “Fairness index” (the “FI”) in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group’s financial position.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group’s operating results or financial position.

Note 30. Commitments and contingencies (continued)

Political situation

In July – September 2014, the United States ("US"), the European Union ("EU") and several other countries imposed a set of sanctions on Russia, including sectoral sanctions which affect several Russian oil and gas companies. The US Department of the Treasury has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4 of the Office of foreign assets control (OFAC). Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area spreading from the Russian territory and claimed by the Russian Federation.

From January 2018 (based on acts adopted in August – October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

Management believes that current sanctions do not have a material adverse effect on the current or planned Group's oil projects. At the same time the Company continues to monitor and evaluate potential risks for its operations in connection with sanctions.

The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors these risks and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.

Other matters

The Company and other Group companies have been notified by various counterparties of claims in respect of allegedly off-specification quantities of crude oil volumes delivered through the Druzhba pipeline (owned and operated by the state-owned company, PJSC Transneft) in the second quarter of 2019. The claims assert that the oil had an average organic chlorine content in excess of the contractual specification, which may allegedly cause the purchasers to suffer certain financial losses. According to publicly available information, this situation was caused by unlawful actions of certain third parties that were aimed at concealing thefts of oil from the pipeline. The losses have not been fully defined or evidenced. Currently the consequences of the incident in terms of crude oil delivered by the Group to Hungary and Slovakia have been settled between the Company, PJSC Transneft and Hungarian oil and gas company MOL. The Company is unable to estimate the amount of the remaining claims and the likelihood or prospects of their success but management does not believe that the ultimate resolution of these matters will have a material adverse impact on the Group's operating results or financial position.

Note 31. Related party transactions

The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures.

(Millions of Russian rubles, unless otherwise noted)

Note 31. Related party transactions (continued)

Outstanding balances with related parties were as follows:

	31 December 2019	31 December 2018
Accounts receivable	1,079	1,927
Other financial assets	51,053	64,007
Total assets	**52,132**	**65,934**
Accounts payable	5,002	13,492
Loans and borrowings	2,222	3,356
Total liabilities	**7,224**	**16,848**

Related party transactions were as follows:

	2019	2018
Sales of oil and oil products	31,028	35,325
Other sales	2,356	4,593
Purchases of oil and oil products	84,400	209,599
Other purchases	11,187	9,690
Proceeds from sale of other financial assets, net	10,872	18,749
(Principal repayments) proceeds from issuance of loans, net	(1,094)	23

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,866 million RUB and 1,518 million RUB during 2019 and 2018, respectively.

Also, a provision under the compensation plan (disclosed in Note 32 “Compensation plan”) was accrued in relation to the Company’s key management personnel in the amount of 3,137 million RUB during 2019 and 2018.

Note 32. Compensation plan

In late December 2017, the Company announced a compensation plan based on approximately 40 million shares available to certain members of management and key employees for the period from 2018 to 2022, which was implemented in July 2018 and recognised as equity-settled share-based compensation plan.

The fair value of the plan was estimated at the grant date at 156.8 billion RUB based on forecasting principles of Monte-Carlo model and is not going to be recalculated in the future. The fair value was estimated assuming a spot-price of the Company’s share in the amount of 4,355 RUB at the grant date, discount for illiquidity in the amount of 9.95% per annum, a risk-free interest rate of 7.50% per annum, an expected dividend yield of 4.99% per annum, an expected time to maturity of five years and a volatility factor of 25.68%. The expected volatility factor was estimated based on the historical volatility of the Company’s shares for the previous five years. The vesting of shares is contingent on meeting the requisite service period, certain KPIs and share price appreciation. The Group is planning to recognise expenses related to the plan evenly during the vesting period.

Related to this share plan the Group recognised compensation expenses of 31,366 million RUB during 2019 and 2018.

Note 33. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments.

