# NIZHNEKAMSKNEFTEKHIM GROUP

## International Financial Reporting Standards
## Interim Condensed Consolidated Financial Statements (unaudited) and
## Review report on the interim condensed financial statements
## for the six months ended 30 June 2018

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REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# *Report on Review of Interim Financial Statements*

To the Shareholders and Board of Directors of PAO Nizhnekamskneftekhim:

## Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PAO Nizhnekamskneftekhim and its subsidiaries (the "Group") as of 30 June 2018 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

## Scope of Review

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

## Conclusion

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

AO PricewaterhouseCoopers Audit

29 August 2018

Moscow, Russian Federation

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

Audited entity: PAO Nizhnekamskneftekhim

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

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

423574, Russian Federation, Republic of Tatarstan, Nizhnekamsk, Solobolekovskaya st., 23, office 129

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

(in millions of Russian Roubles unless otherwise stated)

## Interim Condensed Consolidated Statement of Comprehensive Income (unaudited)

| | Note | For 6 months 30 June 2018 | 2017 (restated) |
|---|---|---|---|
| Revenue | **6** | 90,164 | 83,936 |
| Cost of sales | **7** | (68,265) | (56,964) |
| **Gross profit** | | **21,899** | **26,972** |
| Selling, general and administrative expenses | **8** | (8,218) | (8,595) |
| Other operating expenses – net | **9** | (402) | (438) |
| **Operating profit** | | **13,279** | **17,939** |
| Interest income | | 274 | 473 |
| Interest expense | | (54) | (69) |
| Loss on disposal of subsidiaries | | - | (269) |
| Revaluation of financial assets at fair value through profit or loss | | (6) | - |
| Foreign exchange gain, net | | 1,238 | 350 |
| Share of profit of associates | | 66 | 11 |
| **Profit before income tax** | | **14,797** | **18,435** |
| Income tax expense | | (3,120) | (3,855) |
| **Profit** | | **11,677** | **14,580** |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Disposal of an available-for-sale financial asset | | - | (76) |
| Exchange differences on translation of foreign subdivisions to presentation currency | | 60 | 73 |
| Income tax attributable to items that may be reclassified to profit or loss | | - | 15 |
| **Total items that may be reclassified to profit or loss** | | **60** | **12** |
| *Items that will not be reclassified to profit and loss* | | | |
| Remeasurements of post-employment benefit obligations | | (108) | (171) |
| **Total items that will not be reclassified to profit or loss** | | **(108)** | **(171)** |
| **Total other comprehensive loss** | | **(48)** | **(159)** |
| **Total comprehensive income** | | **11,629** | **14,421** |
| **Profit attributable to:** | | | |
| Shareholders of the parent company | | 11,591 | 14,538 |
| Non-controlling interest | | 86 | 42 |
| **Profit** | | **11,677** | **14,580** |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the parent company | | 11,516 | 14,360 |
| Non-controlling interest | | 113 | 61 |
| **Total comprehensive income** | | **11,629** | **14,421** |
| **Basic and diluted earnings per share (in Russian roubles)** | | **6.33** | **7.94** |

(in millions of Russian Roubles unless otherwise stated)

## Interim Condensed Consolidated Statement of Financial Position (unaudited)

| | Note | 30 June 2018 | 31 December 2017 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 99,750 | 81,496 |
| Intangible assets | | 302 | 323 |
| Investments in associates | | 543 | 544 |
| Financial Assets | 11 | 1,725 | 1,768 |
| Deferred tax assets | | 692 | 586 |
| Goodwill | | 83 | 83 |
| Other non-current assets | | 1,233 | 1,366 |
| **Total non-current assets** | | **104,328** | **86,166** |
| **Current assets** | | | |
| Inventories | 12 | 23,259 | 22,082 |
| Trade and other receivables | 13 | 9,849 | 7,644 |
| Income tax prepayments | | 30 | 1,016 |
| Other prepaid and recoverable taxes | 14 | 8,137 | 7,147 |
| Other financial assets | | 7,343 | - |
| Prepayments | | 3,077 | 2,641 |
| Cash and cash equivalents | 15 | 12,969 | 24,373 |
| **Total current assets** | | **64,664** | **64,903** |
| **Total assets** | | **168,992** | **151,069** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity and reserves** | | | |
| Share capital | 16 | 6,332 | 6,332 |
| Revaluation reserve for financial assets | | - | (85) |
| Currency translation reserve | | 309 | 276 |
| Retained earnings | | 138,092 | 126,696 |
| **Total equity attributable to shareholders of the parent company** | | **144,733** | **133,219** |
| Non-controlling interest | | 791 | 697 |
| **Total equity** | | **145,524** | **133,916** |
| **Non-current liabilities** | | | |
| Long-term loans and borrowings | | - | 50 |
| Deferred income tax liabilities | | 3,105 | 3,100 |
| Other non-current liabilities | | 1,088 | 1,042 |
| **Total non-current liabilities** | | **4,193** | **4,192** |
| **Current liabilities** | | | |
| Short-term borrowings | | 543 | 472 |
| Trade and other payables | 17 | 12,167 | 6,345 |
| Advances received and accrued liabilities | | 4,484 | 5,163 |
| Income tax payable | | 149 | 7 |
| Other taxes payable | 18 | 1,915 | 951 |
| Dividends payable | | 17 | 23 |
| **Total current liabilities** | | **19,275** | **12,961** |
| **Total liabilities** | | **23,468** | **17,153** |
| **Total equity and liabilities** | | **168,992** | **151,069** |

A.Sh. Bikmurzin
General Director
29 August 2018

I.R. Yakhin
Chief Accountant



The accompanying notes 1 to 25 are an integral part of these consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

