



Promoting the dimensions of sustainable development in tourism using Social Auditing

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Abstract

The practical relevance of the research is the drafting of specific recommendations focused on improvement of the social audit methodology in Transnet in order to facilitate the measurements of sustainable development. This paper consists of an introduction, main part is divided into two sections and organized into six paragraphs in accordance with the above tasks, conclusion, and references. The paper concluded that the social reporting is under development and is used for furthering the sustainable development measurements. It helps to reflect the focus of target audiences on investment, due to the fact that it is aimed at future changes in the reporting and increases the company value in the market.

Keywords: Tourism, social audit, sustainable development, financial statements, non-financial reports, environmental protection.

Introduction

The financial and business activity of enterprises depend to a large extent on economic information. Profit-making depends on the quality and reliability of such information and decisions taken on its basis. For that reason, great importance is attached to the completeness, reliability and transparency of economic information. The main source of this information is the financial accounting. Based on the data obtained from the financial statements, it is possible to draw conclusions about the financial results of the organization and changes in its financial standing (Ahmad, Ali, Salamzadeh & Akbari, 2012).

Systematic and correct preparation of financial statements is very important since external users can estimate the organizational performance according to the data obtained. These reports are required by the organization itself for economic analysis performance (La porta, 2018). However, at present there is a significant expansion of auditing activity which covers human resources, document management and even the company strategy. All of this requires new approaches, standards, integrated reporting auditing principles within the development of a broad view of the auditor function which determines the relevance of the chosen topic (Gupta & Melewar, 2010).

Before the dawn of the new millennium, the development in private sectors start to pay attention in the industry of tourism (Aghion, Algan & Cahuc, 2010). For example, in 2000, the United Nations World Tourism Organization (UNWTO) found that, the growth of the tourism sectors was rising and that furthermore, the private sector tend to become significantly more interested in opportunities of the business on offer, of which one result was the development of the hotel



industry, and the rapid expansion of tour operators and travel agents (Yu, 2017). The World Development Report (WDR) (2005) mentions that the entities of the private sectors tend to make investment in new places and new facilities that support and also strengthen the foundation of infrastructure of the economy (Harilal, 2019).

Doing so, in turn, lays the solid groundwork for attracting investors from abroad, and for facilitating the achievement of economic growth, while also leading to the development of tourism. In the tourism discourse and analysis globally, the private sector is recognized as comprising of many different role players, showing different interests and are seen as a main cornerstone of successful development of tourism in any place (Mudimba & Tichaawa, 2017). For example, South Africa's tourism policy (the White Paper on the Development and Promotion of Tourism in South Africa)

Therefore, the work objective is to study the furtherance of sustainable development measurements through social audit. For the achievement of this objective, the following tasks were set and consistently solved:

1. Explore the specifics of social audit.
2. Analyze the concept and essence of integrated reporting as a tool for furtherance of sustainable development.
3. Analyze the audit methodology of the social aspect of the report.
4. Provide organizational and economic characteristics of Transneft PJSC.
5. Draft proposals for improvement of the social audit methodology drawing on the example of Transneft in order to further the sustainable development measurements.
6. Estimate the efficiency of proposed measures.

The object of the study was the concept of social audit. The subject of the study is the furtherance of sustainable development measurements through social audit. The methods of analysis, synthesis, comparison, abstraction, induction, and deduction were used when writing this paper. The theoretical relevance of the research lies in the systematization of the legal framework, theoretical and practical studies of the objectives, tasks and principles of social audit for furtherance of sustainable development measurements.

The practical relevance of the research is the drafting of specific recommendations focused on improvement of the social audit methodology in Transneft in order to facilitate the measurements of sustainable development. This paper consists of the introduction, main part divided into two chapters and organized into six paragraphs in accordance with the above tasks, conclusion, and references.

Theoretical and methodological background

A fundamental element of strategic management is the statement of strategic goals. The goal is the desired state or certain final result. Broadly speaking, the goals include intentions, target functions, and the time aspect (Nheta, 2017) Each corporation has a general (main) goal and strategic functional goals that ensure implementation of the main goal. In the modern context of globalization, when a corporation turns out to be integrated not only into a national but into the world system of national economy and social relations as well, its main strategic goal is sustainable development (Delgado-Balleste, 2017).