(Millions of Russian rubles, unless otherwise noted)

Note 33. Segment information (continued)

The exploration and production segment explores for, develops and produces crude oil and gas. The refining, marketing and distribution segment includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

Geographical segments are based on the area of operations and include two segments: Russia and International.

The Group decided to introduce a new key performance indicator in order to evaluate activity of the Group and business segments starting from the three-month period ended 31 March 2019, by changing "operating earnings" measure to "EBITDA" which is not defined under IFRS. The Group defines EBITDA as profit from operating activities before depreciation, depletion and amortisation. EBITDA is an indicator of the strength and performance of business operations of the Group, including ability to finance capital expenditures, acquisitions and other investments and to raise and service debt.

For comparison purposes earlier periods were restated accordingly.

Operating segments

2019	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	270,842	7,548,121	22,283	-	7,841,246
Inter-segment	2,093,342	76,077	45,601	(2,215,020)	-
Total revenues	2,364,184	7,624,198	67,884	(2,215,020)	7,841,246
Operating expenses	274,934	228,576	19,709	(65,509)	457,710
Selling, general and administrative expenses	47,964	121,383	63,515	(35,690)	197,172
Profit (loss) for the year attributable to PJSC LUKOIL shareholders	473,517	190,998	(35,569)	11,232	640,178
EBITDA	893,950	371,642	(39,962)	10,562	1,236,192
Income tax expense					(151,133)
Finance income					25,134
Finance costs					(44,356)
Foreign exchange gain					923
Equity share in income of affiliates					18,246
Other expenses					(27,691)
Depreciation, depletion and amortisation					(415,094)
Profit for the year attributable to non-controlling interests					(2,043)
Profit for the year attributable to PJSC LUKOIL shareholders					640,178

(Millions of Russian rubles, unless otherwise noted)

Note 33. Segment information (continued)

2018	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	247,657	7,763,810	24,422	-	8,035,889
Inter-segment	2,143,810	70,529	46,639	(2,260,978)	-
Total revenues	2,391,467	7,834,339	71,061	(2,260,978)	8,035,889
Operating expenses	273,012	243,214	19,554	(71,313)	464,467
Selling, general and administrative expenses	38,559	127,089	61,733	(34,948)	192,433
Profit (loss) for the year attributable to PJSC LUKOIL shareholders	508,401	156,805	(28,401)	(17,631)	619,174
EBITDA	870,287	282,144	(36,154)	(1,477)	1,114,800
Income tax expense					(151,917)
Finance income					19,530
Finance costs					(38,298)
Foreign exchange gain					33,763
Equity share in income of affiliates					25,243
Other expenses					(38,934)
Depreciation, depletion and amortisation					(343,085)
Profit for the year attributable to non-controlling interests					(1,928)
Profit for the year attributable to PJSC LUKOIL shareholders					619,174

Geographical segments

	2019	2018
Sales of crude oil within Russia	22,528	47,508
Export of crude oil and sales of crude oil by foreign subsidiaries	2,684,320	2,666,156
Sales of petroleum products within Russia	923,715	938,092
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,748,364	3,961,784
Sales of chemicals within Russia	40,971	46,085
Export of chemicals and sales of chemicals by foreign subsidiaries	91,687	67,682
Sales of gas within Russia	32,490	33,352
Sales of gas by foreign subsidiaries	138,997	112,990
Sales of energy and related services within Russia	53,276	54,353
Sales of energy and related services by foreign subsidiaries	14,604	15,600
Other sales within Russia	42,270	46,127
Other export sales and other sales of foreign subsidiaries	48,024	46,160
Total sales	**7,841,246**	**8,035,889**

2019	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,221,549	6,619,697	-	7,841,246
Inter-segment	1,606,632	2,726	(1,609,358)	-
Total revenues	2,828,181	6,622,423	(1,609,358)	7,841,246
Operating expenses	329,688	118,256	9,766	457,710
Selling, general and administrative expenses	93,963	106,939	(3,730)	197,172
Profit for the year attributable to PJSC LUKOIL shareholders	577,939	52,593	9,646	640,178
EBITDA	1,032,126	199,811	4,255	1,236,192

