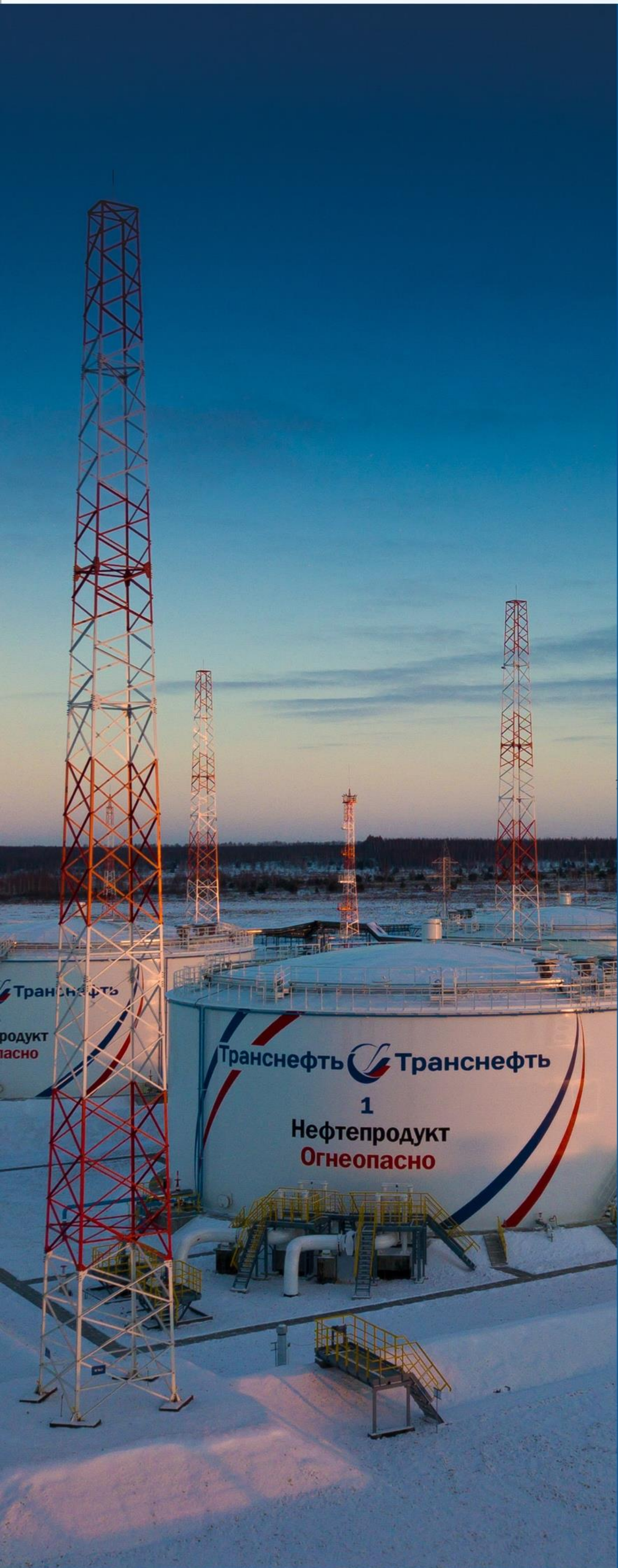

TRANSNEFT

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENT

Independent Auditors' Report

To the Shareholders and Board of Directors of Transneft

Opinion

We have audited the consolidated financial statements of Transneft (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.

Provision for the Druzhba oil trunk pipeline incident	
Please refer to the Note 19 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**

As at the reporting date the Company recognized a provision which represents the management's estimate of probable expenditure necessary to settle the consequences of the incident on the Druzhba oil trunk pipeline with shippers under the 2019 oil transportation contracts.
 	
Due to the inherent uncertainty involved in estimating the provision, and the need to apply professional judgement this is one of the key judgmental areas that our audit is concentrated on.
	Our audit procedures in this area included:
	— analysis of the conditions that require a provision recognition in accordance with IFRS;
	— analysis of the reasonableness of estimated provision amount, including:
	    — analysis of the Company management's assumptions at the reporting date by scrutinizing the Company's internal documentation and calculations;
	    — analysis of the mathematical accuracy of the calculations.
	— consideration of the appropriateness and completeness of the disclosures in the consolidated financial statements regarding this provision.

Other Information

Management is responsible for the other information. The other information comprises the Management's discussion and analysis of the Group's financial position and results of its 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, and the Annual report for 2019, which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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:

Vakhidov N.U.

JSC "KPMG"

Moscow, Russia

26 March 2020

(in millions of Russian roubles, if not stated otherwise)

ASSETS			
Non-current assets	**Notes**	**31 December 2019**	**31 December 2018**
Intangible assets	6	58,275	160,318
Property, plant and equipment	7	2,556,463	2,477,126
Right-of-use assets	25	97,061	-
Investments in associates and jointly controlled entities	8	125,298	119,198
Financial assets measured at fair value through profit or loss	10	5,010	4,833
Receivables and prepayments, VAT assets	13	2,094	3,741
Financial assets measured at amortised cost	11	12,459	17,466
Total non-current assets		**2,856,660**	**2,782,682**
Current assets			
Inventories	12	30,874	36,383
Receivables and prepayments	13	38,173	36,714
VAT assets		69,047	42,313
Current income tax prepayments		15,532	3,225
Financial assets measured at fair value through profit or loss	10	74,452	60,407
Financial assets measured at amortised cost	11	161,163	126,177
Cash and cash equivalents	14	83,601	101,852
Total current assets		**472,842**	**407,071**
Total assets		**3,329,502**	**3,189,753**

EQUITY AND LIABILITIES			
Equity			
Share capital	15	308	308
Share premium reserve	15	93,592	93,592
Merger reserve	15	(6,072)	(6,072)
Retained earnings		2,039,033	1,943,965
Attributable to the shareholders of Transneft		**2,126,861**	**2,031,793**
Non-controlling interests	16	42,121	32,874
Total equity		**2,168,982**	**2,064,667**
Non-current liabilities			
Loans and borrowings	17	555,635	574,452
Deferred income tax liabilities	18	66,062	67,015
Provisions for liabilities and charges	19	151,951	125,447
Trade and other payables	20	82,879	63,419
Total non-current liabilities		**856,527**	**830,333**
Current liabilities			
Loans and borrowings	17	81,717	98,540
Provisions for liabilities and charges	19	71,867	43,317
Trade and other payables	20	150,217	152,462
Current income tax payable		192	434
Total current liabilities		**303,993**	**294,753**
Total liabilities		**1,160,520**	**1,125,086**
Total equity and liabilities		**3,329,502**	**3,189,753**

Approved on 26 March 2020 by:

President N.P. Tokarev

The accompanying notes set out on pages 11 to 60 are an integral part of these consolidated financial statements

(in millions of Russian roubles, if not stated otherwise)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	21	1,063,829	979,958
Operating expenses net of depreciation and amortisation	22	(578,040)	(546,083)
Operating profit before amortisation and depreciation		**485,789**	**433,875**
Depreciation and amortisation		(208,700)	(178,610)
Operating profit		**277,089**	**255,265**
Other (expenses)/ income		(13,622)	33,519
Share of profit from associates and jointly controlled entities	8	16,073	10,231
Profit before income tax and finance income/ (costs)		**279,540**	**299,015**
Finance income	23	53,942	100,930
Finance costs	23	(88,464)	(122,234)
Profit before income tax		**245,018**	**277,711**
Income tax expense	18	(47,914)	(52,298)
Profit for the reporting year		**197,104**	**225,413**
Other comprehensive loss, net of income tax			
Items that may be reclassified to profit or loss			
Currency translation differences, net of income tax		(1,997)	1,517
Total items that may be reclassified to profit or loss, net of income tax		*(1,997)*	*1,517*
Items that will not be reclassified to profit or loss			
Remeasurement of net defined benefit plan obligation, net of income tax	19	(4,732)	(2,287)
Total items that will not be reclassified to profit or loss, net of income tax		*(4,732)*	*(2,287)*
Total other comprehensive loss for the reporting year, net of income tax		**(6,729)**	**(770)**
Total comprehensive income for the reporting year		**190,375**	**224,643**
Profit attributable to			
Shareholders of Transneft		179,388	224,337
Non-controlling interests		17,716	1,076
Total comprehensive income attributable to			
Shareholders of Transneft		172,665	223,568
Non-controlling interests		17,710	1,075

The accompanying notes set out on pages 11 to 60 are an integral part of these consolidated financial statements

(in millions of Russian roubles, if not stated otherwise)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Cash receipts from customers		1,123,743	1,060,749
Cash paid to suppliers and employees, and taxes other than income tax		(720,474)	(709,027)
Payment of lease liabilities		(2,231)	-
Interest paid		(55,267)	(53,167)
Income tax paid		(58,006)	(44,803)
Income tax refund		300	307
VAT and other taxes refund		81,347	96,860
Other cash flows used in operating activities		(8,189)	(4,704)
Net cash flows from operating activities		**361,223**	**346,215**
Cash flows from investing activities			
Purchase of property, plant and equipment		(270,507)	(268,787)
Proceeds from sale of property, plant and equipment		2,281	813
Interest received		16,100	23,868
Purchase of debt securities and placement of funds on deposit accounts		(287,493)	(358,921)
Proceeds from sale of debt securities and closure of deposit accounts		243,234	447,860
Disposal of subsidiaries less cash owned by subsidiaries	9	35,143	-
Placement of cash in escrow account	9	(12,800)	-
Cash received from changes in the Group's structure	8	-	5,363
Acquisition of shares in subsidiaries	8	-	(17,301)
Acquisition of shares in associates and jointly controlled entities		-	(155)
Dividends received and other cash proceeds from associates and jointly controlled entities	8	7,446	3,418
Return and granting of borrowings		6,325	(2,439)
Other cash flows used in investing activities		(492)	(142)
Net cash flows used in investing activities		**(260,763)**	**(166,423)**
Cash flows from financing activities			
Repayment of loans and borrowings		(71,443)	(395 242)
Proceeds from loans and borrowings		44,693	287 262
Dividends paid out to non-controlling interests		(5,353)	(3 582)
Dividends paid out to shareholders of Transneft	15	(77,596)	(54 928)
Payment of lease liabilities		(3,496)	(84)
Other cash used in financing activities		(1)	(1)
Net cash flows used in financing activities		**(113,196)**	**(166 575)**
Effects of exchange rate changes on cash and cash equivalents		**(5,515)**	**12,473**
Net increase in cash and cash equivalents		**(18,251)**	**25,690**
Cash and cash equivalents at the beginning of the year	14	**101,852**	**76,162**
Cash and cash equivalents at the end of the year	14	**83,601**	**101,852**

(in millions of Russian roubles, if not stated otherwise)

	Note	Attributable to the owners of Transneft					Non-controlling interests	Total equity
		Share capital	Share premium reserve	Merger reserve	Retained earnings	Total		
Balance at 1 January 2018		**308**	**58,544**	**(13,080)**	**1,775,324**	**1,821,096**	**1,776**	**1,822,872**
Profit for the reporting year		-	-	-	224,337	**224,337**	1,076	**225,413**
Remeasurement of net defined benefit plan obligation, net of income tax	19	-	-	-	(2,287)	**(2,287)**	-	**(2,287)**
Currency translation differences, net of income tax		-	-	-	1,518	**1,518**	(1)	**1,517**
Total comprehensive income for the reporting year		**-**	**-**	**-**	**223,568**	**223,568**	**1,075**	**224,643**
Transactions with owners and changes in ownership interests								
Business combination under common control	15	-	35,048	7,008	-	**42,056**	-	**42,056**
Acquisition of subsidiary with non-controlling interest	8	-	-	-	-	**-**	35,433	**35,433**
Dividends	15	-	-	-	(54,927)	**(54,927)**	(5,410)	**(60,337)**
Total transactions with owners and changes in ownership interests		**-**	**35,048**	**7,008**	**(54,927)**	**(12,871)**	**30,023**	**17,152**
Balance at 31 December 2018		**308**	**93,592**	**(6,072)**	**1,943,965**	**2,031,793**	**32,874**	**2,064,667**
Balance at 1 January 2019		**308**	**93,592**	**(6,072)**	**1,943,965**	**2,031,793**	**32,874**	**2,064,667**
Profit for the reporting year		-	-	-	179,388	**179,388**	17,716	**197,104**
Remeasurement of net defined benefit plan obligation, net of income tax	19	-	-	-	(4,732)	**(4,732)**	-	**(4,732)**
Currency translation differences, net of income tax		-	-	-	(1,991)	**(1,991)**	(6)	**(1,997)**
Total comprehensive income for the reporting year		**-**	**-**	**-**	**172,665**	**172,665**	**17,710**	**190,375**
Transactions with owners and changes in ownership interests								
Disposal of subsidiaries with non-controlling interest	9	-	-	-	-	-	(4,606)	**(4,606)**
Dividends	15	-	-	-	(77,597)	**(77,597)**	(3,857)	**(81,454)**
Total transactions with owners and changes in ownership interests		**-**	**-**	**-**	**(77,597)**	**(77,597)**	**(8,463)**	**(86,060)**
Balance at 31 December 2019		**308**	**93,592**	**(6,072)**	**2,039,033**	**2,126,861**	**42,121**	**2,168,982**

The accompanying notes set out on pages 11 to 60 are an integral part of these consolidated financial statements

1 NATURE OF OPERATIONS

Public Joint Stock Company “Transneft” (hereinafter named the “Company”) was incorporated by the Resolution of the Council of Ministers - Russian Government dated 14.08.1993 № 810. The Company's registered office is located in Moscow, Russian Federation.

In July 2016 according to amendments made to the Civil Code of the Russian Federation, to the Unified state register of legal entities the name of the Company has been changed to Public Joint Stock Company “Transneft” (Transneft).

The Company and its subsidiaries (hereinafter - the "Group") as at 31 December 2019 operate the trunk oil pipeline system in the Russian Federation totalling 51,052 km and the petroleum products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 16,450 km. Its associate OOO LatRosTrans operates a petroleum products pipeline system in the Republic of Latvia interconnected with the general system.

During the year ended 31 December 2019, the Group transported 485 million tonnes of crude oil to domestic and export markets (as for the year ended 31 December 2018 – 480 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 37.9 million tonnes of petroleum products (39.2 million tonnes as for the year ended 31 December 2018).