**Interim Condensed Consolidated Statement of Cash Flows (unaudited)**

| | Note | For 6 months 30 June 2018 | 2017 (restated) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Profit before income tax** | | **14,797** | **18,345** |
| **Adjustments for:** | | | |
| Depreciation expenses | **7, 8** | 2,459 | 2 488 |
| Interest income, net | | (220) | (404) |
| (Income)/expense from investments, net | | (74) | 12 |
| Loss on revaluation of financial assets to fair value | **11** | 6 | - |
| Loss on disposal of subsidiary | | - | 269 |
| (Gain)/loss on disposal of property, plant and equipment and other non-current assets | **9** | (180) | 7 |
| Foreign exchange gain, net | | (983) | (257) |
| Increase in provision for expected credit losses | **9** | 213 | 143 |
| Effect of discounting of loans issued | **11** | 101 | (58) |
| Write-down to net realisable value | **12** | 10 | - |
| **Operating profit before working capital changes** | | **16,129** | **20,635** |
| Increase in inventories | **12** | (1,187) | (3,476) |
| Increase in trade and other receivables | **13** | (2,425) | (3,394) |
| (Increase)/decrease in prepaid and recoverable taxes other than prepaid income tax | **14** | (990) | 88 |
| (Increase)/decrease in other assets | | (311) | 8,912 |
| Increase/(decrease) in trade and other payables and other liabilities | **17** | 3,501 | (2,336) |
| Decrease in advances received and accrued liabilities | | (679) | (3,774) |
| Increase/(decrease) in taxes payable other than income tax | **18** | 964 | (1,413) |
| **Changes in working capital** | | **(1,127)** | **(5,393)** |
| Interest paid | | (15) | (27) |
| Income taxes paid | | (2,093) | (2,921) |
| **Net cash from operating activities** | | **12,894** | **12,294** |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment and prepayments by construction work and purchase of equipment | | (20,152) | (5,634) |
| Purchase of intangible assets | | (75) | (48) |
| Proceeds from sale of property, plant and equipment | | 52 | 36 |
| Placement of deposits and other financial assets | | (6,678) | (138) |
| Repayment of deposits and other financial assets | | - | 214 |
| Interest income received | | 216 | 473 |
| Dividends received | | 77 | 68 |
| **Net cash used in investing activities** | | **(26,560)** | **(5,029)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from non-current loans and borrowings | | - | 50 |
| Proceeds from current loans and borrowings | | 587 | 473 |
| Repayment of non-current loans and borrowings | | (31) | (66) |
| Repayment of current loans and borrowings | | (566) | (730) |
| Financing received under recourse factoring arrangement | | 1,998 | 1,950 |
| Repayment of finance lease payables | | (31) | (41) |
| Dividends paid | | (27) | (91) |
| **Net cash used in financing activities** | | **1,930** | **1,545** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11,736)** | **8,810** |
| Cash and cash  equivalents at the beginning of the year | | 24,373 | 7,108 |
| Effect of exchange rate changes on cash held in foreign currencies | | 332 | 310 |
| **Cash and cash equivalents at the end of the year** | | **12,969** | **16,228** |



The accompanying notes 1 to 22 are an integral part of these consolidated financial statements.

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

**Interim Consolidated Statement of Changes in Equity (unaudited)**

| | Share capital | Revaluation reserve for financial assets | Currency translation reserve | Retained earnings | Equity attributable to shareholders of the parent company | Non-controlling interest | Total capital |
|---|---|---|---|---|---|---|---|
| **Balance at 01 January 2017** | **6,332** | **58** | **211** | **102,031** | **108,632** | **629** | **109,261** |
| Profit | - | - | - | 14,538 | 14,538 | 42 | 14,580 |
| Other comprehensive income less deferred tax | - | (61) | 54 | (171) | (178) | 19 | (159) |
| **Total comprehensive income** | - | **(61)** | **54** | **14,367** | **14,360** | 61 | **14,421** |
| Dividends declared | - | - | - | (1) | **(1)** | (18) | **(19)** |
| **Balance at 30 June 2017 (restated)** | **6,332** | **(3)** | **265** | **116,397** | **122,991** | **672** | **123,663** |
| **Balance at 31 December 2017** | **6,332** | **(85)** | **276** | **126,696** | **133,219** | **697** | **133,916** |
| Change in presentation due to application of IFRS 9 | - | 85 | - | (85) | | - | |
| **01 January 2018** | **6,332** | **-** | **276** | **126,611** | **133,219** | **697** | **133,916** |
| Profit | - | - | - | 11,591 | 11,591 | 86 | 11,677 |
| Other comprehensive income less deferred tax | - | - | 33 | (108) | (75) | 27 | (48) |
| **Total comprehensive income** | **-** | **-** | **33** | **11 483** | **11 516** | **113** | **11 629** |
| Dividends declared | - | - | - | (2) | (2) | (19) | (21) |
| **Balance at 30 June 2018** | **6,332** | **-** | **309** | **138,092** | **144,733** | **791** | **145,524** |



The accompanying notes 1 to 22 are an integral part of these consolidated financial statements.

## Note 1. General Information

PAO Nizhnekamskneftekhim (the "Company") was incorporated on 18 August 1993 and operates at the following address: Sobolekovskaya st., 23, office 129, Nizhnekamsk, Nizhnekamsky Municipal District, Republic of Tatarstan, Russian Federation, 423574. The principal activity of the Company and its subsidiaries (the "Group") is production and sale of petrochemicals.

Major production facilities of the Group are located in Nizhnekamsk, Republic of Tatarstan, Russian Federation. Details of the Company's subsidiaries are in Note 21.

For the 6 months ended 30 June 2018 and for the 6 months ended 30 June 2017 the average headcount of the Group was 18,922 and 20,483 employees accordingly.

## Note 2. Operating Environment of the Group

***Russian Federation.*** The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. This operating environment has a significant impact on the Group's operations and financial position.

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

Exchange rates of major foreign currencies as at 30 June 2018 were as follows: RUB 62.7565 = USD 1.00 (as at 31 December 2017: RUB 57.6002 = USD 1.00 ), as at 30 June 2018: RUB 72.9921 = EUR 1.00 (as at 31 December 2017: RUB 68.8668= EUR 1.00).

## Note 3. Basis of Presentation and Significant Accounting Policies

These interim condensed consolidated financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". These interim condensed consolidated financial statements should be read together with the Group's consolidated financial statements for the year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards (IFRS).

These unaudited interim condensed consolidated financial statements do not include sections that represent mainly duplicates of disclosures in the audited condensed financial statements for 2017. Management believes that the disclosures made in these interim condensed consolidated financial statements are sufficient and is not misleading for their users, if these interim condensed consolidated financial statements are read together with the Group's audited consolidated financial statements for 2017 and related notes thereto. The Group choose to issue condensed financial statements, and comparative data were adjusted accordingly. The Group management believes that these interim condensed consolidated financial statements and related notes thereto include standard and recurring well-known adjustments required for fair presentation of the Group's financial position, its financial performance and cash flows for the interim periods.

The Group used the same accounting policies, key accounting estimates and professional judgements in these interim condensed consolidated financial statements that are applied in the Group's audited consolidated financial statements for 2017, except for income tax expense, which is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year and accounting policies that were amended to comply with new or revised standards effective from 1 January 2018 as described below.

Certain reclassifications were made to bring figures of the prior year financial statements in conformity with the form of presentation adopted for the reporting period.

***IFRS 9 Financial Instruments (as amended in July 2014).*** The Standard has introduced new requirements as regards classification and measurement, impairment and hedge accounting. The Group uses no hedging instruments; therefore, the key changes in the accounting policies relate to the reclassification and impairment of financial instruments. The significant new accounting policies regarding financial instruments are described below:

## Note 3. Basis of Presentation and Significant Accounting Policies (continued)

***Classification of financial assets.*** Classification of financial assets for the purposes of measurement at initial recognition is driven by the Group's business model for managing these assets and characteristics of the financial assets related to contractual cash flows. The Group classifies its financial assets into the following measurement categories:

- measured at amortised cost (AC);
- measured at fair value through profit or loss (FVTPL);
- measured at fair value through other comprehensive income (FVOCI).