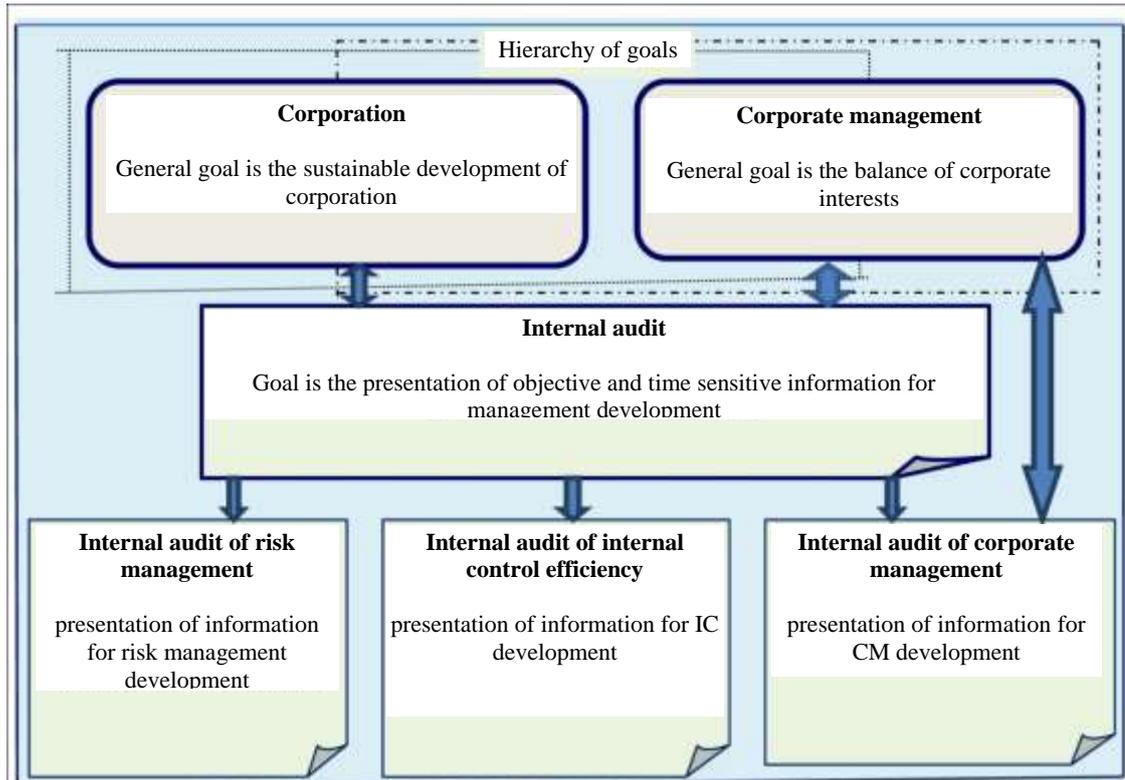


Figure 1. Hierarchy of audit goals

The basis of the internal audit concept is the statement of audit goals which are subject to corporate governance goals which, in turn, are subject to corporate goals, that is, the hierarchy of goals ("goal tree") is implemented (Figure 1). At determining the internal audit goals, it should be noted that without a developed corporate governance system, there is no place for internal audit, and without a quality internal audit, there can be no effective corporate governance system. These two related components complement one other, being parts of organic whole, i.e. if one is missing the other would not exist. Internal audit goals, on the one hand, are developed in accordance with the basic provisions and principles of its concept; on the other hand, with account for implementation of corporate governance principles. The principal function of corporate governance is corporation functioning for the benefit of owners and investors who provide financial resources to the corporation (Chen, 2015). The goals of internal audit of risk management and efficiency of internal control are the provision of information on risk management and efficiency of internal control, respectively. The goal of corporate governance internal audit is the provision of information for corporate governance improvement. The internal audit system goals can be achieved is possible if the following tasks are completed:

- compliance with legislative and regulatory requirements;
- compliance with the established regulations, regulations, rules and procedures by parties to corporate relations;
- compliance of economic entity business with the target figures and benchmarks;
- ensuring financial and market stability;
- achievement of proper completeness, accuracy, transparency and objectivity of information provided to parties to corporate relations;
- improvement of control procedures ensuring safety and rational use of resources.

Goals and objectives are achieved through the internal audit system mechanism. Within this context, the audit goals are expanded in order to provide an independent and objective professional view of the content of economic transactions in an effort to correctly disclose them in the business. Moreover, an important role is assigned to auditors in terms of generation of



estimates and audit of accounting estimates. Value judgments are used in many areas of the business preparation process, thereby determining the variability of such business indicators as the fair value of fixed assets and investments, the degree of receivables recoverability, the amount of allowance for impairment of inventories, and hence the amount of company financials throughout the reporting period, as well as net assets at a specific date. In that regard, the auditors are faced with the task of in-depth analysis of prerequisites used by the company management, their verification and check of applicability to a particular company, validation of methods used for assessment and confirmation of objectivity (Aguirre-Rodriguez, 2014).