In September 2018 the Group obtained control over PJSC NCSP (Note 8). PJSC NCSP and its subsidiaries are established and operate mainly in the territory of the Russian Federation; their main activities include stevedoring and additional port services, as well as, fleet services.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. Because the legal, tax and regulatory frameworks continue to develop and change the risk of ambiguous interpretations of their requirements exists.

The imposition of economic sanctions on Russian individuals and legal entities including the Company by the European Union, the United States of America and other countries, as well as, retaliatory sanctions imposed by the Russian government, has resulted in more volatile equity markets, and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions are difficult to determine.

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Russian Rouble. These developments are further increasing the level of uncertainty in the Russian business environment.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

3 BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with, and fully comply with, International Financial Reporting Standards (“IFRS”).

The principal accounting policies have been consistently applied in the preparation of these consolidated financial statements to all periods presented, unless otherwise stated (see Note 4). The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Notes 4 and 5.

Certain comparative amounts have been adjusted to conform with the current year's presentation.

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries including UP Zapad-Transnefteproduct, and the Group’s presentation currency, is the national currency of the Russian Federation - Russian Rouble (“RUB”).

The official US dollar (“USD”) to Russian Rouble (“RUB”) exchange rate as determined by the Central Bank of the Russian Federation (“CBR”) was 61.9057 and 69.4706 as at 31 December 2019 and 31 December 2018, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the fair value of identifiable assets and liabilities of the subsidiary at the acquisition date, and movements in net assets since the date of the acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Business combination under common control

Business combinations under common control are accounted for using the predecessor values method from the date of combination. Under this method the acquired entities’ results are included into the acquirer's financial statements from the date the transaction occurred. The assets and liabilities of the subsidiary transferred under common control are recorded at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity.

Loss of control

When control of subsidiary is lost the Group ceases recognition of its assets and liabilities, as well as, relating to subsidiary non-controlling interests and other components of equity. If the Group retain part of the investment in the former subsidiary then such investment is recognised at fair value when control ceases. Subsequently, the investment is accounted for as associate (using the equity method) or as financial asset measured at fair value through profit or loss (FVTPL) depending on the Group’s influence on the entity.

Investments in associates and jointly controlled entities

Associates are undertakings over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence occurs when the Group has the power to participate in the financial and operational policy decisions of the entity but has no control or joint control over those policies.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity, either directly or indirectly, unless lack of ability to exercise significant influence can be demonstrated clearly.

Joint control entities are companies, financial or operating policies of which are controlled by the Group as well as other members of these companies.

Investments in associates and jointly controlled entities are accounted under 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 commences until the date that significant influence ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. 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 transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

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.

Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Lease rights

Accounting policy applied from 1 January 2019

The Group ceased recognition of intangible assets in the form of lease rights, which were recognised in business combination under IFRS 3 *Business combination* due to favorable conditions of operating lease, and adjusted the book value of right-of-use assets for the corresponding amount at 1 January 2019.

Accounting policy applied before 1 January 2019

Lease rights acquired as a result of a business combination were recognised and shown separately from goodwill if they met the definition of intangible asset and if the fair value of the asset could be determined reliably. Such intangible assets were initially measured at fair value on the date of acquisition.

Following the initial recognition the lease rights acquired in a business combination were recognised at acquisition cost less accumulated amortisation and impairment loss determined on the same basis which was used for intangible assets acquired in the result of separate transaction.

Other intangible assets

Other intangible assets that were acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation of intangible assets

Amortisation is based on the cost of the asset less its estimated residual value.

In relation to intangible assets other than goodwill, amortisation is accrued from the date when these assets are available for use and is recognised on the straight-line basis in the profit or loss for the period during their respective useful lives.

Property, plant and equipment

Property, plant and equipment are carried at initial historical cost, including, where appropriate, the net present value of the estimated dismantlement or removal cost of the asset at the end of its estimated useful life, less accumulated depreciation and impairment losses. Assets under construction are carried at historical cost and depreciated from the time the asset is available for use. Depreciation is calculated on the straight-line basis of each item of property, plant and equipment (less its residual value) over their useful lives which are as follows:

	Years
Buildings and facilities	8-100
Crude oil pipelines and tanks	20-33
Petroleum product pipelines	50
Other plant and equipment	5-25

Management approves specific plans for prospective dismantlement or decommissioning of sections of pipeline and related facilities, at that time, the estimated useful life of the related asset is revised and the annual depreciation charge is amended if applicable.

Renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs, and minor renewals are expensed as incurred. Gains and losses arising from the retirements or other disposals of property, plant and equipment are included in profit (loss) for the year in the consolidated statement of profit or loss and other comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Crude oil and petroleum products used for technical operation of the pipeline network ("linefill") owned by the Group are treated as a separate component of the pipeline class of asset and are not depreciated as their residual values exceed carrying amounts.

Any additions to linefill over the year are recognised at cost, and any disposals are written off at weighted average carrying value of linefill.

Oil surpluses arising from stocktaking are recognised at market value and are recorded in Inventory in the consolidated statement of financial position, and income from oil surplus is netted with other expenses which include charity expenses, made from the above specified income received, and recognised in Other expenses in the consolidated statement of profit or loss and other comprehensive income.

Disposals of oil surpluses are accounted for as revenue and included in sales in the consolidated statement of profit or loss and other comprehensive income.

The prepayments which relate to property, plant and equipment and construction in progress, as well as, inventory for construction are included in the category Assets under construction including prepayments.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Financial instruments

Financial assets

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets comprise cash and cash equivalents, deposits, loans granted, trade receivables and other investments.

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL on initial recognition:

(a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables, cash and cash equivalents, loans granted and other receivables unquoted on active market and assuming receipt of fixed or determined payments are measured at amortised cost using the effective interest rate method less any impairment losses.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL on initial recognition:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of equity investments that are not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets including all derivative financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income on securities at FVTPL calculated using the effective interest rate method as well as gain or loss on derecognition are recognised in profit or loss as net gain from operations with financial instruments measured at FVTPL. Dividends are recognised when the Group has the right for certain payments and there exists a probability of receipt of dividends. Fair value changes are recognised in profit or loss as net gain or loss from financial instruments measured at FVTPL in the period when they have arisen.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, Including any interest or dividend income, are recognised in profit or loss statement.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain and loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss until the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Derecognition of financial assets

The Group ceases recognition of a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Impairment – financial assets and contract assets

The Group recognises loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Trade and other receivables including contract assets

The expected credit losses are calculated based on actual historical credit loss experience taking into account the economic environment expected by the Group during the receivables lifetime using the probability of credit loss.

Debt securities

The Group analyses changes in credit risk by tracking published external credit ratings.

To determine whether the credit risk has increased significantly as at reporting date which has not been recognised in published credit ratings the Group considered all quantitative and qualitative information available, including change in bond yields, CDS prices (if available), information from media and legal information about issuers, and additionally performed an analysis based on the Group's experience and an internal expert estimate of credit risk.

The default probabilities during 12 months after the reporting date and term of financial instruments are based on historical data provided by rating agency S&P for each credit rating, and are checked taking into account current bond yields and current CDS prices. Loss given default applied by the Group is determined based on presumed recovery rate.

Deposits, cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank deposits on demand and highly liquid investments with maturities with three months or less at acquisition date and which are subject to insignificant risk of fair value changes.

As at the reporting date deposits and cash equivalents are mainly held with largest banks which have external credit ratings supplied by rating agency Moody's and other rating agencies and adjusted to the Moody's rating scale from Baa3 to Ba2.

The estimated impairment on deposits and cash and cash equivalents was calculated based on the 12-month ECL basis and reflects the short maturities of the exposures. The Group considers that its deposits, cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group used a similar approach for assessment of ECLs for deposits, cash and cash equivalents to those used for debt securities.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Classification, subsequent measurement and profit and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Loans and borrowings

Loans and borrowings are recognised initially at the fair value of cash proceeds which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, loans and borrowings are carried at amortised cost, using the effective interest rate method; any difference between the fair value (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Derecognition of financial liabilities

The Group cease recognition of a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives

Derivatives are initially recognised at fair value, relevant transaction expenses are recognised as profit or loss when incurred. Following initial recognition derivatives are measured at fair value with appropriate changes recognised directly in profit or loss for the period.

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the difference between the fair value at initial recognition and the transaction price is accounted for as follows:

(a) in profit or loss if the fair value of the quoted price is confirmed for identical assets or liabilities in an active market (accounted for Level 1) or based on a valuation method, which uses only data from observable markets;

(b) as deferred loss or income to defer recognition of the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the difference as the deferred gain or loss over the life of the financial instrument, but not later than the time when the estimate of its fair value can be made on fully observable market data, or the date of termination.

The Group has established a system of control in relation to the fair value measurement. Within this framework, the Group regularly checks significant unobservable inputs and valuation adjustments. In estimating the fair value of the asset or liability Group applies, as much as possible, observable market data. Fair value estimates are different levels of the fair value hierarchy depending on the input data used in the relevant assessment methods:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the initial data used to estimate the fair value of the asset or liability can be attributed to different levels of the fair value hierarchy, the fair value generally refers to the level of the hierarchy, which corresponds to the original data of the lowest level, are essential for the entire evaluation.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Prepayments

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

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

VAT assets

VAT assets relate to VAT incurred on capital construction, operating and export activities, oil transportation to Russian oil-processing plants. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Income tax

Income tax has been provided for in the consolidated financial statements in accordance with legislation enacted at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss in the statement of profit or loss and other comprehensive income except if it is recognised directly in other comprehensive income or equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity or other comprehensive income.

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

Deferred income tax is provided for using the balance sheet liability method and is recognised for tax loss carried forward and temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

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

Provisions (including dismantlement provision)

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

Provisions are estimated and remeasured at each reporting date, and are included in the consolidated financial statements at their expected net present values using the discount rate appropriate to the liability with consideration to the economic environment of the Russian Federation.

Changes in provisions resulting from the passage of time are reflected as financial items in the consolidated financial statement of profit or loss and other comprehensive income. Changes in provisions resulting from changes in the discount rate and other changes in provisions, related to a change in the expected pattern or estimated cost of settlement of the obligation, are treated as a change in an accounting estimate in the period of the change by adjusting the corresponding asset or expense.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension activities

The State pension fund of the Russian Federation

The Group makes contributions to the State pension fund of the Russian Federation. Contributions to the State pension fund are recognised as expenses when accrued.

Pension liabilities

In addition to contributions to the State pension fund, the Group sponsors defined benefit plans for the majority of its employees.

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 using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present (discounted) 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 (discounted) value of economic benefits, consideration is given to every minimum funding requirements that apply to every plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on the settlement of the plan liabilities.

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 in the consolidated statement of profit or loss and other comprehensive income for the period.

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.

The Group operates its pension obligations, which are non-state pension provision (hereinafter - NPO), compulsory pension insurance (hereinafter - OPS), through its subsidiary JSC "NPF "TRANSNEFT".

Insurance contracts

JSC "NPF "TRANSNEFT" assigns to insurance contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) and agreement for provision of OPS when significant insurance risk is transferred to JSC "NPF "TRANSNEFT". JSC "NPF "TRANSNEFT" does not apply for additional financing of NPO to employers-investors and for additional insurance contributions to previous insurer in case of unfavorable events such as decline in investments and increase in longevity. JSC "NPF "TRANSNEFT" defines insurance contracts in accordance with IFRS 4 *Insurance contracts* as a contract under which one party (the insurer or JSC "NPF "TRANSNEFT") accepts significant insurance risk from another party entered into agreement for pension provision when this risk arises from uncertainty connected with payment of pension and deviation of actual repayments from forecasted mortality tables.

Investment contracts

JSC «NPF «TRANSNEFT» recognizes as investment contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) when these contracts contain financial risk without significant insurance risk. All investment contracts contain discretionary participation feature and JSC «NPF «TRANSNEFT» recognizes them in accordance with IFRS 4 *Insurance Contracts*.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and measurement of pension liabilities

JSC «NPF «TRANSNEFT» uses IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to measure its obligations under insurance contracts for NPO and investment contracts with discretionary participation feature. In accordance with IAS 37 the amount of provision recognised is the best estimate of expenditure required to settle the present obligation at the end of the reporting period. The provision in accordance with IAS 37 is adjusted to risk and uncertainty. This also responds to IFRS 4 *Insurance Contracts requirements*.

In accordance with IFRS 4 *Insurance Contracts* JSC «NPF «TRANSNEFT» reviews the relevance of liabilities to estimate whether there are enough pension assets to fulfill JSC «NPF «TRANSNEFT»'s liabilities under insurance contracts for OPS. The relevance check is based on assumptions for mortality, pension increase, forecast of future contributions, discount rate in the period of accumulation, discount rate in the period of payments and investment returns rate which are the best estimate as at the end of the reporting period.

Asset management agreements

For the investments into financial instruments made by the Group via the asset management agreements, there is no transfer of risk and benefits related to change in fair value of the investments. Thus, these financial instruments are recognised by the Group.

Site restoration provision

The Group periodically evaluates its obligations under environmental regulations, including as discussed below for the remediation of oil spillage. As obligations are determined, they are recognised as expenses immediately unless they mitigate or prevent future environmental contamination, in which case they are capitalised.

At the date of spillage the Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment. The Group recognises the estimated recoveries under applicable insurance policies, when it is virtually certain that reimbursement will be received.

Revenue recognition

The Group currently carries out the following activities: services for transportation of oil and petroleum products, export sales of crude oil, stevedoring, additional port services and fleet services.

Revenue from transportation services is recognised when the services are provided as evidenced by the delivery of crude oil or petroleum products to the owner or the owner's customer in accordance with the contract.

Revenue from oil and petroleum products sales is recognised upon shipment of goods to the customer, when the goods cease to be under physical control of the Group and risks of ownership have been transferred to the buyer.

Revenue from stevedoring services, additional port services and fleet services is recognised at the transaction price, which is the amount of consideration the Group expects to be entitled in exchange for the promised goods or services that will be transferred to the customer, excluding amounts collected on behalf of third parties. The Group renders services under fixed-price contracts. Revenue from services is recognised in the reporting period when the services are rendered. Revenue is recognised as services are rendered. In cases where contracts include several performance obligations, the transaction price is allocated to each remaining performance obligation based on the separate transaction price. Contracts with customers do not have a significant financing component. Receivables are recognised when a service is rendered, as this is the point in time, when the right for consideration is unconditional, as only the passage time is required before payment of that consideration is due. Contract liabilities include advances received from customers.