***Business model as a means of classifying financial instruments.*** The classification of financial assets for valuation purposes on initial recognition depends on the business model used by the Group for the purposes of managing these assets. The business model is determined by the procedures for managing financial assets to generate cash flows.

- A model for retaining financial assets to receive contractual cash flows, where financial assets are held only for the purpose of obtaining contractual cash flows, which are exclusively payments to principal and interest. These financial assets are classified as measured at amortized cost.
- A model whose purpose is achieved both by obtaining the contractual cash flows and by selling financial assets. At the same time, cash flows represent only payments to the principal and interest. Financial assets within this business model are classified as at fair value through other comprehensive income.
- In the event that a financial asset does not fall into any of the two business models described above, it is classified as held for sale and is measured at fair value through profit or loss.

***Initial recognition of financial assets.*** On initial recognition, the Group measures financial assets at fair value increased by the amount of transaction costs directly related to the acquisition of the financial instrument, excluding financial assets measured at fair value through profit or loss. When recognising financial assets at fair value through profit or loss the Group immediately expenses transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price, which can be evidenced by other observable current market transactions in the same instrument, or by a valuation technique, whose inputs include only data from observable markets.

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

The Group classifies financial assets represented by equity instruments as financial assets measured at fair value through profit or loss.

***Subsequent measurement of financial assets***

*Debt instruments.* Subsequent measurement of financial assets is driven by the Group's business model for managing these assets and characteristics of cash flows generated by these assets. For the purposes of subsequent measurement, the Group classifies its financial assets as follows:

- Financial assets that are subsequently measured at amortised cost include those financial assets that are held within a business model aimed at collecting the contractual cash flows. Interest income on financial assets is included into interest income using the effective interest rate. Gain or loss on derecognition of a financial asset is recognised directly in profit or loss and included in interest income or expense.

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

- Financial assets that are subsequently measured at fair value through other comprehensive income include financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Movements in the value of such assets should be recognised in other comprehensive income, except for recognition of impairment gains or losses, interest revenue and forex gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, gains and losses accumulated in OCI are reclassified to profit or loss and recognised within other income or loss. Interest income on such financial assets is included into interest income using the effective interest rate.
- Subsequently measured at fair value through profit or loss. Assets that do not fall under any of the business models are classified as held for trading. Profit or loss from revaluation of financial instruments subsequently measured at fair value through profit or loss is recognised in profit or loss and presented on a net basis within other income or expenses in the period when they arise.

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 3. Basis of Presentation and Significant Accounting Policies (continued)

***Equity instruments.*** After initial recognition, the Group measures all equity instruments at fair value. The securities held by the Group that are traded in an active market are measured at fair value. Investments in unlisted shares that do not have a quoted market price in an active market are recorded at fair value determined based on the approach used for equity method assessments, with adjustments as required. Changes in the fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss in certain circumstances.

***Impairment of financial assets***

*Debt instruments.* Beginning on or after 1 January 2018, the Group assesses expected credit losses related to its debt instruments measured at either amortised cost or fair value through other comprehensive income.

For its trade receivables, the Group applies a simplified approach to assess expected credit losses, which provides for accrual of loss provision equal to the instrument's lifetime expected credit losses. The Group applies a simplified provision matrix for calculating expected credit losses as a practical expedient for trade receivables.

For other financial assets, the Group applies valuation techniques based on the assessment of significant change in credit risk. Impairment losses are recognised in other expenses in the consolidated interim condensed statement of profit or loss.

*Equity instruments.* Changes in the fair value of equity instruments measured at fair value through profit or loss are recognised in other income/expenses in the consolidated interim condensed statement of profit or loss.

***Classification and subsequent measurement of financial liabilities: measurement categories.*** Financial liabilities are classified as subsequently measured at amortised cost.

***Impact of the adoption of IFRS 9 "Financial Instruments" on the Group's consolidated financial statements*** The Group has not applied the retrospective approach on transition to IFRS 9 and, in line with transition provisions of IFRS 9, the Group has not restated the comparative data.

*Reclassification of financial assets and liabilities.* As of 1 January 2018, at the date of adoption of IFRS 9 "Financial Instruments" the Group's management considered business models applicable to the existing financial assets and reclassified financial assets and liabilities to the appropriate categories under IFRS 9 "Financial Instruments".

Investments in equity securities are reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss as the Group's management expects to sell them in the short- or mid-term period if there is an attractive commercial proposal/ favourable environment in the securities market. Loss from revaluation of fair value of shares, which is accumulated in the revaluation reserve for available-for-sale financial assets for RUB 85 million as of 1 January 2018, is transferred to undistributed earnings as of 1 January 2018.

Subsequent revaluations of post-reclassification of fair values of shares are recognised in profit or loss in line "Profit/loss from revaluation of fair value of investments".

| | **Available-for-sale financial assets / Financial assets at fair value through other comprehensive income** | **Financial assets at fair value through profit or loss** | **Total** |
|---|---|---|---|
| **At 31 December 2017 – IAS 39** | **1,242** | **-** | **1,242** |
| Reclassification of financial assets available for sale to financial assets at fair value through profit or loss | (1,242) | 1,242 | - |
| **At 1 January 2018 – IFRS 9** | **-** | **1,242** | **1,242** |

Adoption of IFRS 9 "Financial Instruments" also influenced the classification of trade and other receivables. Trade and other receivables from factoring agreements are measured at fair value through other comprehensive income or at fair value through profit or loss, depending on the applicable business model for managing financial assets. Trade and other receivables, with the exception of debt financed under the terms of factoring agreements, are measured at amortized cost. There are no changes in the measurement of cash and cash equivalents, short-term financial assets, loans originated, trade and other payables, long-term and short-term loans and borrowings, and these financial instruments continue to be carried at amortised cost.

*Impairment of financial assets.* For financial assets recognised on or after 1 January 2018, the Group assessed the financial instrument's lifetime expected credit losses for cash and cash equivalents, trade and other receivables and short-term financial assets as their lifetime is less than 12 months.

## Note 3. Basis of Presentation and Significant Accounting Policies (continued)

The expected credit losses as of 1 January 2018 are insignificantly different from the recognised provisions in the consolidated financial statements as of 31 December 2017; therefore, the opening retained earnings were not restated as of 1 January 2018.

***IFRS 15 Revenue from Contracts with Customers (as amended in April 2016)*** In line with the core principles set out in the standard, the Group amended its accounting policies concerning the recognition of revenue from sales of goods and services.

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal.

The Group's operations include sales of petrochemicals in the domestic and international markets. Starting from 1 January 2018, revenue from sales of goods and services is recognised when the performance obligation is satisfied, i.e. when the control over the goods and services is transferred to the customer. For determining the point of time when the customer obtains control over the promised asset, the Group assesses indicators, which include, inter alia, the following ones:

- The Group has a present right to payment for the goods;
- The customer holds the legal title for these goods and has physical possession of such goods;
- The customer has significant risks and rewards of ownership of the goods;
- The customer has accepted the goods.