(Millions of Russian rubles, unless otherwise noted)

Note 33. Segment information (continued)

2018	**Russia**	**International**	**Elimination**	**Consolidated**
Sales and other operating revenues				
Third parties	1,269,047	6,766,842	-	8,035,889
Inter-segment	1,621,187	3,270	(1,624,457)	-
Total revenues	2,890,234	6,770,112	(1,624,457)	8,035,889
Operating expenses	333,749	129,515	1,203	464,467
Selling, general and administrative expenses	96,486	99,755	(3,808)	192,433
Profit for the year attributable to PJSC LUKOIL shareholders	588,479	50,433	(19,738)	619,174
EBITDA	942,254	168,250	4,296	1,114,800

In the International segment the Group receives the most substantial revenues in Switzerland, the USA and Singapore.

	2019	**2018**
Sales revenues		
in Switzerland	3,503,238	3,739,647
in the USA	1,128,181	922,045
in Singapore	482,132	684,276

These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 34. Subsidiaries

The most significant subsidiaries of the Group are presented below:

		31 December 2019		**31 December 2018**	
Subsidiary	**Country of incorporation**	Total shares	Voting shares	Total shares	Voting shares
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-PERM LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftohim Burgas AD	Bulgaria	99.85%	99.85%	99.85%	99.85%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Pan Americas LLC	USA	100.00%	100.00%	100.00%	100.00%

(Millions of Russian rubles, unless otherwise noted)

Note 35. Fair value

There are the following methods of fair value measurement based on the valuation method:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
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.

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2019 and 2018.

		Fair value			
31 December 2019	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	180	-	180	-	**180**
Financial assets at fair value through profit or loss	51,053	-	-	51,053	**51,053**
Financial assets at fair value through other comprehensive income	2,656	2,656	-	-	**2,656**
Financial liabilities:					
Commodity derivative contracts	550	-	550	-	**550**
Loans and borrowings	537,070	265,109	-	295,726	**560,835**

		Fair value			
31 December 2018	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	8,676	-	8,676	-	**8,676**
Financial assets at fair value through profit or loss	64,038	-	-	64,038	**64,038**
Financial assets at fair value through other comprehensive income	3,388	3,388	-	-	**3,388**
Financial liabilities:					
Commodity derivative contracts	8,413	-	8,413	-	**8,413**
Loans and borrowings	506,319	321,535	-	192,519	**514,054**

The fair values of cash and cash equivalents (Level 1), accounts receivable and long-term accounts receivable (Level 3), short-term borrowings (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing instruments. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2019 and 2018.

Note 36. Capital and risk management

The Group's governing bodies pay great attention to risk management issues to provide a reasonable guarantee for the achievement of the set objectives under the conditions characterized by uncertainties and negative impact factors. The Group is constantly identifying, describing, estimating and monitoring the possible events that may affect its activities, and is elaborating measures to prevent them or mitigate their negative impact to the greatest extent possible if such events do take place.

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

The Group seeks to actively promote risk management and is presently focusing its efforts on the improvement of a general enterprise risk management system (ERM) based on the best international practices. The Group is constantly improving the applicable regulatory methodological risk management base that establishes requirements aimed at organizing the risk management process at all stages, and defines management standards for certain risk types of utmost importance, which are uniform for all of Group organizations. The Risk Committee, a dedicated body under the President of the Company, was set up and began its work in 2011.

The information with regard to key financial risks of the Group is presented below.

Credit risk

The Group's most significant credit risks include first of all the risk of failure by its counterparties to perform their obligations in terms of payment for the products supplied by the Group. In order to mitigate these risks, the Group focuses on partnerships with counterparties that have high credit ratings, accepts letters of credit and guarantees issued by reputable banks and sometimes demands prepayment for the products supplied. In addition, it utilizes tools to limit the credit risks of a given counterparty.