The Group also renders services for technological connection to the trunk pipeline system and expansion of the throughput capacity of the trunk pipelines. These services are provided in accordance with contracts for technological connection and agreements for setting of long-term (agreed) tariffs for oil and petroleum products transportation via active parts of trunk pipelines, respectively. Pipeline facilities constructed under such agreements (contracts) become property of the Group.

Revenue from the provision of oil and petroleum products transportation services at long-term (agreed) tariffs and revenue from the provision of services for technological connection to the trunk pipeline system are recognised based on the useful life of the facilities financed from cash received under the respective agreements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Services for technological connection are not considered separate performance obligation. Payments received under long-term (agreed) tariffs or as advance payments, before the period of their recognition as revenue are recognised as contract liabilities. The group allocates a significant financing component to these contract liabilities, wherein respective interest is included in the cost of a qualified asset when the appropriate capitalisation criteria are met.

Capitalisation of borrowing costs

Beginning from 1 January 2019 the amount of capitalised borrowing costs is calculated by multiplying weighted-average borrowing costs applied to all loans and borrowings of the Group which were outstanding during the reporting period as well as to lease liabilities recognized under IFRS 16 Leases on the amount of the Group's expenditures on qualifying assets.

In accordance with amendments to IAS 23 the Group excludes from the calculation above the amount of borrowing costs applicable to the borrowings made specifically for the purpose of acquiring, constructing or producing of qualifying asset which were incurred until completion of substantially all activities required for prepare of that asset for intended use or sale.

When funds are borrowed specifically for obtaining a qualifying asset then actual borrowing costs incurred on that borrowing during the reporting period less any investment income on the temporary investment of those borrowings are capitalised.

Borrowing costs include foreign exchange differences arising as a result of borrowing in foreign currency to the extent those differences offset decrease in interest costs. Foreign exchange differences arising from borrowing funds in foreign currency are capitalised as part of qualifying assets to the extent limited to interest costs which could be incurred on similar funds borrowed by the Group and denominated in Russian roubles and actual expenditures for payment of interest on such loans incurred by the Group.

Foreign exchange differences eligible for capitalisation are calculated using an interest rate on similar borrowings denominated in the Group's functional currency. Foreign exchange differences to be capitalised are calculated on cumulative basis from the beginning of a year.

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

Share capital and dividends

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

Dividends are recognised as a liability and deducted from other comprehensive income on the date on which they are approved at the annual general shareholders meeting. Dividends proposed at any time, and those approved between the reporting date and the date of issuing the consolidated financial statements, are disclosed in the consolidated financial statements.

Adoption of new standards

IFRS 16 Leases

The Group initially adopted IFRS 16 *Leases* from 1 January 2019.

The Group applied IFRS 16 *Leases* using the modified retrospective approach with recognition of cumulative effect from initial application of the standard on 1 January 2019. Accordingly, the comparative information for 2018 was not restated and presented under IAS 17. Additionally, disclosure requirements contained in IFRS 16 *Leases* where not applied to comparative information.

On transition to IFRS 16, the Group elected to apply the practical expedient which allows not to reassess the previous evaluation of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On the date of initial recognition of lease which was earlier classified as operating lease under IAS 17 the Group recognised:

- lease liabilities measured at the present value of the remaining lease payments discounted using the incremental rates of borrowing of the Group, which at the date of initial application varied from 7.5% to 9.0%, depending on the borrowing terms;
- the right-of-use assets measured at cost equal to lease liability adjusted for the amounts of made in advance and accrued lease payments for the lease recognised in the statement of financial position before the date of initial application.

The Group used the following practical expedients when retrospectively applying this standard in relation to leases previously classified as operating leases under IAS 17:

- did not apply requirements of the new standard to leases for which the lease term ends within 12 months from the date of initial application;
- did not apply requirements of the new standard for lease agreements where an underlying asset was of low value.

For a number of lease contracts where Group acts as a lessee it used judgement to assess lease terms taking into account all relevant factors, including economic incentive to extend.

The Group leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents lease liabilities in trade and other payables in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Variable payments which do not depend on market indexes or rates, and which can be adjusted during the lease term, including lease payments in favor of the state, based on cadastral value of the land plot, are recognised as operating expenses, and the relative payments are presented as flows from operating activities and are not included in the measurement of the lease liability.

The Group has classified:

- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group; and
- short-term lease payments and payments for leases of low-value assets as operating activities.

Policy applicable before 1 January 2019

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset. The amount of each lease payment was distributed between outstanding amount of liability and finance charge so as to give a constant interest rate on the remaining balance of liability. The leased fixed assets, which were subject to transfer of ownership, were depreciated over their useful lives. The remaining fixed assets were depreciated over the shorter of the lease term and its useful life.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

(in millions of Russian roubles, if not stated otherwise)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At transition date:

The effect of adoption of IFRS 16 on the Group consolidated financial statements as at 1 January 2019 is presented below:

	Presented as at 31 December 2018	Effect of adoption of IFRS 16 in relation to: operating lease under IAS 17	finance lease under IAS 17	intangible assets under IFRS 3	Presented as at 1 January 2019
Intangible assets	160,318	-	-	(86,122)	74,196
Property, plant and equipment	2,477,126	-	(1,736)	-	2,475,390
Right-of-use assets	-	21,185	1,736	86,122	109,043
Receivables and prepayments	36,714	(80)	-	-	36,634
Lease liabilities	-	(21,311)	(906)	-	(22,217)
Trade and other payables	(152,462)	206	906	-	(151,350)

Lease liabilities

	1 January 2019
Future operating lease payments as at 31 December 2018	41,179
The effect of discounting using the incremental borrowing rate at the date of first adoption	(19,815)
Discounted value of future minimal lease payments	**21,364**
Less discounted lease payments	
- lease agreements with initial low-value assets	(18)
- lease agreements for less than 12 months with economically reasonable option for extension	(35)
Lease liabilities recognised at 1 January 2019	**21,311**

IAS 23 Borrowing costs

The Group has adopted amendments to IAS 23 Borrowing Costs beginning from 1 January 2019 and applies them to borrowing costs incurred on or after that date. The comparative information was not restated.

The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Therefore, the Group treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. Borrowings that were intended to specifically finance qualifying assets which are now ready for their intended use or sale – or any non-qualifying assets – the Group includes in its general pool.

New standards and interpretations not yet adopted

Two new standards will become effective for annual periods beginning after 1 January 2020 with earlier adoption permitted. Though, the Group has not early adopted new and amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRSs 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Should the useful life of the crude oil and petroleum product pipelines increase by 10 years, the profit for the year ended 31 December 2019 would be RUB 8,198 higher as a result of decrease of depreciation expense.

Impairment testing of investment in associates and jointly controlled entities

Further information is disclosed in Note 8.

Fair value of assets and liabilities at acquisition of subsidiaries

Further information is disclosed in Note 8.

(in millions of Russian roubles, if not stated otherwise)

6 INTANGIBLE ASSETS

	Note	Goodwill	Lease rights	Other, including prepayments	Total
Net book value at 31 December 2018		**52,972**	**86,122**	**21,224**	**160,318**
Cost		52,972	86,447	28,484	**167,903**
Accumulated amortisation and impairment provision		-	(325)	(7,260)	**(7,585)**
Adjustment for initial adoption of IFRS 16	4				
Cost		-	(86,447)	-	**(86,447)**
Accumulated amortisation and impairment provision		-	325	-	**325**
Net book value at 1 January 2019		**52,972**	**-**	**21,224**	**74,196**
Amortisation		-	-	(5,892)	**(5,892)**
Additions (including prepayments)		-	-	3,467	**3,467**
Disposal of subsidiary	9	(12,632)	-	-	**(12,632)**
Disposals: cost		-	-	(4,250)	**(4,250)**
Disposals: accumulated amortisation and impairment provision		-	-	3,386	**3,386**
Net book value at 31 December 2019		**40,340**	**-**	**17,935**	**58,275**
Cost		40,340	-	27,701	**68,041**
Accumulated amortisation and impairment provision		-	-	(9,766)	**(9,766)**

	Note	Goodwill	Lease rights	Other, including prepayments	Total
Net book value at 1 January 2018		**-**	**-**	**8,966**	**8,966**
Cost		-	-	11,056	**11,056**
Accumulated amortisation and impairment provision		-	-	(2,090)	**(2,090)**
Acquisition of subsidiaries	8	52,972	86,447	4,134	**143,553**
Amortisation		-	(325)	(5,278)	**(5,603)**
Transfers from property, plant and equipment		-	-	6,788	**6,788**
Additions (including prepayments)		-	-	7,497	**7,497**
Disposals: cost		-	-	(991)	**(991)**
Disposals: accumulated amortisation and impairment provision		-	-	108	**108**
Net book value at 31 December 2018		**52,972**	**86,122**	**21,224**	**160,318**
Cost		52,972	86,447	28,484	**167,903**
Accumulated amortisation and impairment provision		-	(325)	(7,260)	**(7,585)**

(in millions of Russian roubles, if not stated otherwise)

7 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
Net book value at 31 December 2018	**211,473**	**944,676**	**797,799**	**135,055**	**388,123**	**2,477,126**
Cost	280,112	1,497,989	1,514,535	135,055	388,123	3,815,814
Accumulated depreciation and impairment provision	(68,639)	(553,313)	(716,736)	-	-	(1,338,688)
Adjustment for initial adoption of IFRS 16 (Note 4)						
Cost	-	-	(1,782)	-	-	(1,782)
Accumulated depreciation and impairment provision	-	-	46	-	-	46
Net book value at 1 January 2019	**211,473**	**944,676**	**796,063**	**135,055**	**388,123**	**2,475,390**
Depreciation	(11,052)	(55,205)	(136,507)	-	-	(202,764)
Additions (including prepayments)	-	-	-	4,918	288,877	293,795
Transfers from assets under construction	108,561	103,740	213,479	-	(425,780)	-
Net change in dismantlement provision (Note 19)	-	(177)	-	-	-	(177)
Change in impairment provision	(46)	(146)	(439)	-	-	(631)
Disposal of subsidiary: cost (Note 9)	(2,424)	-	(1,393)	-	(14)	(3,831)
Disposal of subsidiary: depreciation (Note 9)	8	-	108	-	-	116
Disposals: cost	(1,616)	(4,269)	(15,889)	(514)	(104)	(22,392)
Disposals: accumulated depreciation and impairment provision	691	3,282	12,984	-	-	16,957
Net book value at 31 December 2019	**305,595**	**991,901**	**868,406**	**139,459**	**251,102**	**2,556,463**
Cost	384,587	1,597,137	1,708,511	139,459	251,102	4,080,796
Accumulated depreciation and impairment provision	(78,992)	(605,236)	(840,105)	-	-	(1,524,333)

(in millions of Russian roubles, if not stated otherwise)

7 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
Net book value at 1 January 2018	**162,366**	**911,460**	**704,542**	**126,837**	**368,908**	**2,274,113**
Depreciation	(8,802)	(53,429)	(117,165)	-	-	(179,396)
Additions (including prepayments)	-	-	-	9,112	282,037	291,149
Transfers to intangible assets	-	-	-	-	(6,788)	(6,788)
Transfers from assets under construction	15,840	84,598	162,071	-	(262,509)	-
Net change in dismantlement provision (Note 19)	-	(354)	-	-	-	(354)
Change in impairment provision	(38)	52	(365)	-	(31)	(382)
Acquisition of subsidiaries (Note 8)	42,327	2,417	50,454	269	6,529	101,996
Disposals: cost	(896)	(2,449)	(12,677)	(1,163)	(23)	(17,208)
Disposals: accumulated depreciation and impairment provision	676	2,381	10,939	-	-	13,996
Net book value at 31 December 2018	**211,473**	**944,676**	**797,799**	**135,055**	**388,123**	**2,477,126**
Cost	280,112	1,497,989	1,514,535	135,055	388,123	3,815,814
Accumulated depreciation and impairment provision	(68,639)	(553,313)	(716,736)	-	-	(1,338,688)

Property, plant and equipment and assets under construction are shown net of impairment provision amounting to RUB 24,932 as at 31 December 2019 (RUB 27,271 as at 31 December 2018).

Linefill represents RUB 107,498 of crude oil and RUB 31,961 of petroleum products as at 31 December 2019 (as at 31 December 2018 – RUB 104,377 of crude oil and RUB 30,678 of petroleum products).

During the year ended 31 December 2019, interest costs (Note 23) in the amount of RUB 26,896 were capitalised as part of cost of assets under construction (for the year ended 31 December 2018 – RUB 9,298).

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In March 2018 Transneft became the owner of 100% of shares of CPC Company and CPC Investments Company (Notes 15, 27). The main asset of CPC Investments Company is the loan granted to JSC CPC-R for construction of oil pipeline system of the Caspian Pipeline Consortium (hereinafter – CPC). CPC Company is the owner of 7% of ordinary shares of JSC CPC-R and JSC CPC-K and the relevant quota for the right of use of the oil pipeline system CPC. Thus, Transneft has become indirectly the owner of a 7% control stake in JSC CPC-R and JSC CPC-K. Taking into account that 24% of ordinary shares of JSC CPC-R and JSC CPC-K are held in trust by the Company and considering that shareholders and trustees in the boards of JSC CPC-R and JSC CPC-K from Transneft are presented by the same individuals at the reporting date the Group classified JSC CPC-R and JSC CPC-K as associates accounted for using the equity method.

The Transneft's receipt of ownership of 100% of shares of CPC Company and CPC Investments Company was recognised as a business combination under common control using predecessor accounting. Respectively, the assets and liabilities of the combined companies CPC Company and CPC Investments Company were recognised in the consolidated financial statements at their carrying amounts, which were calculated at the date of acquisition for the IFRS statements. The difference between the carrying value of the Group's share of net assets of these companies and share premium reserve from the placement of ordinary registered uncertified shares of Transneft was recognised as merger reserve.

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information about the financial position of CPC Investments Company is presented below:

	At acquisition date
Cash	4,982
Loan granted to JSC CPC-R	13,526
Other assets	7
Deferred tax liabilities	(1,337)
Other liabilities	(1)
Total net assets	**17,177**

The summarised information about financial position of JSC CPC-R and JSC CPC-K is presented below:

	At acquisition date
Current assets	20,101
incl. cash	*3,381*
Non-current assets	408,126
Current liabilities	(85,897)
incl. financial liabilities	*(66,485)*
Non-current liabilities	(186,157)
incl. financial liabilities	*(147,440)*
Total net assets	**156,173**
Share of net assets (7%)	**10,932**
Goodwill in the predecessor's accounting	**13,523**
Carrying value of the share	**24,455**

In September 2018 the Group acquired 50% of the share capital of Omirico Limited which controls indirectly 50.1% of shares in PJSC NCSP, and as a result of the acquisition the Group's share in Omirico Limited increased to 100%. The consideration paid amounted to 750 mln USD (RUB 49,319 as at the exchange rate of the Bank of Russia on the date of payment). As a result of the acquisition, the Group's effective share in PJSC NCSP increased from 37% to 63%, which allowed the Group to obtain control over PJSC NCSP and its subsidiaries. The Group also obtained control over NFT LLC, 50% of which is held by PJSC NCSP and 50% was controlled by the Group earlier.