Management applies judgement to determine whether available factors collectively indicate that control of goods has been transferred to the customer.

If the Group assumes an obligation to transport the goods to a specific point (typically under the contracts based on Incoterms 2010 – CPT), revenue is split into two performance obligations, i.e. sales of goods and rendering of services to transport them. Revenue from sales of goods is recognised at the point of time when control is transferred to the customer, normally, when the goods are shipped and related risks, rewards and legal title are transferred. Revenue from rendering of transportation services is recognised over time as the transportation service is provided to the customer. Revenue is included in line item revenue "Rendering of services, performance of works".

***Impact of the adoption of IFRS 15 "Revenue from Contracts with Customers" on the Group's interim condensed consolidated financial statements***. In accordance with the transition provisions of IFRS 15, the Group chose a modified retrospective transition method, where the impact of the transition to the new standard is recognised as of 1 January 2018. The Group applied the practical expedient available for simplified transition method. Adoption of IFRS 15 had no significant impact on the Group's financial position and results of operations, except for the requirement to disclose more detailed information on revenue, including recognition of transportation services as a separate performance obligation, reclassification of transportation expenses related to the contracts based on Incoterms 2010 CPT from Selling, General and Administrative expenses to Cost of Sales as well as disaggregation of revenue by geographical area. Therefore comparative information and opening equity as of 1 January 2018 were not restated.

## Note 4. New Accounting Pronouncements

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 10 and IAS 28 (issued September 11, 2014 and effective for annual periods beginning after the date specified by the International Accounting Standards Board).

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 4. New Accounting Pronouncements (continued)

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted. The full list of such standards, interpretations and amendments to standards was disclosed in the consolidated financial statements as of and for the year ended 31 December 2017. No additional new standards, amendments and interpretations to existing standards have been issued since the Group published its last annual consolidated financial statements, except for amendments to the Conceptual Framework for Financial Reporting.

## Note 5. Changes in Comparative Information

During the year the Group made adjustments to the comparative information in the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position and the interim condensed consolidated statement of cash flows. In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the adjustment was made retrospectively and comparative information was changed accordingly.

The adjustment was made due to insufficient analysis of the established tax law practice that resulted in the recognition of an overstated estimated liability that was recovered in the second half of the year due to recipiency of new information.

The adjustment had the following effect on the presentation of the interim consolidated statement of the financial position as at 30 June 2017.

| | As originally presented at 30 June 2017 | Adjustment | As adjusted at 30 June 2017 |
|---|---|---|---|
| Retained earnings | (115,587) | (810) | (116,397) |
| Total equity | (122,853) | (810) | (123,663) |
| Income tax payable | (891) | 407 | (484) |
| Taxes payable other than income tax | (2,037) | 403 | (1,634) |
| Total current liabilities | (13,852) | 810 | (13,042) |
| Total liabilities | (18,080) | 810 | (17,270) |
| Total equity and liabilities | (140,933) | 810 | (140,123) |

The adjustment had the following effect on the interim condensed consolidated statement of comprehensive income for the 6 months of 2017:

| | As originally presented for 6 months 2017 | Adjustment | As adjusted for 6 months 2017 |
|---|---|---|---|
| Other operating expenses, net | (1,248) | 810 | (438) |
| Operating profit | 17,129 | 810 | 17,939 |
| Profit before income tax | 17,625 | 810 | 18,435 |
| Profit | 13,770 | 810 | 14,580 |
| Total comprehensive income | 13,611 | 810 | 14,421 |
| Profit income attributable to shareholders of the parent company | 13,728 | 810 | 14,538 |
| Total comprehensive income attributable to shareholders of the parent company | 13,550 | 810 | 14,360 |
| Basic and diluted earnings per share (in Russian roubles) | 7.50 | 0.44 | 7.94 |

The adjustment had the following effect on the interim condensed consolidated statement of cash flows for the 6 months of 2017:

| | As originally presented for 6 months 2017 | Adjustment | As adjusted for 6 months 2017 |
|---|---|---|---|
| Profit before income tax | 17,625 | 810 | 18,435 |
| Decrease in taxes payable other than income tax | (1,010) | (403) | (1,413) |
| Income taxes paid | (2,514) | (407) | (2,921) |

Corresponding adjustments were made in the interim condensed consolidated statement of changes in equity for the 6 months of 2017.

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 5. Changes in Comparative Information (continued)

Another adjustment were made due to change in presenting a recourse option of the factoring arrangement.

The effect of adjustment for consolidated interim statement of financial position was as follows on amounts at 31 December 2017:

| | As originally presented at 31 December 2017 | Adjustment | As adjusted at 31 December 2017 |
|---|---|---|---|
| Trade and other receivables | 6,109 | 1,535 | 7,644 |
| Total current assets | 63,368 | 1,535 | 64,903 |
| Total assets | 149,534 | 1,535 | 151,069 |
| Trade and other payables | (4,810) | (1,535) | (6,345) |
| Total current liabilities | (11,426) | (1,535) | (12,961) |
| Total liabilities | (15,618) | (1,535) | (17,153) |
| Total equity and liabilities | (149,534) | (1,535) | (151,069) |

The effect of adjustment for consolidated interim statement of financial position was as follows on amounts at 30 June 2017:

| | As originally presented at 30 June 2017 | Adjustment | As adjusted at 30 June 2017 |
|---|---|---|---|
| Trade and other receivables | 9 540 | 1,981 | 11,521 |
| Total current assets | 61,426 | 1,981 | 63,407 |
| Total assets | 140,933 | 1,981 | 142,914 |
| Trade and other payables | (5,881) | (1,981) | (7,862) |
| Total current liabilities | (13,852) | (1,981) | (15,833) |
| Total liabilities | (18,080) | (1,981) | (20,061) |
| Total equity and liabilities | (140,933) | (1,981) | (142,914) |

The effect of adjustment for consolidated interim statement of cash flows was as follows for 6 months 2017:

| | As originally presented for 6 months 2017 | Adjustment | As adjusted for 6 months 2017 |
|---|---|---|---|
| Increase/(decrease) in trade and other payables and other liabilities | (832) | (1,504) | (2,336) |
| Increase in trade and other receivables | (2,948) | (446) | (3,394) |
| Changes in working capital | (3,040) | (1,950) | (4,990) |
| Net cash from operating activities | 14,244 | (1,950) | 12,294 |
| Financing received under recourse factoring arrangement | - | 1,950 | 1,950 |
| Net cash used in financing activities | (405) | 1,950 | 1,545 |

The effect of the adjustment of Note 13 “Trade and other receivables”, Note 17 “Trade and other payables” was as follows on amounts at 31 December 2017:

| | As originally presented at 31 December 2017 | Adjustment | As adjusted at 31 December 2017 |
|---|---|---|---|
| Financial accounts payable under recourse factoring arrangement | - | 1,535 | 1,535 |
| Financial accounts payable under recourse factoring arrangement | - | (1,535) | (1,535) |