Another group of credit risks includes risks associated with contractor banks' activities and potential impairment of their financial stability. In order to mitigate these risks, the Group is involved in centralized treasury operations, part of which are aimed at fund raising, investment and operations involving currency exchange and financial derivatives. The credit ratings of contractor banks are monitored on a regular basis.

The carrying amount of financial assets represents the maximum exposure to credit risk.

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2019	31 December 2018
Not past due	402,713	381,900
Past due less than 45 days	21,299	14,051
Past due from 46 to 180 days	8,809	14,464
Past due from 181 to 270 days	963	3,129
Past due from 271 to 365 days	587	1,964
Past due more than 365 days	2,681	14,437
Total trade and other receivables	**437,052**	**429,945**

Not past due accounts receivable are not considered of high credit risk.

Allowance for expected credit losses changed as follows during 2019:

31 December 2018	27,798
Increase in allowance charged to profit or loss	9,270
Write-off	(3,381)
Foreign currency translation differences	(2,492)
Other	92
31 December 2019	**31,287**

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

Allowance for expected credit losses changed as follows during 2018:

31 December 2017	21,959
Adjustment on adoption of IFRS 9, before tax	7,200
1 January 2018	29,159
Decrease in allowance charged to profit or loss	(1,005)
Write-off	(3,964)
Foreign currency translation differences	2,641
Other	967
31 December 2018	**27,798**

Financial instruments used by the Group and potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter production contracts and trade receivables. The cash and cash equivalents are held with banks, which are generally highly rated.

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the Intercontinental Exchange (ICE Futures).

Liquidity risk

The Group's liquidity is managed on a centralized basis. There is an efficient global system in place to manage the Group's liquidity, which includes an automated system of concentrating and re-distributing the funds, corporate dealing and also rolling cash-flow forecasts. The liquidity indicators are monitored on a continuous basis.

Contractual maturities of the Group's financial liabilities (the Group itself determines the grouping of the maturity based on contractual maturities and, where relevant, on judgment):

	Carrying amount	**Contractual cash flows (undiscounted)**	**Less than 12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Loans and borrowings, including interest expense	134,484	174,563	45,260	25,980	49,746	53,577
Bonds, including interest expense	249,274	290,545	71,091	9,225	136,712	73,517
Finance lease obligations	171,880	235,613	37,069	26,742	59,077	112,725
Trade and other payables	606,566	606,566	605,203	932	350	81
Derivative financial liabilities	550	550	550	-	-	-
31 December 2019	**1,162,754**	**1,307,837**	**759,173**	**62,879**	**245,885**	**239,900**

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings, including interest expense	190,704	221,656	61,445	34,972	72,107	53,132
Bonds, including interest expense	321,681	378,851	56,207	79,734	160,426	82,484
Finance lease obligations	25,973	33,653	6,069	6,078	16,124	5,382
Trade and other payables	537,519	537,519	535,882	1,076	474	87
Derivative financial liabilities	8,413	8,413	8,413	-	-	-
31 December 2018	**1,084,290**	**1,180,092**	**668,016**	**121,860**	**249,131**	**141,085**

Currency risk

The Group is subject to foreign exchange risks since it operates in a number of countries. The exchange rate of the Russian ruble to the US dollar produces the greatest impact on transaction results, since the Group’s export proceeds are denominated in dollars, while the major costs are incurred in Russia and are denominated in Russian rubles.

As part of the centralized approach to management of the treasury operations and liquidity of the Group, the risks associated with unfavorable changes in the exchange rates are generally consolidated at the corporate level. In a number of cases currency risks at trading floors are minimized due to the financial derivative operations conducted as part of the corporate dealing process.