The Russian Government holds a golden share in PJSC NCSP which allows the government to veto the shareholders' decisions concerning amendments to the charter, liquidation, corporate restructuring, changes of share capital, significant transactions and interested-party transaction. The Group PJSC NCSP is the leading port operator in Russia that combines stevedore companies carrying out different activities including transshipment of oil and petroleum products. The Group's main subsidiaries are located in the eastern sector of the Black sea, in the Leningrad and Kaliningrad Regions and are listed below:

	Main activities	Country of incorporation
LLC Primorsk Trade Port (PTP)	Cargo handling services	Russia
LLC Novorossiysk Grain Terminal	Cargo transportation	Russia
JSC Novoroslesexport	Cargo handling services	Russia
LLC IPP	Cargo handling services	Russia
JSC Novorossiysk Ship Repair Yard	Cargo handling services	Russia
LLC Baltic Stevedore Company	Stevedoring activities	Russia
JSC Fleet of Novorossiysk Commercial Sea Port	Auxiliary sea transport activities	Russia
JSC SoyuzFlot Port (SFP)	Auxiliary sea transport activities	Russia

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information about acquired assets and liabilities is presented below:

	At acquisition date
Intangible assets	90,512
Property, plant and equipment	90,348
Receivables and prepayments	5,426
Inventories	1,909
Cash and cash equivalents	32,018
Loans and borrowings	(96,048)
Deferred tax liabilities	(22,691)
Payables and other liabilities	(3,046)
Other assets and liabilities, net	(329)
Total identifiable net assets	**98,099**
Non-controlling interest	(35,433)
Consideration paid	(49,319)
Fair value of the previously held share at the date of acquisition	(66,319)
Goodwill	**52,972**

The fair value of the previously held by the Group 50% share of Omirico Limited was estimated based on the market price of this deal, while the fair value of the directly held by the Group 10.52% share of PJSC NCSP was estimated based on market quotes of the shares of PJSC NCSP. As a result of the remeasurement, the gain amounting to RUB 25.4 billion was recognised in Other income/(expense) in the consolidated financial statement of profit or loss and other comprehensive income.

Had PJSC NCSP been consolidated from 1 January 2018, the consolidated revenue of the Group for the year ended 31 December 2018 would have increased by RUB 42.7 billion, and consolidated profit by RUB 5.1 billion. When assessing these figures the Group assumed that the fair value adjustments made at the date of acquisition would have been the same if the acquisition date was 1 January 2018.

The estimate of the non-controlling interest was made based on the proportionate shares of their holders in the recognised identifiable net assets of the Group PJSC NCSP in accordance with their fair value as at 30 September 2018.

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	*Market and cost approach:* The valuation model considers factual market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. *Income approach*: Land plots with a direct access to the sea which are used for stevedoring were treated as relatively vacant and valued using discounted cash flows method, “greenfield” concept. This method assumes calculation of present value of expected cash flows generated by the land plots exploitation net of capital expenses necessary to start up stevedoring services and net of any other cash flows generated by other assets.
Intangible assets	*The multi-period excess earnings method*: The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the rights to use pier facilities and a complex contract for towing services. *Income approach*: Land plots with a direct access to the sea which are used for stevedoring were treated as relatively vacant and valued using discounted cash flows method, “greenfield” concept. This method assumes calculation of present value of expected cash flows generated by the land plots exploitation net of capital expenses necessary to start up stevedoring services and net of any other cash flows generated by other assets.

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information concerning financial results and financial position of associates and jointly controlled entities is presented below:

	Country of opeartions	Share 31 December 2019	Share 31 December 2018	Carrying value 31 December 2019	Carrying value 31 December 2018
Jointly controlled entities:					
JSC CPC-R and JSC CPC-K	Russia, Kazakhstan	7%	7%	31,921	29,621
Gazprombank-Finansoviy	Russia	57%	57%	51,275	45,848
AO Ust-Luga Oil and Sandmark Operations Limited	Russia	25%	25%	38,777	40,490
OOO NTK	Russia	26%	26%	1,234	1,551
Other associates and jointly controlled entities	Misc.	Misc.	Misc.	2,091	1,688
Total				**125,298**	**119,198**

No impairment provision for investments in associates and jointly controlled entities was recognised as at 31 December 2019 and 31 December 2018, as the Group concluded there were no evidence of impairment during 2019 and 2018.

The summarised information about financial results and financial performance of associates and jointly controlled entities is presented below:

31 December 2019	JSC CPC-R and JSC CPC-K	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank-Finansoviy	Other	Total
Current assets	23,648	7,563	131,048*	11,145	173,404
incl. cash and cash equivalents	3,467	3,551	60	3,150	10,228
Non-current assets	387,901	40,809	-	8,723	437,433
Current liabilities	(88,711)	(2,688)	(41,731)	(9,367)	(142,497)
incl. current financial liabilities	(59,925)	-	(41,723)	(723)	(102,371)
Non-current liabilities	(60,011)	(593)	-	(5,677)	(66,281)
incl. non-current financial liabilities	-	-	-	(5,450)	(5,450)
Net assets	262,827	45,091	89,317	4,824	402,059
Share of net assets	**31,921**	**11,670**	**51,275**	**2,090**	**96,956**
Goodwill	-	28,342	-	-	28,342
Carrying value of the share	**31,921**	**40,012**	**51,275**	**2,090**	**125,298**

* mainly presented by financial instruments

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

31 December 2018	JSC CPC-R and JSC CPC-K	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank-Finansoviy	Other	Total
Current assets	24,708	14,567	120,109*	14,052	173,436
incl. cash and cash equivalents	*4,932*	*10,088*	*46*	*2,429*	*17,495*
Non-current assets	467,309	42,656	-	21,883	531,848
Current liabilities	(129,442)	(3,441)	(37,247)	(11,752)	(181,882)
incl. current financial liabilities	*(101,705)*	*(1,033)*	*(35,913)*	*(627)*	*(139,278)*
Non-current liabilities	(132,613)	(632)	(3,000)	(19,833)	(156,078)
incl. non-current financial liabilities	*(56,549)*	-	*(3,000)*	*(18,785)*	*(78,334)*
Net assets	229,962	53,150	79,862	4,350	367,324
Share of net assets	**29,621**	**13,699**	**45,848**	**1,688**	**90,856**
Goodwill	-	28,342	-	-	28,342
Carrying value of the share	**29,621**	**42,041**	**45,848**	**1,688**	**119,198**

* mainly presented by financial instruments

The summarised information about the Group's share in the profit and other comprehensive income of associates and jointly controlled entities is presented below:

Year ended 31 December 2019	JSC CPC-R and JSC CPC-K	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank -Finansoviy	Other	Total
Revenue	146,627	31,575	-	55,614	233,816
Interest expense	(7,056)	-	(3,092)	(257)	(10,405)
Current income tax expense	(18,903)	(4,643)	-	(447)	(23,993)
Profit	60,554	22,542	9,454	1,999	94,549
Total comprehensive income	60,554	22,542	9,454	1,999	94,549
Share of comprehensive income	4,239	5,669	5,428	737	16,073
Share of profit from associates and jointly controlled entities	**4,239**	**5,669**	**5,428**	**737**	**16,073**
Cash proceeds including dividends received	**-**	**7,641**	**-**	**288**	**7,929**

(in millions of Russian roubles, if not stated otherwise)

8 ACQUISTION OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Year ended 31 December 2018	JSC CPC-R and JSC CPC-K	PJSC NCSP (Omirico Limited), NFT LLC	AO Ust-Luga Oil and Sandmark Operations Limited, OOO NTK	Gazprombank -Finansoviy	Other	Total
Revenue	103,907	45,851	25,514	-	54,058	229,330
Interest expense	(14,235)	(3,371)	(32)	(3,016)	(672)	(21,326)
Current income tax expense	(4,515)	(3,442)	(4,993)	-	(574)	(13,524)
Profit / (loss)	38,759	20,648	22,581	(4,794)	(82)	77,112
Total comprehensive income / (loss)	38,759	20,648	22,581	(4,794)	(82)	77,112
Share of comprehensive income / (loss)	**2,713**	**4,464**	**5,685**	**(2,752)**	**121**	**10,231**
Share of profit/(loss) from associates and jointly controlled entities	**2,713**	**4,464**	**5,685**	**(2,752)**	**121**	**10,231**
Cash proceeds including dividends received	**-**	**-**	**3,314**	**58**	**530**	**3,902**

9 DISPOSAL OF SUBSIDIARIES

In April 2019 Transneft sold 99.9968% of shares of subsidiary LLC Novorossiysk Grain Terminal (hereinafter – NGT) which operates transshipment of grain and oil seeds. The consideration received amounted to RUB 35,758. As NGT was not a separately significant part of business shown in *Stevedore services, other additional services of port and fleet services* segment its results were not presented as discontinued operation. The excess of consideration over the disposed net assets with non-controlling interests amounted to RUB 16,192 and was shown in Other (expense)/income in consolidated statement of profit or loss and other comprehensive income.

The assets and liabilities of NGT as at the disposal date are presented in the table below:

	The carrying amount at the date of disposal
Goodwill	12,632
Right-of-use assets	8,568
Property, plant and equipment	3,715
Cash and cash equivalents	615
Other assets	193
Total assets	**25,723**
Deferred tax liabilities	(1,942)
Trade and other payables	(173)
Total liabilities	**(2,115)**
Net assets and liabilities	**23,608**
Consideration received in cash	35,758
Cash and cash equivalents disposed of	(615)
Net cash inflow	**35,143**

In accordance with the NGT sale deal to ensure the contract terms are fulfilled, a part of the consideration received in cash in the amount of RUB 12,800 was placed on escrow account in the state-controlled bank. This cash is restricted for use till January 2020.

(in millions of Russian roubles, if not stated otherwise)

10 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value hierarchy of the financial assets at fair value through profit or loss is presented below:

Financial instrument		
Level 1	**31 December 2019**	**31 December 2018**
Corporate bonds	36,355	19,074
Municipal bonds	1,569	138
Federal government bonds (OFZ)	20,741	32,399
	58,665	**51,611**
Level 2		
Corporate bonds	15,351	8,513
Federal government bonds (OFZ)	6	-
	15,357	**8,513**
	74,022	**60,124**

Financial assets at fair value through profit or loss are financial instruments assigned for trading purposes. Financial assets at fair value through profit or loss are neither overdue nor impaired.

The bond issuers were mainly presented by companies controlled by or under significant influence of the state as at 31 December 2019 and 31 December 2018 (84% and 95% accordingly).

Interest rates of the bonds as at 31 December 2019 were in range from 2.5% to 9.8% (as at 31 December 2018 – from 3.0% to 9.9%). Interest rates of the bonds issued by companies which were under control or significant influence of the state as at 31 December 2019 were in range from 2.5% to 9.8% (as at 31 December 2018 – from 3.0% to 9.9%).

The Group classified these financial assets as current assets due to its ability to sell the assets before maturity.

Financial instrument	12 months and less	1 to 2 years	2 to 5 years	Over 5 years	Total
Corporate bonds	7,387	10,268	27,634	6,417	**51,706**
Municipal bonds	-	-	1,355	214	**1,569**
Government bonds (OFZ)	7,647	2,141	5,661	5,298	**20,747**
	15,034	**12,409**	**34,650**	**11,929**	**74,022**

Level 3	31 December 2019			
	Maturity	**Currency**	**Amount at the issue (purchase) date**	**Carrying amount**
Long-term financial assets				
Loans granted to related parties	December 2021	RUB	4,015	4,015
Securities			251	995
Total non-current financial assets			**4,266**	**5,010**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	RUB	380	302
Other loans granted			130	128
Total current financial assets			**510**	**430**
			4,776	**5,440**

(in millions of Russian roubles, if not stated otherwise)

10 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The fair value of loans granted to related parties is calculated based on expected cash flows using average market interest rates in bank loans for comparable period and in the same currency. Should interest rates increase/(decrease) by 1% with other data left unchanged, fair value of these loans would (decrease)/increase by RUB 11 and RUB 12 respectively as at the reporting date.

Level 3	31 December 2018			
	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	December 2021	RUB	4,571	4,582
Securities			251	251
Total non-current financial assets			**4,822**	**4,833**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	RUB	411	283
Total current financial assets			**411**	**283**
			5,233	**5,116**

11 FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at 31 December 2019:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Deposits	August 2021	USD	12,505	12,457
Other financial assets	-	RUB	2	2
			12,507	**12,459**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	3,986	4,306
Eurobonds	During the year after the reporting date	USD	132	136
Deposits	During the year after the reporting date	USD	70,041	67,376
		RUB	73,609	74,764
		Other	1,324	1,264
Cash placed in escrow account (Note 9)	January 2020	RUB	12,800	13,117
			161,892	**161,163**

As at 31 December 2018:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	Shareholders' agreement	USD	2,931	4,133
Deposits	August 2021	USD	12,505	13,331
Other financial assets	-	RUB	2	2
			15,438	**17,466**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	5,166	7,233
Eurobonds	During the year after the reporting date	USD	111	124
Deposits	During the year after the reporting date	USD	80,617	83,853
		RUB	33,181	33,784
		Other	1,138	1,183
			120,213	**126,177**

(in millions of Russian roubles, if not stated otherwise)

11 FINANCIAL ASSETS MEASURED AT AMORTISED COST (continued)

As at 31 December 2019 and 31 December 2018 financial assets measured at amortised cost were not past due.

As at 31 December 2019 and 31 December 2018 the significant amount of deposits (90% and 97% respectively) were placed with banks which were under control or significant influence of the state.

Interest rates of the deposits denominated in the US Dollars and Russian roubles as at 31 December 2019 were in the range from 0.9% to 8.5% (as at 31 December 2018 – from 2.5% to 7.6%). As for the deposits placed with banks controlled by or under significant influence of the state interest rates ranged from 1.1% to 8.5% as at 31 December 2019 (from 2.5% to 7.6% as at 31 December 2018).