The effect of the adjustment of Note 13 “Trade and other receivables”, Note 17 “Trade and other payables” was as follows on amounts at 30 June 2017:

| | As originally presented at 30 June 2017 | Adjustment | As adjusted at 30 June 2017 |
|---|---|---|---|
| Financial accounts payable under recourse factoring arrangement | - | 1,981 | 1,981 |
| Financial accounts payable under recourse factoring arrangement | - | (1,981) | (1,981) |

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 6. Revenue

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

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Sales | 87,154 | 82,266 |
| Services provision, work performance | 2,989 | 1,641 |
| Other | 21 | 29 |
| **Total** | **90,164** | **83,936** |

Revenues by sales market are presented as follows:

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Sales within the Russian Federation | 43,885 | 38,770 |
| Export sales (revenue amounts to more than 10% of the total revenue): | | |
| Europe | 25,879 | 26,650 |
| Asia | 9,657 | 9,496 |
| Other | 7,733 | 7,350 |
| **Total** | **87,154** | **82,266** |

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

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Major 18 customers (2017: 16 customers) | 47,261 | 46,888 |
| Other customers | 42,903 | 37,048 |
| **Total** | **90,164** | **83,936** |

## Note 7. Cost of Sales

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Raw materials and consumables | 47,124 | 38,518 |
| Energy and heating | 11,368 | 10,762 |
| Personnel costs | 5,634 | 5,411 |
| Depreciation | 2,099 | 2,167 |
| Transportation expenses | 1,754 | 120 |
| Repairs and maintenance | 299 | 404 |
| Purchased services | 265 | 223 |
| Other expenses | 135 | 98 |
| Rent expenses | 46 | 225 |
| Changes in inventories of finished goods, goods dispatched and work in progress | (459) | (964) |
| **Total** | **68,265** | **56,964** |

In connection with changes in the Russian tax legislation and reduced custom duties on oil and certain types of oil products which resulted in the growth of feedstock prices for entities involved in the feedstock further processing, and introduction of excise taxes for a number of petrochemical products, the Russian Government developed a compensation mechanism for these entities represented by a mark-up factor applied to excise amounts in accordance with paras 15 and 20, Article 200 of the Russian Tax Code. Thus, the line “Feedstock and Other Consumables” includes excise recovered from the budget in the amount of RUB 10,017 million for 6 months ended 2018 (6 months 2017: RUB 8,471 million) as a partial compensation of the growing feedstock costs.

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 8. Selling, General and Administrative Expenses

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Personnel costs | 2,366 | 2,300 |
| Advertising and other services | 1,561 | 1,019 |
| Transportation expenses | 1,406 | 2,634 |
| Taxes other than on income | 738 | 698 |
| Materials | 603 | 572 |
| Depreciation | 360 | 321 |
| Repairs and maintenance | 348 | 249 |
| Insurance | 200 | 204 |
| Energy and heating | 99 | 91 |
| Rent expenses | 88 | 88 |
| Other expenses | 449 | 419 |
| **Total** | **8,218** | **8,595** |

## Note 9. Other Operating Expenses, Net

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Maintenance of social infrastructure and charity | 548 | 551 |
| (Gain)/loss on disposal of other assets | (18) | 13 |
| (Gain)/loss on disposal of property, plant and equipment | (166) | 7 |
| Increase in provision for expected credit losses | 213 | 143 |
| (Income)/expenses from financial investments | (9) | 1 |
| Other income, net | (166) | (277) |
| **Total** | **402** | **438** |

## Note 10. Property, Plant and Equipment

| | Land, buildings, facilities and transmission devices | Machinery and equipment | Motor vehicles and other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| **Carrying amount at 31 December 2017** | **28,186** | **16,693** | **5,735** | **30,882** | **81,496** |
| **Cost balance at 31 December 2017** | **63,243** | **68,002** | **8,397** | **30,898** | **170,540** |
| Additions | 9 | 4 | - | 20,657 | 20,670 |
| Transfers from assets under construction | 8,695 | 7,090 | 45 | (15,830) | - |
| Disposals | (1) | (210) | (8) | (22) | (241) |
| **Cost balance at 30 June 2018** | **71,946** | **74,886** | **8,434** | **35,703** | **190,969** |
| **Accumulated depreciation and impairment at 31 December 2017** | **(35,057)** | **(51,309)** | **(2,662)** | **(16)** | **(89,044)** |
| Accrued for the period | (619) | (1,482) | (264) | - | (2,365) |
| Written-off on disposal | 2 | 173 | 15 | - | 190 |
| **Accumulated depreciation and impairment at 30 June 2018** | **(35,674)** | **(52,618)** | **(2,911)** | **(16)** | **(91,219)** |
| **Carrying amount at 30 June 2018** | **36,272** | **22,268** | **5,523** | **35,687** | **99,750** |

At 30 June 2018, construction in progress included prepayments by construction work and purchase of equipment in the amount of RUB 14 901 million (at 31 December 2017: RUB 1 520 million).

At 30 June 2018, property, plant and equipment included assets with a carrying amount of RUB 104 million (at 31 December 2017: RUB 113 million), received under finance lease contracts.

At 30 June 2018, the carrying amount of land included in “Land, buildings, facilities and transmission devices” was RUB 571 million (at 31 December 2017: RUB 571 million).

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 10. Property, Plant and Equipment (continued)

At 30 June 2018, included in the original cost of property, plant and equipment are fully depreciated assets which are still in service in the amount of RUB 44,421 million (at 31 December 2017: RUB 44,672 million).

The Group's property, plant and equipment with a carrying value of RUB 560 million (at 31 December 2017: RUB 1,084 million) have been pledged as security for non-current and current borrowings.

Management analysed the financial performance for the six months ended 30 June 2018 and believes that there is no need to revise assessments of PP&E and goodwill impairment as at 31 December 2017.

## Note 11. Financial Assets

| | Level of fair value hierarchy | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **Non-current** | | | |
| **Financial assets at fair value** | | | |
| Equity securities | 3 | 1,226 | 1,242 |
| | | | |
| **Financial assets carried at amortised cost** | | | |
| Loans issued | 2 | 499 | 526 |
| **Total** | | **1,725** | **1,768** |
| | | | |
| **Current** | | | |
| **Financial assets carried at amortised cost** | | | |
| Deposits (more than 3 months) | 2 | 7 343 | - |
| **Total** | | **7,343** | **-** |

At 30 June 2018, the loans issued at amortised cost are presented net of impairment provision for the loan issued to an associate in the amount of RUB 406 million (at 31 December 2017: RUB 410 million). At 30 June 2018 provision for investments in equity securities amounted to RUB 17 million (31 December 2016: RUB 17 million).