The carrying amounts of the Group’s assets and liabilities which form currency risk at 31 December 2019 and 2018 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

31 December 2019	**USD**	**EUR**	**Other currencies**
Financial assets:			
Cash and cash equivalents	64,708	12,309	761
Trade and other receivables	144,336	6,699	4,765
Loans	199,764	4,794	-
Other financial assets	2,651	54	124
Financial liabilities:			
Loans and borrowings	(399,921)	(37,104)	(3,651)
Trade and other payables	(51,560)	(14,655)	(11,696)
Net exposure	**(40,022)**	**(27,903)**	**(9,697)**

31 December 2018	**USD**	**EUR**	**Other currencies**
Financial assets:			
Cash and cash equivalents	6,864	15,701	1,162
Trade and other receivables	152,115	3,855	4,553
Loans	178,993	-	-
Other financial assets	1,421	30	233
Financial liabilities:			
Loans and borrowings	(364,268)	(15,238)	-
Trade and other payables	(57,641)	(8,605)	(10,645)
Net exposure	**(82,516)**	**(4,257)**	**(4,697)**

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

The following exchange rates applied:

	31 December 2019	31 December 2018
USD	61.91	69.47
EUR	69.34	79.46

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2019 and 2018 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2019	**2018**
US Dollar (increase by 10%)	(1,952)	(7,726)
Euro (increase by 10%)	222	2,566
Russian ruble (increase by 10%)	1,113	4,937

The weakening of these currencies by 10% will have equal effect on profit (loss) but with opposite sign.

Interest rate risk

The Group is exposed to a significant interest rate risk both in the short- and long-term. A change in interest rates may affect the cost of funds borrowed by the Group as well as the size of cash flows.

To mitigate this risk, the Group is constantly monitoring market conditions, taking measures to improve the debt structure by reaching an optimum balance between fixed and variable interest rates, controlling the need for additional financing and outstanding debt refinancing, extending the term of debt obligations.

The interest rate profiles of the Group are presented below:

	31 December 2019	31 December 2018
Fixed rate instruments:		
Financial assets	44,970	92,124
Financial liabilities	(420,239)	(354,566)
Net exposure	**(375,269)**	**(262,442)**
Variable rate instruments:		
Financial assets	41,596	14,175
Financial liabilities	(132,993)	(180,481)
Net exposure	**(91,397)**	**(166,306)**

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2019 and 2018 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

(Millions of Russian rubles, unless otherwise noted)

Note 36. Capital and risk management (continued)

	Profit (loss) before taxes	
	100 bp increase	**100 bp decrease**
2019		
Net financial liabilities	(914)	914
2018		
Net financial liabilities	(1,663)	1,663

Capital management

The Group’s capital management objectives are to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. The Company’s management performs regular assessment of the net debt to equity ratio to ensure it meets the Company’s current rating requirements. Equity includes share capital, reserves and retained earnings, as well as non-controlling interests. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings, as presented in the consolidated statement of financial position, less cash and cash equivalents. Net debt to equity ratio enables the users to see how significant net debt is.

The Group’s net debt to equity ratio was as follows:

	31 December 2019	**31 December 2018**
Total debt	553,232	535,047
Less cash and cash equivalents	(516,032)	(492,650)
Net debt	37,200	42,397
Equity	3,973,449	4,073,526
Net debt to equity ratio	**0.94%**	**1.04%**

(Millions of Russian rubles, unless otherwise noted)

Supplementary Information on Oil and Gas Exploration and Production Activities

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

I. Capitalised costs relating to oil and gas producing activities.
II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
III. Results of operations for oil and gas producing activities.
IV. Reserve quantity information.
V. Standardised measure of discounted future net cash flows.
VI. Principal sources of changes in the standardised measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group’s share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

31 December 2019	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Unproved oil and gas properties	84,203	109,313	193,516	28,692
Proved oil and gas properties	1,305,806	3,296,352	4,602,158	300,337
Accumulated DD&A	(720,304)	(1,046,271)	(1,766,575)	(99,189)
Net capitalised costs	**669,705**	**2,359,394**	**3,029,099**	**229,840**