Most of issuers of afore-mentioned notes and bonds as at 31 December 2019 and 31 December 2018 were organisations which were controlled or significantly influenced by the state (94% and 93% respectively).

Interest rates of the notes and bonds ranged from 3.9% to 6.6% as at 31 December 2019 (ranged from 3.9% to 6.6% as at 31 December 2018). As for the notes and bonds issued by companies which were controlled by or were under significant influence of the state interest rates ranged from 3.9% to 6.6% as at 31 December 2019 (ranged from 3.9% to 6.6% as at 31 December 2018).

12 INVENTORIES

	31 December 2019	31 December 2018
Materials and supplies	24,332	25,753
Sundry goods for resale	6,542	10,630
	30,874	**36,383**

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 380 as at 31 December 2019 (as at 31 December 2018 – RUB 767). Materials are primarily used for repairment and maintenance of pipeline equipment.

13 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

	31 December 2019	31 December 2018
Long-term receivables		
Financial assets		
Other long-term receivables	2,093	3,740
Non-financial assets		
Long-term VAT	1	1
Total long-term receivables	**2,094**	**3,741**
Short-term receivables		
Financial assets		
Trade receivables	27,292	27,773
Other receivables	46,667	47,994
less: provision for impairment	(47,042)	(48,462)
Total financial assets in short-term receivables	**26,917**	**27,305**
Non-financial assets		
Prepayments, advances and other non-financial receivables	11,256	9,409
Total short-term receivables	**38,173**	**36,714**

As at 31 December 2019 other accounts receivable included interest receivable related to temporarily available cash balances with banks as well as receivables related to insurance, agency agreements, prepayment for taxes other than income tax and other receivables.

(in millions of Russian roubles, if not stated otherwise)

13 RECEIVABLES AND PREPAYMENTS, VAT ASSETS (continued)

The movement in the allowance for impairment in respect of trade and other receivables is presented in the table below.

	2019		2018	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	**5,255**	**43,207**	**5,169**	**22,562**
Changes in the Group's structure	-	(1,910)	191	21,393
Impairment loss	926	976	255	621
Amounts written off in trade and other receivables	(45)	(349)	(268)	(1,158)
Reversal of provision	(740)	(278)	(92)	(211)
As at 31 December	**5,396**	**41,646**	**5,255**	**43,207**

Management determines the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
Outstanding period	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	1,003	65	733	149
More than 90 days but less than 365 days	333	61	121	38
Over 365 days	185	59	99	121
	1,521	**185**	**953**	**308**

Management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections or other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

Breakdown of accounts receivable by currency is presented in the tables below:

	31 December 2019			31 December 2018		
Currency	Trade receivables	Other receivables	Total receivables	Trade receivables	Other receivables	Total receivables
RUB	4,025	4,434	8,459	4,653	4,504	9,157
USD	17,481	538	18,019	16,706	266	16,972
Other	390	49	439	1,159	17	1,176
	21,896	**5,021**	**26,917**	**22,518**	**4,787**	**27,305**

14 CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Balances in RUB	59,716	67,598
Balances in USD	23,416	33,392
Balances in Euro	293	698
Balances in other currencies	176	164
	83,601	**101,852**

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established qualifications required by law. As at 31 December 2019 and 31 December 2018, a significant portion of cash was placed with banks, which are under common control or significant influence of the state (73% and 89% correspondingly).

Information concerning the Group's exposure to interest risk and sensitivity analysis relating to financial assets and liabilities are disclosed in Note 28.

(in millions of Russian roubles, if not stated otherwise)

15 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital	31 December 2019			31 December 2018		
	Number of shares	Historical cost	Inflated cost	Number of shares	Historical cost	Inflated cost
Issued and fully paid shares with par value RUB 1 each						
Ordinary:	5,694,468	5.70	231	5,694,468	5,70	231
Preferred:	1,554,875	1.55	77	1,554,875	1,55	77
	7,249,343	**7.25**	**308**	**7,249,343**	**7,25**	**308**

The carrying value of the share capital as at 31 December 2019 and as at 31 December 2018 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

The Russian Federation, through the Federal Agency for the Management of State Property, holds 100% of the ordinary shares of the Company.

In March 2018 125,720 ordinary registered uncertified shares of Transneft with a par value of 1 Rouble each were placed for the price of 278,780 Russian roubles per share by way of a private subscription in favor of the Russian Federation represented by the Federal Agency for the Management of State Property. The payment for the shares was made by 100% of ordinary shares of CPC Company and 100% of ordinary shares of CPC Investments Company (Note 8). The difference between the par value of additional issue of shares and payment for the shares was recognised as share premium in the amount of RUB 35,048.

In May 2018, the changes in the Charter of Transneft were registered. In accordance with these changes, the authorised capital of the Company amounts to 7,249,343 roubles and is divided into 7,249,343 shares with a par value of 1 rouble each, including 5,694,468 ordinary shares and 1,554,875 preferred shares.

Rights attributable to preferred shares

Holders of preferred shares are entitled to receive dividends pursuant to the authorization of dividend payment at the general meeting of shareholders of Transneft. The amount of dividends to be paid on preferred shares is established by the Company's Charter as 10 percent of net profits of the standalone (non-consolidated) financial statements of Transneft prepared in accordance with Russian Accounting Standards (RAS) for the most recent financial year. At the same time the amount of dividends paid for one preferred share cannot be lower than the dividend paid for an ordinary share.

Shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on the following issues:

- on the reorganization and liquidation of the Company;
- on the introduction of amendments and addenda to the Charter of the Company which limit the rights of shareholders that hold preferred shares and on the handling of application for delisting of the preferred shares.

In case where no decision on payment of dividends was adopted at an annual general meeting shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on any issues concerning its competences. This right of shareholders that hold preferred shares is terminated from the time of the first full payment of dividends on the indicated shares.

Dividends

In June 2019 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2018:

	Number of shares	RUB per share	Total
Ordinary shares	5,694,468	10,705.95	60,965
Preferred shares	1,554,875	10,705.95	16,646
	7,249,343	**10,705.95**	**77,611**

Dividends were paid out in August 2019.

(in millions of Russian roubles, if not stated otherwise)

15 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

In June 2018 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2017:

	Number of shares	RUB per share	Total
Ordinary shares	5,694,468	7,578,27	43,154
Preferred shares	1,554,875	7,578,27	11,783
	7,249,343	**7,578,27**	**54,937**

Dividends were paid out in July - August 2018.

In August 2017 at the extraordinary general meeting of shareholders the payment of interim dividends based on the results of the first half of 2017 was approved:

	Number of shares	RUB per share	Total
Ordinary shares	5,568,748	3,875.49	21,582
Preferred shares	1,554,875	3,875.49	6,026
	7,123,623	**3,875.49**	**27,608**

Interim dividends were paid out in October 2017.

Merger reserve

The difference of RUB 13,080 thousands between the historic IFRS book value of the Company's share in Transnefteproduct Group net assets and the nominal value of the ordinary shares issued and the share premium, has been recorded as merger reserve within equity. During the year ended 31 December 2019 the merger reserve changed for the difference between the carrying value of the Group's share of net assets of CPC Company and CPC Investments Company and share premium reserve from the placement of ordinary registered uncertified shares of Transneft (Note 8).

16 NON-CONTROLLING INTERESTS

The following table provides summarized information before intra-group eliminations in relation to each of the Group's subsidiaries that has material non-controlling interests.

31 December 2019	PJSC NCSP and its subsidiaries	Other individually immaterial subsidiaries
Non-controlling interests	37%	Different
Non-current assets	145,885	19,515
Current assets	50,452	4,738
Non-current liabilities	68,635	15,609
Current liabilities	16,452	1,624
Net assets	**111,250**	**7,020**
Net assets allocated to non-controlling interests	**40,962**	**1,159**
Revenue	56,089	5,054
Profit / (loss)	49,630	(583)
Other comprehensive loss	(224)	-
Total comprehensive income / (loss)	**49,406**	**(583)**
Profit/(loss) allocated to non-controlling interests	**18,274**	**(558)**
Cash flows received from operating activities	25,011	1,528
Cash flows received from/(used in) from investing activities	18,278	(3,538)
Cash flows (used in)/received from financing activities	(27,862)	1,224
Net change in cash and cash equivalents	**15,427**	**(786)**

(in millions of Russian roubles, if not stated otherwise)

16 NON-CONTROLLING INTERESTS (continued)

31 December 2018	PJSC NCSP and its subsidiaries	Other individually immaterial subsidiaries
Non-controlling interests	**37%**	**different**
Non-current assets	153,846	22,045
Current assets	17,072	4,211
Non-current liabilities	65,250	13,760
Current liabilities	22,324	2,487
Net assets	**83,344**	**10,009**
Net assets allocated to non-controlling interests	**30,687**	**2,187**
Revenue	15,878	703
Profit / (loss)	3,366	(405)
Other comprehensive loss	(105)	-
Total comprehensive income / (loss)	**3,261**	**(405)**
Profit/(loss) allocated to non-controlling interests	**1,286**	**(210)**
Cash flows received from operating activities	8,229	138
Cash flows (used in)/ received from investing activities	(1,763)	51
Cash flows used in financing activities	(16,509)	(300)
Net change in cash and cash equivalents	**(10,043)**	**(111)**

In September 2018 the Group acquired 50% of the share capital of Omirico Limited which controls indirectly 50.1% of shares in PJSC NCSP (Note 8), and as a result of the acquisition PJSC NCSP and its subsidiaries, as well as NFT LLC became the Group's subsidiaries. Accordingly the information about PJSC NCSP and its subsidiaries and NFT LLC as for the year ended 31 December 2018 is presented only for the period from 1 October to 31 December 2018.

17 LOANS AND BORROWINGS

	31 December 2019	31 December 2018
Total loans and borrowings	637,352	672,992
Less: current loans and borrowings and current portion of non-current loans and borrowings	(81,717)	(98,540)
	555,635	**574,452**
Maturity of non-current loans and borrowings		
Between one and five years	296,389	225,024
After five years	259,246	349,428
	555,635	**574,452**

The fair value of loans and borrowings is presented below:

Type of loans and borrowings	Mature in	Currency	Interest rate, %	31 December 2019		31 December 2018	
				Carrying value	Fair value	Carrying value	Fair value
Corporate bonds (unsecured)	2018-2019	RUB	Fixed	-	-	60,670	62,459
Marketable bonds (unsecured)*	2020-2027	RUB	Fixed	275,898	296,071	231,213	233,185
Other loans	2023	USD	Floating LIBOR	49,192	50,179	69,070	71,384
Other borrowings	2020	USD	Fixed	9,661	9,661	10,410	10,410
Other loans and borrowings	2019-2028	RUB	Fixed	302,601	310,348	301,629	290,337

* In accordance with the relevant prospectus, some bonds have optional redemption terms for the total amount of RUB 51,000 with maturity in April 2026, in August 2026 and in April 2027 but with optional redemption on demand of bond-holders or by issuer's intention in April 2021, September 2022, April 2024, respectively.

(in millions of Russian roubles, if not stated otherwise)

17 LOANS AND BORROWINGS (continued)

Cash proceeds from placement of marketable bonds and receipt of loans and borrowings during the reporting period were used for general corporate purposes.

Collateral

All borrowings and loans of the Group are unsecured as at 31 December 2019.

Fair value

Fair value of other loans was calculated by discounting using deemed market interest rate for similar financial liabilities, and includes all future cash outflows associated with repayments of long-term debt, including the current portion and interest charges. The market interest rate means the rate for attracting long-term debt by companies with a similar credit rating for similar maturity, repayment schedules and similar other main terms.

The fair value of bonds (Level 1) was determined based on market quotations as at 31 December 2019 and 31 December 2018, respectively.

Changes in liabilities from financing activities were due to:

– cash flows from proceeds and repayment of loans and borrowings disclosed in the cash flows from financing activities in the Consolidated statement of cash flows;
– interest expense in the amount of RUB 53,322 (as for the year ended 31 December 2018 – RUB 57,911) including the amount of interest to be capitalised of RUB 26,896 (as for the year ended 31 December 2018 – RUB 9,298) (Note 23), payment of which was shown as cash flows from operating activities in the Consolidated statement of cash flows;
– difference between fair value of the loan received and the carrying value of the loan due to in the amount of RUB 10,573 for the year ended 31 December 2018;
– loans and borrowings (net of the Group's ones) with accrued interest obtained in a business combination for the amount of RUB 82,257. Total amount of loans and borrowings of subsidiaries acquired is disclosed in Note 8;
– foreign exchange gain in the amount of RUB 8,461 (RUB 15,433 losses as for the year ended 31 December 2018).

18 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

The amounts recognised in the profit or loss

The income tax includes:

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax	46,452	48,763
Deferred income tax		
Origination and reversal of temporary differences	1,462	3,535
Deferred income tax expense	**1,462**	**3,535**
Total income tax expense	**47,914**	**52,298**

Deferred tax liabilities and assets consist of the following:

	31 December 2018	IFRS 16 adoption	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	Disposal of subsidiaries	31 December 2019
Deferred tax liabilities:						
Carrying value of property, plant and equipment in excess of tax base	(100,370)	17,263	(10,144)	-	343	(92,908)
Right-of-use assets	-	(17,263)	2,666	-	1,729	(12,868)
Other liabilities	(1,612)	-	106	721	4	(781)
	(101,982)	**-**	**(7,372)**	**721**	**2,076**	**(106,557)**

(in millions of Russian roubles, if not stated otherwise)

18 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

	31 December 2018	IFRS 16 adoption	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	Disposal of subsidiaries	31 December 2019
Deferred tax assets:						
Provision for inventories, receivables and accruals	11,681	-	(1,949)	-	(382)	9,350
Tax loss carry-forward	5,243	-	(2,076)	-	-	3,167
Provision for liabilities and charges	6,873	-	7,846	-	-	14,719
Contract liabilities	11,170	-	2,089	-	-	13,259
	34,967	**-**	**5,910**	**-**	**(382)**	**40,495**
Net deferred tax liabilities	**(67,015)**	**-**	**(1,462)**	**721**	**1,694**	**(66,062)**

	1 January 2018	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	Acquisition of subsidiary	31 December 2018
Deferred tax liabilities:					
Carrying value of property, plant and equipment in excess of tax base	(65,502)	(5,477)	-	(29,391)	(100,370)
Other liabilities	(1,506)	710	495	(1,311)	(1,612)
	(67,008)	**(4,767)**	**495**	**(30,702)**	**(101,982)**
Deferred tax assets:					
Provision for inventories, receivables and accruals	8,910	(703)	-	3,474	11,681
Tax loss carry-forward	1,239	610	-	3,394	5,243
Provision for liabilities and charges	9,018	(2,153)	-	8	6,873
Contract liabilities	7,692	3,478	-	-	11,170
	26,859	**1,232**	**-**	**6,876**	**34,967**
Net deferred tax liabilities	**(40,149)**	**(3,535)**	**495**	**(23,826)**	**(67,015)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 20% for year ended 31 December 2019 and 31 December 2018.