Non-current equity securities include shares of the following companies:

| | Ownership interest, % | | | | |
|---|---|---|---|---|---|
| | 30 June 2018 | 31 December 2017 | Level of fair value hierarchy | 30 June 2018 | 31 December 2017 |
| PAO AK Bars Bank | 1.46% | 1.46% | 3 | 554 | 614 |
| OAO Tatneftekhiminvest-holding | 6.98% | 6.98% | 3 | 641 | 592 |
| Other | - | - | 3 | 31 | 36 |
| **Total** | - | - | **-** | **1,226** | **1,242** |

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

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Carrying amount at the beginning of the period** | **1,242** | **1,421** |
| Revaluation reported in the statement of comprehensive income | (6) | - |
| Revaluation reported in other comprehensive income | - | (87) |
| Disposals | (10) | - |
| Disposal of revaluation due to changes in ownership interest | - | (92) |
| **Carrying amount at the end of the period** | **1,226** | **1,242** |

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 12. Inventories

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Inventories and supplies | 13,977 | 13,259 |
| Work in progress | 4,115 | 3,664 |
| Finished products | 3,054 | 3,245 |
| Goods dispatched | 2,113 | 1,914 |
| **Total** | **23,259** | **22,082** |

At 30 June 2018, inventories amounting to RUB 467 million have been pledged as a security for bank credits and loans received by the Group (at 31 December 2017: RUB 315 million). Major part of such loans and borrowings is represented by loans received by a trading company of the Group to finance its ordinary activities.

## Note 13. Trade and Other Receivables

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables | 8,385 | 6,270 |
| Trade receivables under recourse factoring arrangement | 1,854 | 1,535 |
| Other receivables | 232 | 256 |
| Provision for expected credit losses | (622) | (417) |
| **Total** | **9,849** | **7,644** |

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

Movements in impairment provision for expected credit losses are shown below:

| | For 6 months ended 30 June | |
|---|---|---|
| | 2018 | 2017 |
| **Balance at the beginning of the period** | **417** | **377** |
| Increase in provision for expected credit losses | 264 | 59 |
| Release of provision for expected credit losses | (52) | (33) |
| Amounts written off as uncollectible | (7) | - |
| **Balance at the end of the period** | **622** | **403** |

## Note 14. Other Prepaid and Recoverable Taxes

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Value added tax recoverable | 5,374 | 4,961 |
| Excise tax recoverable | 2,758 | 2,168 |
| Other taxes prepaid | 5 | 18 |
| **Total** | **8,137** | **7,147** |

## Note 15. Cash and Cash Equivalents

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Current accounts | | |
| - in Roubles | 7,451 | 4,743 |
| - in foreign currency | 5,408 | 19,511 |
| Deposits | | |
| - in RUB | 108 | 117 |
| Other cash and cash equivalents | 2 | 2 |
| **Total** | **12,969** | **24,373** |

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 16. Shareholders' Equity and Earnings per Share

At 30 June 2018, the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary registered shares (31 December 2017: 1,611,256,000 ordinary registered shares) and 218,983,750 preferred registered shares (31 December 2017: 218,983,750 preferred registered shares) at the nominal value of 1 Russian rouble per share.

At 30 June 2018 the Company has authorised share capital comprised of 27,400,000,000 declared ordinary registered shares (at 31 December 2017: 27,400,000,000 shares) and 218,983,750 declared preferred registered shares (at 31 December 2017: 218,983,750 shares) with par value of RUB 1 each.

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

The Company is controlled by OAO TAIF through OOO Telecom-Management. As at 30 June 2018, there are no other shareholders that own 20% plus in the Company.

**Earnings per Share**

| | For 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Profit attributable to the shareholders of the parent company, RUB million | 11,591 | 14,538 |
| Weighted average number of participating shares | 1,830,239,750 | 1,830,239,750 |
| **Earnings per participating share (net and diluted earnings per share)(Russian roubles per share)** | **6.33** | **7.94** |

The statutory accounting reports of the Company are the basis for profit distribution. The Russian legislation identifies net income as the basis for distribution. The net statutory profit of the Company as reported in the published statutory financial statements of the Company for the six months of 2018 was RUB 11,627 million (for the six months of 2017: RUB 14,421 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

On 11 May 2018, the Board of Directors made recommendations to the Annual General Shareholders' Meeting of PAO Nizhnekamskneftekhim not to declare or pay dividends on PAO Nizhnekamskneftekhim's shares based on the 2017 performance. This decision was approved at the Annual General Shareholders' Meeting on 20 June 2018.

## Note 17. Trade and Other Payables

| | **30 June 2018** | **30 December 2017** |
|---|---|---|
| Trade payables | 10,095 | 4,640 |
| Financial payables under recourse factoring arrangement | 1,854 | 1,535 |
| Other payables | 201 | 129 |
| Current finance lease payables | 17 | 41 |
| **Total** | **12,167** | **6,345** |

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

## Note 18. Taxes Payable Other Than Income Tax

| | **30 June 2018** | **31 December 2017** |
|---|---|---|
| Value-added tax | 1,157 | 406 |
| Property tax | 232 | 191 |
| SIC | 287 | 115 |
| Land tax | 124 | 124 |
| Other taxes | 115 | 115 |
| **Total** | **1,915** | **951** |

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## Note 19. Related Party Transactions

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

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

| | Revenue | Purchases of materials and services | Purchases of property, plant and equipment | Other expenses/ (income) | Changes in provision for doubtful debts and loans issued |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| **PAO Nizhnekamskneftekhim** | | | | | |
| - shareholders | - | 20 | - | - | - |
| - associates | 462 | 13 | - | 216 | (209) |
| - other related parties | 4,550 | 40,445 | 264 | 1 | (1) |
| **Subsidiaries** | | | | | |
| - shareholders | - | - | - | - | - |
| - associates | - | - | - | - | - |
| - other related parties | 228 | 96 | - | 1 | - |
| **Total** | **5,240** | **40,574** | **264** | **218** | **(210)** |
| **30 June 2017** | | | | | |
| **PAO Nizhnekamskneftekhim** | | | | | |
| - shareholders | - | 23 | - | - | - |
| - associates | 201 | 13 | - | (1) | (7) |
| - other related parties | 3,343 | 27,345 | 168 | 8 | - |
| **Subsidiaries** | | | | | |
| - shareholders | - | - | - | - | - |
| - associates | - | - | - | - | - |
| - other related parties | 262 | 79 | - | - | - |
| **Total** | **3,806** | **27,460** | **168** | **7** | **(7)** |

| | Loans Issued | Trade and other receivables and prepayments | Provision for doubtful debts and loans issued | Trade and other payables and advances received |
|---|---|---|---|---|
| **30 June 2018** | | | | |
| **PAO Nizhnekamskneftekhim** | | | | |
| - shareholders | - | - | - | 4 |
| - associates | 406 | 427 | (817) | 35 |
| - other related parties | - | 478 | (1) | 6,013 |
| **Subsidiaries** | | | | |
| - shareholders | - | - | - | - |
| - associates | - | - | - | - |
| - other related parties | - | 29 | - | 3 |
| **Total** | **406** | **934** | **(818)** | **6,055** |
| **31 December 2017** | | | | |
| **PAO Nizhnekamskneftekhim** | | | | |
| - shareholders | - | - | - | 4 |
| - associates | 410 | 198 | (607) | 32 |
| - other related parties | - | 315 | - | 799 |
| **Subsidiaries** | | | | |
| - shareholders | - | - | - | - |
| - associates | - | - | - | - |
| - other related parties | - | 28 | - | 2 |
| **Total** | **410** | **541** | **(607)** | **837** |

At 30 June 2018 and 31 December 2017, the Group has outstanding commitments on purchase or supply of goods or services to the companies under common control which determine the volumes of purchases and supplies in subsequent periods. As the prices are not fixed in the above agreements but linked to international quotations, these commitments are not subject to monetary estimation.