31 December 2018	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Unproved oil and gas properties	86,809	93,344	180,153	31,093
Proved oil and gas properties	1,368,594	2,928,077	4,296,671	287,271
Accumulated DD&A	(742,820)	(843,688)	(1,586,508)	(98,981)
Net capitalised costs	**712,583**	**2,177,733**	**2,890,316**	**219,383**

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

2019	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Acquisition of properties - Proved	31,393	2,317	33,710	-
Acquisition of properties - Unproved	32,419	14,937	47,356	-
Exploration costs	13,439	17,014	30,453	4,336
Development costs	53,495	309,797	363,292	11,254
Total costs incurred	**130,746**	**344,065**	**474,811**	**15,590**

2018	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Acquisition of properties - Unproved	924	153	1,077	-
Exploration costs	11,678	17,677	29,355	686
Development costs	51,770	286,781	338,551	11,202
Total costs incurred	**64,372**	**304,611**	**368,983**	**11,888**

(Millions of Russian rubles, unless otherwise noted)

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. Sales and transfers to Group companies are based on market prices, income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

2019	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	211,230	961,273	1,172,503	60,642
Transfers	-	985,859	985,859	1,420
Total revenues	211,230	1,947,132	2,158,362	62,062
Production costs (excluding production taxes)	(40,277)	(170,590)	(210,867)	(5,899)
Exploration expenses	(7,493)	(1,855)	(9,348)	(33)
Depreciation, depletion and amortisation	(83,726)	(193,696)	(277,422)	(11,144)
Taxes other than income taxes	(531)	(1,035,635)	(1,036,166)	(15,446)
Related income taxes	(11,736)	(104,585)	(116,321)	(11,384)
Total results of operations for producing activities	**67,467**	**440,771**	**508,238**	**18,156**

2018	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	192,648	1,023,155	1,215,803	63,318
Transfers	-	951,069	951,069	1,432
Total revenues	192,648	1,974,224	2,166,872	64,750
Production costs (excluding production taxes)	(38,684)	(175,131)	(213,815)	(6,469)
Exploration expenses	(1,872)	(1,710)	(3,582)	(25)
Depreciation, depletion and amortisation	(69,471)	(176,885)	(246,356)	(7,960)
Taxes other than income taxes	(716)	(1,071,761)	(1,072,477)	(16,483)
Related income taxes	(8,108)	(97,572)	(105,680)	(13,476)
Total results of operations for producing activities	**73,797**	**451,165**	**524,962**	**20,337**

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

(Millions of Russian rubles, unless otherwise noted)

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 68% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto for 2019 and 2018 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
Crude oil	**International**	**Russia**	**Total**	
31 December 2017	479	11,316	11,795	282
Revisions of previous estimates	(148)	273	125	16
Purchase of hydrocarbons in place	-	3	3	-
Extensions and discoveries	12	500	512	8
Production	(27)	(614)	(641)	(18)
31 December 2018	316	11,478	11,794	288
Revisions of previous estimates	43	(55)	(12)	1
Purchase of hydrocarbons in place	29	18	47	-
Extensions and discoveries	26	531	557	2
Production	(30)	(614)	(644)	(18)
31 December 2019	**384**	**11,358**	**11,742**	**273**
Proved developed reserves				
31 December 2018	204	7,602	7,806	133
31 December 2019	**219**	**7,464**	**7,683**	**116**

The non-controlling interest share included in the above total proved reserves was 71 million barrels and 73 million barrels at 31 December 2019 and 2018, respectively. The non-controlling interest share included in the above proved developed reserves was 37 million barrels and 39 million barrels at 31 December 2019 and 2018, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
Natural gas	**International**	**Russia**	**Total**	
31 December 2017	7,006	16,476	23,482	167
Revisions of previous estimates	(158)	351	193	98
Purchases of hydrocarbons in place	-	2	2	-
Extensions and discoveries	37	297	334	2
Production	(533)	(626)	(1,159)	(26)
31 December 2018	6,352	16,500	22,852	241
Revisions of previous estimates	(106)	124	18	18
Purchases of hydrocarbons in place	138	-	138	-
Extensions and discoveries	70	428	498	-
Production	(586)	(626)	(1,212)	(26)
31 December 2019	**5,868**	**16,426**	**22,294**	**233**
Proved developed reserves				
31 December 2018	5,072	5,758	10,830	146
31 December 2019	**4,504**	**5,753**	**10,257**	**133**