The following is a reconciliation of theoretical profit tax expense computed at the statutory tax rate to the profit tax expense:

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	**245,018**	**277,711**
Theoretical income tax expense at 20%	49,004	55,542
Increase/(decrease) due to:		
Items not taxable for income tax purposes	(9,673)	(7,120)
Items not deductible for income tax purposes	8,583	3,876
Actual income tax expense	**47,914**	**52,298**

The Group did not recognize deferred tax liability in respect of RUB 297,087 as at 31 December 2019 (as at 31 December 2018 - RUB 348,499) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

Since 1 January 2012 Transneft and almost all of its significant subsidiaries merged into the consolidated taxpayers' group for the purpose of calculation and payment of income tax.

(in millions of Russian roubles, if not stated otherwise)

19 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2019	31 December 2018
Pension provision	131,564	107,867
Dismantlement provision	6,087	6,770
Other provisions	14,300	10,810
Total long-term provisions for liabilities and charges	**151,951**	**125,447**
Pension provision	3,295	3,005
Dismantlement provision	2,028	1,278
Provision for benefits	41,222	36,936
Provision for reimbursement to consignors of material losses	22,744	-
Other provisions	2,578	2,098
Total short-term provisions for liabilities and charges	**71,867**	**43,317**

Other provisions mainly include provision for unused vacations, accrued provision for annual performance benefit for the reporting year.

Provision in accordance with IAS 19

In addition to contributions to State pension fund, the Group sponsors defined benefit plans for the majority of its employees. These plans assume regular pension payments to participants during their lifetime for those who have worked for not less than five years based on years of service, salary and received awards during working. Also in accordance with collective agreements with employees the Group has a liability due to those who have worked not less than three years to pay a one-time benefit ranging from one to five salaries upon retirement, to cover funeral costs and to pay out benefits to pensioners to jubilees and holidays.

Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 *Employee Benefits*. For the calculation of obligations the projected unit method was applied.

Reconciliation of opening and closing present value of the defined benefit obligation is as follows:

Movement in defined benefit obligation	**2019**	**2018**
At 1 January	**27,553**	**35,321**
Interest cost	2,460	2,957
Service cost	2,453	2,068
Actuarial loss	5,387	2,795
Past service cost	6,142	(13,831)
Benefits paid	(1,516)	(2,168)
Acquisition of subsidiaries	-	411
At 31 December	**42,479**	**27,553**

Starting from 2020 the salary composition has changed for the majority of the staff, the fixed portion has increased and the variable part (bonus) has decreased, which resulted in recognition of a one-time expenditure amounting to RUB 6,121 as at 31 December 2019, which was shown in Past service cost as increase in defined benefit plan.

Starting from 2019 the retirement age at which the right for state pension is received will be increased in stages from 55 to 60 years for women and from 60 to 65 years for men; this resulted in a one-time recognition of gain as at 31 December 2019 for the amount of RUB 13,831 due to decrease in liabilities under defined benefit plan, which was shown in Past service cost.

Losses in the amount of RUB 8,595 including service cost and past service cost on the defined benefit plan and gains including service cost in the amount of RUB 11,763 as for the years ended 31 December 2019 and 2018, respectively, are included in pension expenses in the consolidated statement of profit or loss and other comprehensive income, interest expense in the amount of RUB 2,460 and RUB 2,957 for the years ended 31 December 2019 and 2018, respectively, are included in interest expenses.

Actuarial loss amounting to RUB 5,387 for the year ended 31 December 2019 (actuarial gain amounting to RUB 2,795 for the year ended 31 December 2018) is recognised in other comprehensive income. As at 31 December 2019 accumulated actuarial loss amounted to RUB 9,379 (as at 31 December 2018 accumulated actuarial loss amounted to RUB 3,992).

Assumptions regarding future mortality are based on published statistics and mortality tables. Assumptions are based on mortality statistics in Russia for 2018 adjusted on the statistics of JSC “NPF “Transneft”.

(in millions of Russian roubles, if not stated otherwise)

19 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts associated with pension provision recognised in the consolidated statement of financial position are as follows:

	31 December 2019	31 December 2018
Pension provision for defined benefit plan	42,479	27,553

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2019	31 December 2018
Average nominal discount rate	6,57%	8,93%
Future salary increases (nominal)	4,94%	5,04%
Expected long-term inflation rate	3,94%	4,04%

As at 31 December 2019, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RUB 4,854 higher.

As at 31 December 2019, if the average nominal discount rate had decreased by 1%, the amount of the Group pension provisions would have been RUB 4,815 higher.

Pension liabilities through JSC "NPF "TRANSNEFT's" activity

Pension liabilities through JSC "NPF "TRANSNEFT's" activity include liabilities under insurance contracts and investment contracts.

Liabilities under insurance contracts are calculated by discounting expected future pension payments. The amount of the future pension is based on the amount guaranteed by insurance contract with pension indexation from the date of the contract to the reporting date, as well as the forecast of future pension indexation.

Liabilities under investment contracts are amounts of the pension accounts balances of participants as at the reporting date, which are the amounts of accumulated contributions, accrued income from the placement of pension reserves less the amount of payments made to the reporting date.

	31 December 2019	31 December 2018
Pension liabilities – insurance contracts	65,421	58,355
Pension liabilities – investment contracts	26,959	24,964
	92,380	**83,319**

Insurance contracts liabilities are disclosed taking into account the indexation of non-state life pensions planned to be carried out based on the results of 2019.

Dismantlement provision

The Group uses the following assumption in relation to the provision for dismantlement of the existing network of oil and petroleum product pipelines. The operating oil and petroleum products pipeline network will be dismantled in the end of its useful life. The Group performs regular diagnostics, maintains periodic upgrades and reconstructions of oil and petroleum product pipelines, which leads to the extension of its useful life. Thus, the Group cannot make a reliable estimate of the period of the whole oil and petroleum products pipelines network dismantlement and consequently the amount of dismantlement provision. When the Group adopts a plan on liquidation and dismantlement of certain parts of network, the provision for dismantlement is recognised accordingly in the financial statements.

As at 31 December 2019 in relation to fixed assets included in the Programme for liquidation, adopted by the Group in accordance with established procedure, dismantlement provision was recognised in respect of future costs for liquidation of oil and petroleum product pipelines including site restoration expenses. The amount of provision is estimated by discounting future expenses at yield-to-maturity rates of federal bonds with relevant maturities; the rates amounted to 5.7% - 6.4 % as at 31 December 2019 (7.7% - 8.7% as at 31 December 2018). Liquidation value of fixed assets in use is included in fixed assets and depreciated over the useful life of pipeline. Provision for liquidation of fixed assets, which are decommissioned, was recognised as operating expense. The carrying value of dismantlement provision amounted to RUB 8,115 as at 31 December 2019 (RUB 8,048 as at 31 December 2018) including short-term provision of RUB 2,028 (RUB 1,278 as at 31 December 2018), which is presented as current provisions for liabilities and charges.

(in millions of Russian roubles, if not stated otherwise)

19 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Provision for reimbursement of losses to consignors

In July 2019 the Board of Directors considered the agenda item “On mitigation of the accident related to ingress of oil not complying with the GOST standards into the Druzhba oil trunk pipeline in April 2019” and made the decision on the procedure for making payments to shippers to reimburse their losses from illegal third party actions, which resulted into the ingress of substandard oil into the system (hereinafter – Incident).

During 2019 in accordance with IFRS requirements Group recognised provision at initial amount RUB 26,066. The provision represents the management’s estimate of probable expenditure necessary to settle the Incident consequences with shippers for the 2019 oil transportation contracts provided shippers’ losses (including relevant negative consequences and their amounts) are confirmed by documentary evidence. The provision is not the Group’s unconditional legal obligation to reimburse shippers. Recognition of provision does not mean that Transneft admits its responsibility for third parties actions, which resulted in the ingress of substandard oil into the “Druzhba” oil trunk pipeline in April 2019.

The provision expenses were recognised in Other (expense)/income in the consolidated statement of profit or loss and other comprehensive income.

In accordance with signed agreements for extrajudicial settlement of the Incident consequences the Group performed reimbursement to consignors in the amount of RUB 3,322 during the fourth quarter 2019, in January-March 2020 in the amount of RUB 4,900.

According to the management, the extrajudicial settlement of the Incident consequences within the framework approved by the Board of Directors is not expected to take more than a year after the reporting date, provided the shippers are interested in implementing the proposed mechanism and are ready to provide documentary evidence of material losses.

20 TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Long-term payables		
Long-term lease liabilities	18,706	-
Other payables	610	1,419
Total financial payables	**19,316**	**1,419**
Contract liabilities	63,563	62,000
Total long-term payables	**82,879**	**63,419**
Short-term payables		
Trade payables	46,872	52,544
Short-term lease liabilities	2,094	-
Dividends payable to non-controlling interests	-	1,802
Other payables	11,752	12,055
Total financial payables	**60,718**	**66,401**
Contract liabilities	67,797	59,719
VAT payable	12,804	16,530
Other taxes payable	8,898	9,812
Total short-term payables	**150,217**	**152,462**

Breakdown of accounts payable and other liabilities by currency is presented in the table below:

Currency	31 December 2019			31 December 2018		
	Trade payables	Other payables	Total payables	Trade payables	Other payables	Total payables
RUB	29,846	11,264	41,110	39,319	12,268	51,587
USD	16,787	489	17,276	13,075	622	13,697
Euro	154	551	705	143	580	723
Other	85	58	143	7	4	11
	46,872	**12,362**	**59,234**	**52,544**	**13,474**	**66,018**

Trade payables include payables for purchases of property, plant and equipment in the amount of RUB 21,852 as at 31 December 2019 and RUB 28,897 as at 31 December 2018.

Information concerning the Group’s exposure to currency risk and liquidity risk in relation to trade and other payables is disclosed in Note 28.

(in millions of Russian roubles, if not stated otherwise)

21 REVENUE

Information about revenue is divided into activities, geographic markets and customers. The following table contains reconciliation of detailed revenue with the Group's reporting segments (Note 29).

Year ended 31 December 2019	Reportable segments: Oil transportation	Reportable segments: Petroleum products transportation	Reportable segments: Trading operations for sale of oil and petroleum products	Reportable segments: Stevedoring, additional port services and fleet services	Adjustments	Total
Activities						
Revenue from oil transportation:						
export	440,776	-	-	-	(163)	**440,613**
domestic market	261,141	-	-	-	1,662	**262,803**
Total revenue from oil transportation	701,917	-	-	-	1,499	**703,416**
Revenue from oil sales	11,812	-	186,900	-	-	**198,712**
Revenue from petroleum products transportation	-	68,517	-	-	(241)	**68,276**
Other revenue	30,454	7,041	6,315	55,133	(5,518)	**93,425**
	744,183	**75,558**	**193,215**	**55,133**	**(4,260)**	**1,063,829**
Customer country of origin						
Russian Federation	716,122	73,628	6,315	40,610	(4,260)	**832,415**
China	459	1	186,900	2,836	-	**190,196**
Other countries	27,602	1,929	-	11,687	-	**41,218**
	744,183	**75,558**	**193,215**	**55,133**	**(4,260)**	**1,063,829**
Customers						
Companies under state control	394,970	28,129	-	6,761	1,819	**431,679**
China National United Oil Corporation	-	-	186,900	-	-	**186,900**
PJSC Surgutneftegaz	114,470	4,619	-	3,499	-	**122,588**
PJSC LUKOIL	79,600	16,423	-	3,791	(3,759)	**96,055**
Other customers	155,143	26,387	6,315	41,082	(2,320)	**226,607**
	744,183	**75,558**	**193,215**	**55,133**	**(4,260)**	**1,063,829**

(in millions of Russian roubles, if not stated otherwise)

21 REVENUE (continued)

Year ended 31 December 2018	Reportable segments: Oil transportation	Petroleum products transportation	Trading operations for sale of oil and petroleum products	Stevedoring, additional port services and fleet services	Adjustments	Total
Activities						
Revenue from oil transportation:						
export	391,856	-	-	-	(397)	**391,459**
domestic market	271,936	-	-	-	(11,508)	**260,428**
Total revenue from oil transportation	*663,792*	-	-	-	*(11,905)*	*651,887*
Revenue from oil sales	6,122	-	200,286	-	-	**206,408**
Revenue from petroleum products transportation	-	73,696	-	-	(1,529)	**72,167**
Other revenue	26,108	4,224	5,601	15,735	(2,172)	**49,496**
	696,022	**77,920**	**205,887**	**15,735**	**(15,606)**	**979,958**
Customer country of origin						
Russian Federation	667,556	77,920	5,601	12,071	(15,606)	**747,542**
China	79	-	200,286		-	**200,365**
Other countries	28,387	-	-	3,664	-	**32,051**
	696,022	**77,920**	**205,887**	**15,735**	**(15,606)**	**979,958**
Customers						
Companies under state control	369,268	32,170	-	772	(11,072)	**391,138**
China National United Oil Corporation	-	-	200,286	-	-	**200,286**
PJSC Surgutneftegaz	107,149	5,799	-	801	(1,217)	**112,532**
PJSC LUKOIL	78,401	15,332	-	410	(229)	**93,914**
Other customers	141,204	24,619	5,601	13,752	(3,088)	**182,088**
	696,022	**77,920**	**205,887**	**15,735**	**(15,606)**	**979,958**

The amount of RUB 5,540 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2019 (for period ended 31 December 2018 – RUB 1,253).

Almost all of the Group's revenue is revenue from contracts with customers.

Revenue from crude oil sales for the year ended 31 December 2019 mainly include revenue from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement crude oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases crude oil under the contract signed in April 2009 with Rosneft (see Note 27).