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## Note 19. Related Party Transactions (continued)

**Transactions with Russian government entities and state companies**

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

The following transactions account for major part of the Group's transactions with these entities in 2018 and 2017:

| | 6 months ended 30 June | |
|---|---|---|
| | **2018** | **2017** |
| Purchase of materials and services | 11,706 | 6,221 |
| Revenue | 5,419 | 4,872 |
| Other expenses, net | 406 | 350 |
| Movements in property, plant and equipment and other non-current assets | 63 | 156 |

Balances on the above transactions are as follows:

| | **30 June 2018** | **31 December 2017** |
|---|---|---|
| Receivables and advances paid | 710 | 1 620 |
| Provision for impairment of receivables | (110) | (110) |
| Cash and cash equivalents | - | 3 |
| Accounts payable | 2,505 | 1,622 |
| Advances received | 30 | 55 |
| Loans and borrowings received | 76 | 75 |

**Directors' compensation**

The remuneration paid to key management personnel for the six months ended 30 June 2018 in the form of salaries and other employee benefits (inclusive of insurance contributions) amounted to RUB 145 million (for 2017: RUB 224 million).

## Note 20. Segment Information

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

- business activities of companies;
- product nature.

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

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

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

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

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 20. Segment Information (Continued)

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

The Group’s financial performance by operating segments for the six months ended 30 June 2018:

| | **Production and sales of petrochemicals** | **Petrochemicals trading** | **All other segments** | **Total** |
|---|---|---|---|---|
| ***Revenue*** | | | | |
| External sales | 84,901 | 3,775 | 1,557 | 90,233 |
| Inter-segmental sales | 2,603 | - | 2,348 | 4,951 |
| **Total revenue** | **87,504** | **3,775** | **3,905** | **95,184** |
| ***Result*** | | | | |
| Gross profit | 21,753 | 318 | 786 | 22,857 |
| Profit from sales | 13,556 | 243 | 177 | 13,976 |
| Foreign exchange gains, net | 1,244 | (6) | - | 1,238 |
| Interest income | 206 | 24 | 11 | 241 |
| Interest expense | - | (41) | (5) | (46) |
| Dividend income | 201 | - | - | 201 |
| Income tax expense | (3,146) | (45) | (30) | (3,221) |
| Net profit | 11,627 | 180 | 28 | 11,835 |
| ***Other information*** | | | | |
| Depreciation | (2,509) | - | (145) | (2,654) |

The Group’s financial performance by operating segments for the six months ended 30 June 2017:

| | **Production and sales of petrochemicals** | **Petrochemicals trading** | **All other segments** | **Total** |
|---|---|---|---|---|
| ***Revenue*** | | | | |
| External sales | 78,695 | 3,991 | 1,272 | 83,958 |
| Inter-segmental sales | 2,267 | - | 2,484 | 4,751 |
| **Total revenue** | **80,962** | **3,991** | **3,756** | **88,709** |
| ***Result*** | | | | |
| Gross profit | 25,702 | 141 | 661 | 26,504 |
| Profit/(loss) from sales | 18,238 | 87 | 60 | 18,385 |
| Foreign exchange gains/(losses), net | 336 | 14 | - | 350 |
| Interest income | 467 | 22 | 7 | 496 |
| Interest expense | - | (23) | (14) | (37) |
| Dividend income | 172 | - | - | 172 |
| Income tax expense | (3,671) | (17) | (34) | (3,722) |
| Net profit/(loss) | 14 421 | 69 | 42 | 14 532 |
| ***Other information*** | | | | |
| Depreciation | (2,438) | - | (160) | (2,598) |

Reportable segment revenues for the six months ended 30 June 2018 are reconciled to the Group’s consolidated revenue as follows:

| | **Production and sales of petrochemicals** | **Petrochemicals trading** | **All other segments** | **Total** |
|---|---|---|---|---|
| **Revenue** | 87,504 | 3,775 | 3,905 | 95,184 |
| Intercompany transactions | (2,603) | - | (2,348) | (4,951) |
| Other adjustments | (69) | - | - | (69) |
| **Revenue, IFRS** | **84,832** | **3,775** | **1,557** | **90,164** |

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 20. Segment Information (continued)

Reportable segment revenues for the six months ended 30 June 2017 are reconciled to the Group's consolidated revenue as follows:

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Revenue** | **80,962** | **3,991** | **3,756** | **88,709** |
| Intercompany transactions | (2,267) | - | (2,484) | (4,751) |
| Other adjustments | (22) | - | - | (22) |
| **Revenue, IFRS** | **78,673** | **3,991** | **1,272** | **83,936** |

Reportable segment capital expenditure for the six months ended 30 June 2018 is reconciled to the Group's consolidated capital expenditure as follows:

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Capital expenditure, segments** | **20,542** | **-** | **72** | **20,614** |
| Reclassification of advances paid for assets under construction | 14,901 | - | - | 14,901 |
| Other adjustments | 230 | - | (58) | 172 |
| **Capital expenditure, IFRS** | **35,673** | **-** | **14** | **35,687** |

Other adjustments are related to timing differences in the dates of recognition of certain assets in RSA and IFRS (Notes 9).