(Millions of Russian rubles, unless otherwise noted)

The non-controlling interest share included in the above total proved reserves was 26 billion cubic feet and 27 billion cubic feet at 31 December 2019 and 2018, respectively. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet at 31 December 2019 and 2018. All non-controlling interests relate to reserves in the Russian Federation.

V. Standardised measure of discounted future net cash flows

Estimated future cash inflows from hydrocarbons production are computed by applying the 12-months average price for oil and gas and the year-end exchange rates to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

31 December 2019	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Future cash inflows	2,567,902	39,282,386	41,850,288	877,924
Future production and development costs	(1,488,826)	(30,022,601)	(31,511,427)	(537,056)
Future income tax expenses	(91,906)	(1,514,998)	(1,606,904)	(105,121)
Future net cash flows	987,170	7,744,787	8,731,957	235,747
Discount for estimated timing of cash flows (10% p.a.)	(375,184)	(4,129,628)	(4,504,812)	(110,174)
Discounted future net cash flows	**611,986**	**3,615,159**	**4,227,145**	**125,573**
Non-controlling share in discounted future net cash flows	-	26,963	26,963	-

31 December 2018	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Future cash inflows	2,938,283	49,617,947	52,556,230	1,207,677
Future production and development costs	(1,620,666)	(36,498,385)	(38,119,051)	(746,756)
Future income tax expenses	(131,008)	(2,297,381)	(2,428,389)	(139,882)
Future net cash flows	1,186,609	10,822,181	12,008,790	321,039
Discount for estimated timing of cash flows (10% p.a.)	(449,443)	(5,922,682)	(6,372,125)	(162,831)
Discounted future net cash flows	**737,166**	**4,899,499**	**5,636,665**	**158,208**
Non-controlling share in discounted future net cash flows	-	36,032	36,032	-

(Millions of Russian rubles, unless otherwise noted)

VI. Principal sources of changes in the standardised measure of discounted future net cash flows

Consolidated companies	**2019**	**2018**
Discounted present value at 1 January	5,636,665	2,859,198
Net changes due to purchases and sales of minerals in place	31,212	1,367
Sales and transfers of oil and gas produced, net of production costs	(901,981)	(876,998)
Net changes in prices and production costs estimates	(4,542,732)	11,583,655
Net changes in mineral extraction taxes	2,640,183	(8,206,395)
Extensions and discoveries, less related costs	210,417	257,337
Previously estimated development cost incurred during the year	308,689	300,233
Revisions of previous quantity estimates	(6,476)	31,469
Net change in income taxes	389,446	(626,197)
Accretion of discount	616,850	312,181
Other changes	(155,128)	815
Discounted present value at 31 December	**4,227,145**	**5,636,665**

Group's share in equity companies	**2019**	**2018**
Discounted present value at 1 January	158,208	94,786
Sales and transfers of oil and gas produced, net of production costs	(40,684)	(41,773)
Net changes in prices and production costs estimates	(122,290)	227,904
Net changes in mineral extraction taxes	69,049	(131,737)
Extensions and discoveries, less related costs	452	4,258
Previously estimated development cost incurred during the year	38,478	29,688
Revisions of previous quantity estimates	1,254	15,001
Net change in income taxes	18,370	(46,305)
Accretion of discount	22,222	11,273
Other changes	(19,486)	(4,887)
Discounted present value at 31 December	**125,573**	**158,208**