The Group revenues from crude oil transportation services on the domestic pipeline network comprise:

- revenue from transportation of crude oil to destinations in the Russian Federation and to the member-states of the Eurasian Economic Union, based on tariffs set by the Federal Antimonopoly Service and payable in RUB (“domestic tariff”);
- revenue from transportation of crude oil which is destined for export outside of the Russian Federation and member-states of the Eurasian Economic Union, based on tariffs set by the Federal Antimonopoly Service and payable in RUB (“export tariff”);
- revenue from transportation of transit crude oil from Azerbaijan to export destinations through the territory of the Russian Federation to the Novorossiysk’s port in accordance with tariff set by the Federal Antimonopoly Service and payable in RUB (“export tariff”);
- revenue from transportation of transit crude oil from Kazakhstan, based on the tariffs which are set by the Federal Antimonopoly Service and payable in RUB (“export tariff”);
- revenue from transportation of transit crude oil from Turkmenistan based on tariffs set by the Federal Antimonopoly Service and payable in RUB (“export tariff”).

Revenue from petroleum products transportation includes revenue from petroleum product transportation in the Russian Federation, in the Republic of Belarus and in the Republic of Kazakhstan.

(in millions of Russian roubles, if not stated otherwise)

21 REVENUE (continued)

Revenue from domestic transportation of petroleum products is formed on the basis of tariffs which are set within limits imposed by tariffs approved by Federal Tariff Service and Federal Antimonopoly Service and includes:

- revenue from petroleum products transportation services in the territory of the Russian Federation and member-states of the Eurasian Economic Union at tariffs set and paid for in RUB;
- revenue from petroleum products transportation services for export outside the territory of the Russian Federation and member-states of the Eurasian Economic Union at tariffs set and paid for in RUB.

Revenue from petroleum product transportation in the Republic of Belarus is formed on the basis of tariffs set in US Dollars by the relevant regulatory body of the Republic of Belarus in compliance with the Treaty between the governments of the Russian Federation and the Republic of Belarus on cooperation in operating petroleum product pipelines, located on the territory of the Republic of Belarus. These services are paid for in USD.

Revenue from petroleum product transportation services in the Republic of Kazakhstan is formed on the basis of tariffs set by Transneft in Kazakhstani tenge. These services are paid for in RUB at the exchange rate set by the Central Bank of the Russian Federation at the date of payment.

22 OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Year ended 31 December 2019	Year ended 31 December 2018
Salaries	133,484	127,337
Social funds contributions	34,637	32,325
Social expenses	4,127	3,929
Cost of crude oil sold	162,331	157,459
Export custom duties	36,341	48,261
Energy	46,360	42,360
Materials	36,543	33,297
Repairs and maintenance services	22,038	20,057
Property tax and other taxes, except for income tax	36,961	36,843
Pension expenses	10,422	(9,367)
Insurance	6,175	6,359
Other expenses	48,621	47,223
Operating expenses net of amortisation and depreciation	**578,040**	**546,083**

Other expenses comprise of communication services, rent expenses, transportation expenses, business trip expenses, received and paid fines and penalties, as well as, other operating income and expenses.

(in millions of Russian roubles, if not stated otherwise)

23 FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income from:		
Financial assets measured at FVTPL	5,088	5,715
Financial assets measured at amortised cost	8,084	9,402
Cash and cash equivalents	4,713	5,053
Total interest income recognised in the consolidated statement of profit or loss and other comprehensive income	**17,885**	**20,170**
Foreign exchange gain	32,021	80,338
Gain from changes in expected credit loss for financial instruments	-	234
Gain from changes in fair value of financial instruments measured at FVTPL	4,036	188
Total finance income	**53,942**	**100,930**
Interest expense on loans and borrowings	(53,322)	(57,911)
Distribution of pension income on pension liabilities	(8,775)	(4,407)
Interest expenses under contract liabilities	(8,822)	-
Interest expenses from lease liabilities	(2,046)	-
Other interest expenses	(3,486)	(11,400)
Total interest expenses	**(76,451)**	**(73,718)**
Less capitalised interest expenses	26,896	9,298
Total interest expenses recognised in the consolidated statement of profit or loss and other comprehensive income	**(49,555)**	**(64,420)**
Foreign exchange loss	(38,749)	(57,246)
Loss from changes in expected credit loss for financial instruments	(160)	(568)
Total finance costs	**(88,464)**	**(122,234)**
Net finance costs	**(34,522)**	**(21,304)**

24 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The following are the principal subsidiaries which have been consolidated and associates and jointly controlled entities accounted for using equity method in these consolidated financial statements:

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2019
Transneft Siberia, JSC	crude oil and petroleum products transportation	Russia	100
Chernomortransneft, JSC	crude oil and petroleum products transportation	Russia	100
Transneft Druzhba, JSC	crude oil and petroleum products transportation	Russia	100
Transneft Volga Region, JSC	crude oil and petroleum products transportation	Russia	100
Transneft Western Siberia, JSC	crude oil and petroleum products transportation	Russia	100
Transneft Upper Volga, JSC	crude oil and petroleum products transportation	Russia	100
Transneft Central Siberia, JSC	crude oil transportation	Russia	100
Transneft North, JSC	crude oil transportation	Russia	100
Transneft Baltic, LLC	crude oil and petroleum products transportation	Russia	100
Transneft Urals, JSC	crude oil and petroleum products transportation	Russia	100

(in millions of Russian roubles, if not stated otherwise)

24 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2019
Transneft Kama Region, JSC	crude oil and petroleum products transportation	Russia	100
Transneft East, LLC	crude oil transportation	Russia	100
Transneft Far East, LLC	crude oil transportation	Russia	100
Transnefteproduct, JSC	wholesale of petroleum products	Russia	100
Zapad-Transnefteproduct, Private Unitary Production Enterprise	petroleum products transportation	Belarus	100
AO Transnefteproduct-Zapad	other financial activities	Russia	100
Transneft Primorsk Port, LLC	cargo handling services	Russia	100
Transneft Kozmino Port, LLC	crude oil transportation	Russia	100
Transneft Ust-Luga Port, LLC	cargo handling services	Russia	100
Transneft UW Service, JSC	diagnostics, repair of underwater line	Russia	100
Giprotruboprovod, JSC	development of engineering documentation	Russia	100
Svyaztransneft, JSC	maintenance of technological connection of trunk pipeline facilities	Russia	100
Transneft Diascan, JSC	diagnostics of trunk pipelines	Russia	100
Transneft Supervision, LLC	technical and building supervision and control	Russia	100
Transneft PCD, LLC	provision of general construction services	Russia	100
Transneft-Service, LLC	safety activities in emergency situations	Russia	100
Transneft Metrology, JSC	metrological support of oil transportation	Russia	100
The Pipeline Transport Institute, LLC	research activity	Russia	100
PMC ESPO, LLC	construction services	Russia	100
Transneft Finance, LLC	provision of accounting, tax and management accounting services	Russia	100
Transneft Energy, LLC	electricity sales	Russia	100
Transneft-Logistics, LLC	transportation of cargo	Russia	100
Transneftstroy, LLC	general building and machinery contractor	Russia	100
Fenti Development Ltd.	financial activity	Switzerland	100
Transneft Media, LLC	publishing activity	Russia	100
Unitarnoye predpriyatiye Zapad-Telecomnefteproduct	communication services	Belarus	100
AO PROMSFERA	rent of property	Russia	100
LLC «Tikhoretsk-Nafta»	handling of cargo services	Russia	100
Transneft Service, JSC	wholesale of petroleum products	Russia	100
TNT, JSC	crude oil and petroleum products transportation services	Russia	100
TES, LLC	transmission of electricity	Russia	100
Transneft Technology, LLC	maintenance of automation means, telemechanization systems and automated process control systems	Russia	100
Transneft Telecom, LLC	telecommunication activities	Russia	100

(in millions of Russian roubles, if not stated otherwise)

24 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2019
Transneft security services, LLC	security services	Russia	100
MC Evolution, LLC	property management	Russia	100
NPF Transneft, JSC	non-state pension management	Russia	100
Transneft Invest Management Company, LLC	assets trust management	Russia	100
Omirico Limited	financial activity	Cyprus	100
NCSP, PJSC	cargo handling and storage services	Russia	63
NFT, LLC	cargo handling services	Russia	82
Primorsk Trade Port (PTP), LLC	cargo handling services	Russia	63
Novoroslesexport, JSC	cargo handling services	Russia	58
IPP, LLC	cargo handling services	Russia	63
Fleet of Novorossiysk Commercial Sea Port, JSC	supporting sea transport activities	Russia	60
Baltic Stevedore Company, LLC	stevedoring activities	Russia	63
Novorossiysk Ship Repair Yard, JSC	cargo handling services	Russia	62
SoyuzFlot Port (SFP), JSC	supporting sea transport activities	Russia	63
HENFORD LOGISTICS LIMITED	supporting sea transport activities	Hong Kong	60
REM, JSC	production of electric motors	Russia	51

Equity-accounted investments	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2019
OOO Nevskaya pipe company	cargo handling services	Russia	26
AO OMEGA	production of monitoring systems of pipelines	Russia	49.99
OOO RUSENERGORESURS	wholesale of electric and heat power	Russia	25
AO Ust-Luga Oil	handling of cargo services	Russia	25
Sandmark Operations Limited	handling of cargo services	Cyprus	25
CMF Gazprombank-Finansoviy	financial activity	Russia	57
JSC CPC-R	crude oil transportation	Russia	7
JSC CPC-K	crude oil transportation	Kazakhstan	7
OOO TK-BA	designing and construction of “Burgas – Alexandroupolis” pipeline	Russia	33
Transneft oil pumps, JSC	development, production and sales of pumping equipment	Russia	51
OOO Transneft-Sintez	production of petroleum products	Russia	51
LatRosTrans Ltd	petroleum products transportation	Latvia	34

(in millions of Russian roubles, if not stated otherwise)

25 LEASES

Right-of-use assets

	Land and buildings	Other	Total
Adjustment for initial adoption of IFRS 16	36,843	72,200	109,043
Net book value at 1 January 2019	**36,843**	**72,200**	**109,043**
Amortisation	(2,437)	(3,592)	(6,029)
Additions	899	796	1,695
Reassessment and other adjustments	408	(8,056)	(7,648)
Net book value at 31 December 2019	**35,713**	**61,348**	**97,061**

Amounts recognised in profit or loss

	Year ended 31 December 2019
Expenses relating to short-term leases	745
Expenses relating to variable lease payments not included in estimation of lease liabilities	971
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	6

Operating leases under IAS 17 for 2018

Expected future land lease payments under lease agreements broken down periods of payment are shown in the table below:

	31 December 2018
Less than one year	1,015
Between one year and five years	4,058
After five years	45,657
Total	**50,730**

For the year ended 31 December 2018 operating lease expenses, recognised in operating expenses for the period, amounted to RUB 542.

26 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the year ended 31 December 2019 the Group was involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there were no current legal proceedings or claims outstanding at 31 December 2019, which could have a material adverse effect on the results of operations or financial position of the Group.

27 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation represented by the Federal Agency for the Management of State Property owns 100% of the ordinary shares of the Company and conducts control via the Board of Directors that as at the 31 December 2019 was comprised of the State representatives (professional attorneys) and Independent Directors. The Government of the Russian Federation shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and their limits.

As at 31 December 2019 and 31 December 2018 the Company holds in trust on behalf of the Russian Federation 24% of the ordinary shares of JSC CPC-R and 24% of the ordinary shares of JSC CPC–K.

(in millions of Russian roubles, if not stated otherwise)

27 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

In the ordinary course of business the Group had the following significant transactions with entities, which are under common control or significant influence of the state:

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from oil transportation services	385,672	352,382
Rosneft and its subsidiaries	307,622	288,837
PJSC “GAZPROM” and its subsidiaries	28,075	27,293
Others	49,975	36,252
Revenue from petroleum products transportation services	28,200	32,131
Rosneft and its subsidiaries	16,443	19,095
PJSC “GAZPROM” and its subsidiaries	11,744	13,036
Others	13	-
Other services	16,962	6,625
Rosneft and its subsidiaries	8,937	3,539
PJSC “GAZPROM” and its subsidiaries	6,913	2,793
Others	1,112	293
Sale of share in charter capital	35,758	-
Placement of cash in escrow account	12,800	-
Purchases of oil (Rosneft)	150,661	151,248
Purchase of other assets	4,559	-
Electricity expenses	1,477	1,076
Purchase of other services	7,692	-
Proceeds from loans from banks under the state control	-	261,701
Loans from acquired subsidiaries	-	71,004
Finance income	7,083	12,393
Finance cost	21,714	23,295

The Group had the following transactions with associates and jointly controlled entities:

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from sales of goods and services	7,541	7,031
Purchases of goods and services	52,194	47,788

The Group had the following balances with associates and jointly controlled entities:

	31 December 2019	31 December 2018
Trade and other receivables	5,679	7,905
Trade and other payables	2,931	2,264
Borrowings granted	8,623	16,231
Borrowings received	160	36

Borrowings granted include borrowing granted to JSC CPC-R at 6% interest rate per annum, with the carrying amount of RUB 4,308 as at 31 December 2019 (as at 31 December 2018 – RUB 11,384) (Note 10).

Key management personnel compensation

Key management personnel (the members of the Board of Directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consist of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Board of Directors of Company are subject to approval by the annual general meeting of shareholders. According to Russian legislation, the Group makes contributions to the Pension fund of the Russian Federation to defined contributions plan from payments to all of its employees including key management personnel of the Company and its subsidiaries. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, JSC "NPF "TRANSNEFT", and one-time payments programme at the retirement date.

(in millions of Russian roubles, if not stated otherwise)

27 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	Year ended 31 December 2019	Year ended 31 December 2018
Salaries and bonuses	2,314	2,256
Termination benefits	17	9
Other	13	13
	2,344	**2,278**

Amounts of loans issued to key management personnel were as follows:

	2019	2018
1 January	1	8
Granted	-	-
Repaid	(1)	(7)
31 December	-	1
due for repayment during 1 year	-	1

During the year ended 31 December 2019 the Group contributed to JSC "NPF "TRANSNEFT" in favor of the key management personnel RUB 78 (for 2018 – RUB 169).

Contributions to the JSC "NPF "TRANSNEFT" represent transfer to the fund of the present value of future pension distributions in connection with retirement in accordance with the terms of contracts for non-state pension benefits. These distributions will be made when the right to receive the pension in accordance with established rules of JSC "NPF "TRANSNEFT" vest.

Key management personnel for whom information was disclosed in the consolidated financial statements include members of the Board of Directors and the Board of Transneft, as well as CEOs and their families (including change of management during the reporting periods) of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.

Total number of the people who have received payments as the key management personnel and their family members as for the year ended 31 December 2019 amounted to 73 individuals (for the year ended 31 December 2018 – 64 individuals).