Reportable segment capital expenditure for the six months ended 30 June 2017 is reconciled to the Group's consolidated capital expenditure as follows:

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Capital expenditure, segments** | **24,775** | **-** | **63** | **24,838** |
| Reclassification of advances paid for assets under construction | 1,420 | - | - | 1,420 |
| Other adjustments | (43) | - | (66) | (109) |
| **Capital expenditure, IFRS** | **26,152** | **-** | **(3)** | **26,149** |

Reportable segment operating profit for the six months ended 30 June 2018 is reconciled to the Group's consolidated operating profit as follows:

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Profit/(loss) from sales** | **13,556** | **243** | **117** | **13,976** |
| Reclassification of other income/ (expenses) | (224) | (9) | (168) | (401) |
| Differences in IFRS and RSA depreciation | 167 | - | 29 | 196 |
| Differences in RSA and IFRS provisions | (10) | - | - | (10) |
| Other adjustments | (506) | 9 | 15 | (482) |
| **Operating profit/(loss), IFRS** | **12,983** | **243** | **53** | **13,279** |

Reportable segment operating profit for the year ended 30 June 2017 is reconciled to the Group's consolidated operating profit as follows:

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 20. Segment Information (continued)

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Profit/(loss) from sales** | **18,238** | **87** | **60** | **18,385** |
| Reclassification of other income/ (expenses) | (941) | (1) | 504 | (438) |
| Differences in IFRS and RSA depreciation | 65 | - | 45 | 110 |
| Other adjustments | (187) | - | 69 | (118) |
| **Operating profit/(loss), IFRS** | **17,175** | **86** | **678** | **17,939** |

Reportable segment net profit  for the sixmonths ended 30 June 2018 is reconciled to the Group's consolidated net profit as follows:

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Net profit** | **11 627** | **180** | **28** | **11 835** |
| Reversal of RSA deferred tax | 97 | - | 26 | 123 |
| Differences in RSA and IFRS depreciation | 167 | - | 29 | 196 |
| Differences in RSA and IFRS provisions | (213) | - | (6) | (219) |
| Other adjustments | (85) | (79) | (180) | (344) |
| **Net profit, IFRS** | **11 593** | **101** | **(103)** | **11 591** |

Reportable segment net profit  for the six months ended 30 June 2017 is reconciled to the Group's consolidated net profit as follows:

| | Production and sales of petrochemicals | Petrochemicals trading | All other segments | Total |
|---|---|---|---|---|
| **Net profit/(loss)** | **14 421** | **69** | **42** | **14 532** |
| Reversal of RSA deferred tax | 143 | - | (17) | 126 |
| Differences in RSA and IFRS depreciation | 65 | - | 45 | 110 |
| Differences in RSA and IFRS provisions | (123) | - | (20) | (143) |
| Other adjustments | (632) | (30) | 575 | (87) |
| **Net profit, IFRS** | **13 874** | **39** | **625** | **14 538** |

## Note 21. Principal Subsidiaries

| | | Percentage of voting interest held | |
|---|---|---|---|
| **Subsidiary** | **Business activity** | **30 June 2018** | **31 December 2017** |
| OOO Trest TSNKhRS | General equipment repairs and construction | 100.0% | 100.0% |
| OOO RMZ-NKNK | Repairs and maintenance | 100.0% | 100.0% |
| OOO Nizhnekamskneftekhim–Service | Lease and management of non-residential property (own or leased) | 100.0% | 100.0% |
| OOO UOP Neftehim | Food supplies and catering | 100.0% | 100.0% |
| AO Polymatiz | Production of non-woven textile materials | 100.0% | 100.0% |
| OOO UETP-NKNK | Transportation of gas and derivative products via pipelines | 100.0% | 100.0% |
| OOO Upravleniye Avtomobilnogo Transporta – NKNK | Road freight transport activity | 100.0% | 100.0% |
| OOO Neftekhimik Hockey Club | Other sports activities | 100.0% | 100.0% |
| OOO Kataliz-Prom | Petrochemicals production | 100.0% | 100.0% |
| AO SOV-NKNK | Water purification | 67.3% | 67.3% |
| OY Nizhex Scandinavia Ltd | Petrochemicals trading | 56.3% | 56.3% |

for the six months ended 30 June 2018 (in millions of Russian Roubles unless otherwise stated)

## Note 21. Principal Subsidiaries (continued)

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

## Note 22. Fair Value of Financial Instruments

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

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

The results of the fair value assessment are analyzed and distributed at the levels of the fair value hierarchy as follows: Level 1 refers to quoted prices (not adjusted) in active markets for identical assets or liabilities, Level 2 are those obtained using valuation techniques in which all significant initial data are observable for an asset or liability directly (eg, prices) or indirectly (eg, price derivatives), and Level 3 estimates that are estimates are not the basis on observable market data. If the observable data are used in estimating fair value, which require significant adjustments, then it refers to Level 3.

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

***Financial instruments carried at fair value.*** Securities available for sale and held for sale are recorded in the consolidated statement of financial position at their fair value and included in level 3 of the fair value hierarchy (Note 11). Trade receivables under recourse factoring arrangement are recorded at fair value through profit or loss or at fair value through other comprehensive income and included in level 3 of the fair value hierarchy (Notes 13,17).

***Financial assets recognised at amortised cost.*** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The carrying amount of trade receivables and loans issued approximates their fair values and belongs to level 2 of the fair value hierarchy, and impaired receivables belong to level 3 of the fair value hierarchy (Notes 11).

***Liabilities carried at amortised cost.*** The carrying amount of trade payables approximates their fair values and belongs to level 2 of the fair value hierarchy (Note 17). The fair value of loans and borrowings received and financial payables under recourse factoring arrangement with a recourse are allocated to level 2 in the hierarchy of fair value.

## Note 23. Commitments

### Investment commitments

Contractual commitments for future acquisition of property, plant and equipment amounted to RUB 86,767 million as at 30 June 2018 (31 December 2017: RUB 5,575 million). The Group is planning to finance its capital commitments using the Group's own funds and borrowings.

### Operating lease commitments

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

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Within one year | 154 | 164 |
| One to five years | 399 | 363 |
| Over five years | 1,423 | 1,386 |
| **Total** | **1,976** | **1,913** |

## Note 23. Commitments (continued)

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

**Social commitments**

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

**Letters of credit**

At 30 June 2018, the Group has unsecured uncovered letters of credit for RUB 166 million (31 December 2017: RUB 445 million).

## Note 24. Contingent Liabilities

**Litigation**

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

In 2017, the Company was involved in legal proceedings with the Russian Central Bank to invalidate the agreements entered into by the Company with third parties in 2016 on debt assignment under loan agreements with PAO Tatfondbank for the total amount of RUB 4,000 million and to enforce implications of invalidated transactions. The Arbitrazh Court of the Republic of Tatarstan by its decision dated 11 August 2017 satisfied the claims, and the rulings issued by the appellate court upheld the court’s decision. The court orders were appealed in the cassation court. The Ruling of the Arbitrazh Court of the Volga Region as of 27.03.2018 revoked the Ruling of the appellate court and the cases were sent to the appellate court for a reconsideration.

As at the signing date of the financial statements the Group does not recognise its liabilities under loan agreements with PAO Tatfondbank, including interest. At the issue date of the financial statements the Company assesses the risk of unfavourable outcome as possible.

**Tax contingencies in the Russian Federation**

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

**Environmental matters**

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

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

## Note 25. Post Balance Sheet Events

In May 2018, the Group entered into a long-term loan agreement with Deutsche Bank AG, with the support of the export-credit agency Euler Hermes, in the amount of 807 million euros. In August 2018, the first tranche was received under a loan agreement, as of August 29, 2018, the debt under the loan is 5,212 million rubles.