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to the items below:

31 December 2019	At fair value through profit or loss – others	At amortised cost	Financial liabilities
Financial assets			
Measured at fair value			
Investments measured at fair value through profit or loss (Note 10)	79,462	-	-
	79,462	-	-
Not measured at fair value			
Cash and cash equivalents (Note 14)	-	83,601	-
Trade and other receivables (Note 13)	-	29,010	-
Measured at amortised cost (Note 11)	-	173,622	-
	-	**286,233**	-
Financial liabilities not measured at fair value			
Unsecured bank loans (Note 17)	-	-	361,454
Bonds issued without collateral (Note 17)	-	-	275,898
Trade and other payables (Note 20)*	-	-	80,034
	-	-	**717,386**

* Other payables which are not financial liabilities (RUB 131,360 of contract liabilities recognised in accordance with IFRS 15) are not included.

(in millions of Russian roubles, if not stated otherwise)

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

31 December 2018	At fair value through profit or loss – others	At amortised cost	Financial liabilities
Financial assets			
Measured at fair value			
Investments measured at fair value through profit or loss (Note 10)	65,240	-	-
	65,240	-	-
Not measured at fair value			
Cash and cash equivalents (Note 14)	-	101,852	-
Trade and other receivables (Note 13)	-	31,045	-
Measured at amortised cost (Note 11)	-	143,643	-
	-	**276,540**	-
Financial liabilities not measured at fair value			
Unsecured bank loans (Note 17)	-	-	381,109
Bonds issued without collateral (Note 17)	-	-	291,883
Trade and other payables (Note 20)*	-	-	66,018
	-	-	**739,010**

* Other payables which are not financial liabilities (RUB 121,719 of contract liabilities recognised in accordance with IFRS 15) are not included.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, commodity price risk, credit risk, insurance risk and liquidity risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set allowed risk limits and appropriate control mechanisms, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Foreign exchange risk

The Group's overall strategy is to mitigate foreign exchange risk which arises from use of currencies other than RUB. Moreover, the Group has an approved policy and regulations for managing foreign exchange risk and interest rate risk. The Group's foreign exchange exposure mainly arises on USD-denominated loans and borrowings (Note 17) and translation of cash balances and financial assets measured at amortised cost (Note 11, 14) denominated in USD. Assets and liabilities of the Group denominated in other currencies which give exposure to foreign exchange risk are insignificant.

If USD had strengthened/weakened by 10% against RUB, with all other variables left constant, profit after tax and equity would have increased/decreased as at 31 December 2019 at RUB 3,934 (as at 31 December 2018 - RUB 5,269), mainly as a result of losses/(gains) on conversion of borrowings and translation of cash balances and other financial assets denominated in USD into RUB.

Interest rate risk

The Group has an approved policy and regulations concerning determination of how much the Group's exposure should be to fixed or variable interest rates. At the time of raising new loans or borrowings management uses its judgment, economic experience and risk assessment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Loans and borrowings received at fixed rates expose the Group to fair value interest rate risk. The Group obtains loans from banks at current market interest rates. The interest rate risk is constantly monitored and, if necessary, measures will be taken to decrease the Group's exposure to it. The Group does not account for any of its fixed rate financial assets and liabilities at fair value through profit or loss (except for the assets relating to JSC "NPF "TRANSNEFT"). Therefore, a change in interest rates for these loans and borrowings at the reporting date would not affect profit or equity.

Loans and borrowings received by the Group under variable interest rate expose the Group to the risk of changes in the cash flows under loans and borrowings. As the Group receives bank loans for financing its investment projects, the part of borrowing costs are capitalised. An increase/decrease of 1% in interest rates for the year ended 31 December 2019 would have decreased/increased after tax profit for the year and equity by RUB 242 (year ended 31 December 2018 – RUB 190). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(in millions of Russian roubles, if not stated otherwise)

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

To monitor changes in interest rate risk affecting assets of JSC "NPF "TRANSNEFT" the Group performs a sensitivity analysis of its comprehensive income to interest rates change based on the simplified scenario of the symmetric increase or decline in rates by certain amount of basic interest rate points.

Sensitivity analysis for profit or loss before tax and equity due to changes in value of financial instruments at fair value through profit and loss resulting from changes in interest rates (set up as at 31 December 2019 according to the simplified scenario of the parallel shift of the yield curve for 100 basis points increase or decline) may be presented as follows:

	Profit / (loss) before income tax	Net assets to execute liabilities towards participants and insured persons
	31 December 2019	
100 basic points interest rates increase	2,216	2,207
100 basic points interest rates decline	(2,347)	(2,337)

Commodity price risk

The Group's principle activities include technical maintenance, replacement of the existing pipelines and construction of new pipelines. These require annual purchases of a significant number of metal pipes for replacement and construction of new pipelines.

The Group concluded framework agreements with pipes producers, under which the delivery price and delivery dates are not fixed at the moment of signing these agreements. In addition, the Group has no long-term contracts with oil producing companies (except agreement on crude oil delivery with Rosneft) and refineries and does not use the hedging contracts to manage the risks associated with changes in metal prices and prices for oil and petroleum product.

Credit risk and fulfillment of contractual terms

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group has an approved policy in accordance with which it regularly assesses creditworthiness of banks it deals with and reviews limit for allocation of free cash.

The Group's policy is generally to transact with its customers on a prepayment basis. Its trade accounts receivable are unsecured. Being the subject of natural monopolies on the Russian transportation market the Group ensures equal access to the oil and petroleum product pipeline for all Russian oil refining and petroleum products companies. The majority of the Group's revenue is received under agreements with the major oil companies of the Russian Federation including those controlled by the State. The Group has no material concentrations of credit risk or any material past due accounts receivable.

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group selects suppliers (contractors, performers) in accordance with the legislation of the Russian Federation, as a rule, on a competitive basis. When purchasing goods, works, services, the technical and financial indicators of procurement participants (availability of production facilities, qualified personnel, financial condition, etc.), and the criteria for its reliability (availability of relevant experience, professional reputation, etc.). Procurement requirements for bidders provide for the selection of counterparties, the risk of default on contractual obligations is minimal.

Financial assets had the following credit ratings assigned by Moody's and other credit agencies ratings adjusted to Moody's rating scale as at 31 December 2019:

Credit rating	Cash and cash equivalents	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost
External credit rating Baa2-Baa3	11,821	62,625	73,862
External credit rating Ba1 – Ba2	69,064	11,397	99,750
Other	2,716	5,440	10
	83,601	**79,462**	**173,622**

(in millions of Russian roubles, if not stated otherwise)

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Risks associated with securities under trust management

The Group is exposed to equity price risk. Management companies which are entered into trust management agreements control operations with equity securities in accordance with approved investment declaration which sets the structure and ratio between debt and equity securities and cash levels which management companies must maintain. The specialised depositary also controls compliance with investment declarations on a daily basis.

To manage other price risk the Group uses periodic estimation of potential losses which can be incurred because of negative market changes as well as sensitivity analysis of profit or loss for the year to changes in share prices in accordance with a symmetrical increase or decline scenario for a certain percentage points.

Sensitivity analysis of net profit to changes in price of shares (computed on positions open as at 31 December 2019 and simplified scenario for 10% decline or increase in all share prices) can be shown as follows:

	31 December 2019
	Profit/ (loss) before income tax
10% increase in securities' quotes	8,022
10% decline in securities' quotes	(8,022)

Insurance risk

For insurance contracts for payment of benefits under guaranteed pensions where insurance risk is the mortality risk the main factor is the stable improvement of medical services and social conditions which increase life expectancy.

Insurance risk management is performed by permanent observation of actual mortality of participants. Currently the actual mortality rate as well as its changes are consistent with expectations. To fulfill already taken obligations the part of investment returns from allocation of pension reserves including insurance reserve will be used.

The table below shows sensitivity analysis of insurance contract liabilities under non-state pension:

		31 December 2019
Change in obligation in relation to obligation as at reporting date		
Analysis of change in liability in case of change in discount rate	-1 p.p.*	11.1%
	+1 p.p.*	(9.3)%
Analysis of change in liability in case of change in assumption of indexation of pensions	-1 p.p.*	(9.4)%
	+1 p.p.*	10.9%
Analysis of change in liability in case of change in assumption of mortality	-10%	4.8%
	+10%	(4.2)%

(*) p.p. – percentage point

Liability adequacy test for insurance contracts under OPS would not result in a deficit in all cases when indexation rate does not exceed discount rate. JSC "NPF "TRANSNEFT" estimated the minimal discount rate (with fixed indexation rate used in calculation as at the reporting date) equal to 2.2% when the test will result in zero.

A decline in mortality probability by 45% will lead to a zero result in liability adequacy test relating to insurance contracts under OPS.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines.

(in millions of Russian roubles, if not stated otherwise)

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Offsetting and similar agreements

The Group may conclude agreements for purchase and sale with same counterparties in the ordinary course of business. Relevant amounts of receivables and payables are not always available for offsetting in the statement of financial position. This is due to the fact that the Group may not have currently legally enforceable right to offset the recognised amounts, since the right of set-off may be valid only when certain events occur in the future. In particular, in accordance with civil law in force in Russia, the obligation may be settled by offsetting uniform requirements, which are due either not specified or determined by the time on demand.

The following are the carrying values of recognised financial instruments under the afore-mentioned contracts:

	Trade and other receivables	Trade and other payables
31 December 2019		
Gross amounts	**26,918**	**60,718**
Net amounts shown in the consolidated statement of financial position	26,918	60,718
Amounts relating to recognised financial instruments which cannot be offset	(202)	(202)
Net amount	**26,716**	**60,516**

	Trade and other receivables	Trade and other payables
31 December 2018		
Gross amounts	**31,045**	**66,401**
Net amounts shown in the consolidated statement of financial position	31,045	66,401
Amounts relating to recognised financial instruments which cannot be offset	(309)	(309)
Net amount	**30,736**	**66,092**

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
31 December 2019						
Loans and borrowings	637,352	855,045	117,247	107,098	329,220	301,480
Lease payables	20,800	43,064	3,618	3,409	8,130	27,907
Trade and other payables	59,234	59,836	58,772	981	83	-
	717,386	**957,945**	**179,637**	**111,488**	**337,433**	**329,387**
31 December 2018						
Loans and borrowings	672,992	871,741	136,262	87,287	260,468	387,724
Trade and other payables	66,018	66,087	64,599	1,118	366	4
	739,010	**937,828**	**200,861**	**88,405**	**260,834**	**387,728**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the receivables and payables approximates their carrying amounts at 31 December 2019 and 31 December 2018. The fair values of loans and borrowings are disclosed in Note 17, of financial assets in Note 10.

(in millions of Russian roubles, if not stated otherwise)

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company and the long-term and short-term debt (long-term and short-term borrowings and trade and other payables). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing loans and borrowings.

Within the framework of capital management for the purpose of maintaining major debt parameters at the optimal level, the Group's management monitors its key financial indicators, such as total debt/EBITDA, total debt/equity and cash from operating activities/total debt; that allows the Group to keep its credit rating at the maximum level available for Russian companies.

There were no changes in the Group's approach to capital management during the reporting period.

29 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities and operational segments are set by nature of its activity based on management accounting under RAS. The following segments were allocated: Oil transportation services, Petroleum product transportation services, Trading operations for sale of oil and petroleum products, Stevedoring, additional port services and fleet services.

The Stevedoring, additional port services and fleet services segment includes represented after the Group's acquisition of control in the Group PJSC NCSP in September 2018.

Adjusting entries used to reconcile this information with information in the consolidated financial statements primarily include adjustments and reclassifications resulting from differences between RAS and IFRS.

Segment information for the year ended 31 December 2019 and 31 December 2018 was as follows:

	Reportable segments					
Year ended 31 December 2019	Oil transport-tation	Petroleum products transportation	Trading operations for sale of oil and petroleum products	Stevedoring, additional port services and fleet services	Adjust-ments	Total IFRS
Revenue (Note 21)	744,183	75,558	193,215	55,133	(4,260)	**1,063,829**
Operating expenses net of depreciation and amortisation	(329,081)	(34,438)	(193,346)	(16,075)	(5,100)	**(578,040)**
Depreciation and amortisation	(226,936)	(29,868)	(11)	(4,498)	52,613	**(208,700)**
Profit/(loss) from reportable segments	**188,166**	**11,252**	**(142)**	**34,560**	**43,253**	**277,089**

	Reportable segments					
Year ended 31 December 2018	Oil transport-tation	Petroleum products transportation	Trading operations for sale of oil and petroleum products	Stevedoring, additional port services and fleet services	Adjust-ments	Total IFRS
Revenue (Note 21)	696,022	77,920	205,887	15,735	(15,606)	**979,958**
Operating expenses net of depreciation and amortisation	(313,957)	(38,942)	(205,905)	(4,967)	17,688	**(546,083)**
Depreciation and amortisation	(206,324)	(26,442)	(13)	(950)	55,119	**(178,610)**
Profit/(loss) from reportable segments	**175,741**	**12,536**	**(31)**	**9,818**	**57,201**	**255,265**

(in millions of Russian roubles, if not stated otherwise)

29 SEGMENT INFORMATION (continued)

Adjusting items for segments' revenue in the amount of RUB 4,260 for the year ended 31 December 2019 (year ended 31 December 2018 – RUB 15,606) were mainly caused by the adoption of IFRS 15 and included the adjustments of the recognised under RAS revenue for transportation of oil and petroleum products at long-term (agreed) tariffs and from technological connection to the trunk pipeline system.

Adjusting items for segments' expenses net of amortisation and depreciation include the following adjustments and reclassifications caused by RAP and IFRS accounting differences:

	Year ended 31 December 2019	Year ended 31 December 2018
Intangible assets, property, plant and equipment	3,996	3,844
Reclassification of income and expenses caused by differences between management and financial accounts	(2,788)	(797)
Pension provision	(6,890)	13,926
Deferred payment obligation	836	961
Others	(254)	(246)
Total adjusting items for segment's expenses	**(5,100)**	**17,688**

Reconciliation of profit or loss from reportable segments for the reporting period:

	Year ended 31 December 2019	Year ended 31 December 2018
Total operating profit from reportable segments	**277,089**	**255,265**
Unallocated amounts:		
Other (expenses) / income	(13,622)	33,519
Share of profit from associates and jointly controlled entities	16,073	10,231
Finance income	53,942	100,930
Finance costs	(88,464)	(122,234)
Income tax expense	(47,914)	(52,298)
Profit for the reporting period	**197,104**	**225,413**