However, when a key audit service (capital) owner examines the audit process, the following logic becomes apparent: following satisfaction of the primary need to confirm absence of errors and deliberate distortions of business performance indicators, the investor will be reminded to determine the efficiency of the invested capital. In this regard, the range of questions requiring answers is extremely wide: how optimal is the financing structure, whether the costs are commensurate with the size of generated profits, including in comparison with other companies in the industry, whether fixed assets are used optimally, whether there is a potential for improving the efficiency and profitability of business, how high are the risks of the organization and whether the organization is able to identify and prevent them in a timely manner (Page, 2009). Answers to these questions, to some extent, can be obtained by auditors in the course of an audit, as the auditor should get an insight in company operations, business processes, main risks, etc. before forming an opinion. It's fair enough that drawing of such conclusion is beyond the original purpose of the audit, that is, confirmation of compliance of the business with the legislation requirements and true state of affairs in the organization, that's why auditors started to provide reports / advice on the operating efficiency and use of resources as a separate audit-related service (Poudel, 2013). Audit of intellectual capital is by no means unimportant. By the close of the twentieth century – at the beginning of the twenty-first century, the global economic system entered upon a new phase of its development. Globalization of economic systems has put forward completely new demands for efficient and harmonious use of various material and immaterial resources.

Consequently, the new profile of relations in the "nature-man-society" system forced the experts to reconsider the role of the main factors furthering the system elements, such as natural, human, scientific and technical, institutional, organizational, information, etc. Among these factors, the human factor, development of human activity, i.e. acceleration of the intellectual potential development processes in the economy play the main role (Ramseook-Munhurrun, 2012). The latter incrementally leads to an increase in the interdependence of socio-economic, environmental and other systems, raising interest in the use of intellectual resources. Scientific and technical results intended for implementation represent research and development deliverables. They are divided into two blocks: products and intellectual product, each of which has its own distinguishing characteristic, the former is of material nature, and the latter is of immaterial nature. At the same time, both components of scientific and technical progress are intended for the market and have a common commodity property (Eversole, 2012).

The main feature of societal development is the increase in the share of intellectual capital in the economy – narrowing down the role of material assets and increasing the importance of intangible resources: information, education, knowledge, research and development and organizational work, culture and health, advice, legal and promotional activities, etc. This suggests that the present-day economy has a competitive advantage due to the upward trend of intellectual activity, ramping up purchased and used intellectual property (Bohdanowicz & Simanic, 2005). The result is that a special feature of the present-day economy is the rise of intellectual assets in the output product. This applies not only to high tech production processes but also to sale of goods and services, which are increasingly dependent on intangible components of companies such as the image, reputation, brand, staff competence, etc. Hence it appears that the intellectual capital involves the resource base which is a man or woman (Covin & Wales, 2012).

The concept and essence of integrated reporting as a tool of social audit

With ever increasing frequency, the issue of integrated reporting arises more and more in the professional community. Today, the common reporting does not always give investors a full understanding of company business. This situation stems from the fact that the standard statements reflect only the financial performance of a company. Making the picture complete, investors want to see not only economic data but indicators that demonstrate the investment attractiveness of a company as well. For example, intellectual capital, corporate strategy, historical information about the company, etc. Let's try to understand what integrated reporting is in Russia, what functions it performs and what it is intended for. An integrated report is a single document that contains information about company strategy, relationship of its indicators in economic, social, environmental spheres, as well as the corporate governance system.

The purpose of the document is not only to analyze the company activity in previous periods but to assess the potential of its development in several key areas, depending on the strategic goals as well. No company can exist without interaction with the society and the external environment. Therefore, if a company aims to demonstrate its focus on sustainable development, it needs to show both its impact on society and its dependence on it (Kline & Slocum, 2015). There is no obvious and perceivable economic effect in this but this information is extremely important for partners and attraction of supplementary capital. Integrated reporting in Russia becomes a new trend in the development of methods for provision of information to assess the reliability and prospective viability of a company (Erasmus, 2013). Pure and simple integrated reporting is prepared by companies participating in the Russian regional network for integrated reporting: Rosatom, Rosneft, Uralsib, NIAEP, SC Da-Strategy, MOEX, Moscow International Business School Mirbis, and KPMG CJSC. Currently, 22.3% of all companies disclose information about the business model in one way or other (Gurbuz, & Aykol, 2009). Also, in Russia, there is a good potential for a full migration to integrated reporting: 12.7% of companies try to prepare it, and 78.6% have ready a base for migration to such reporting.

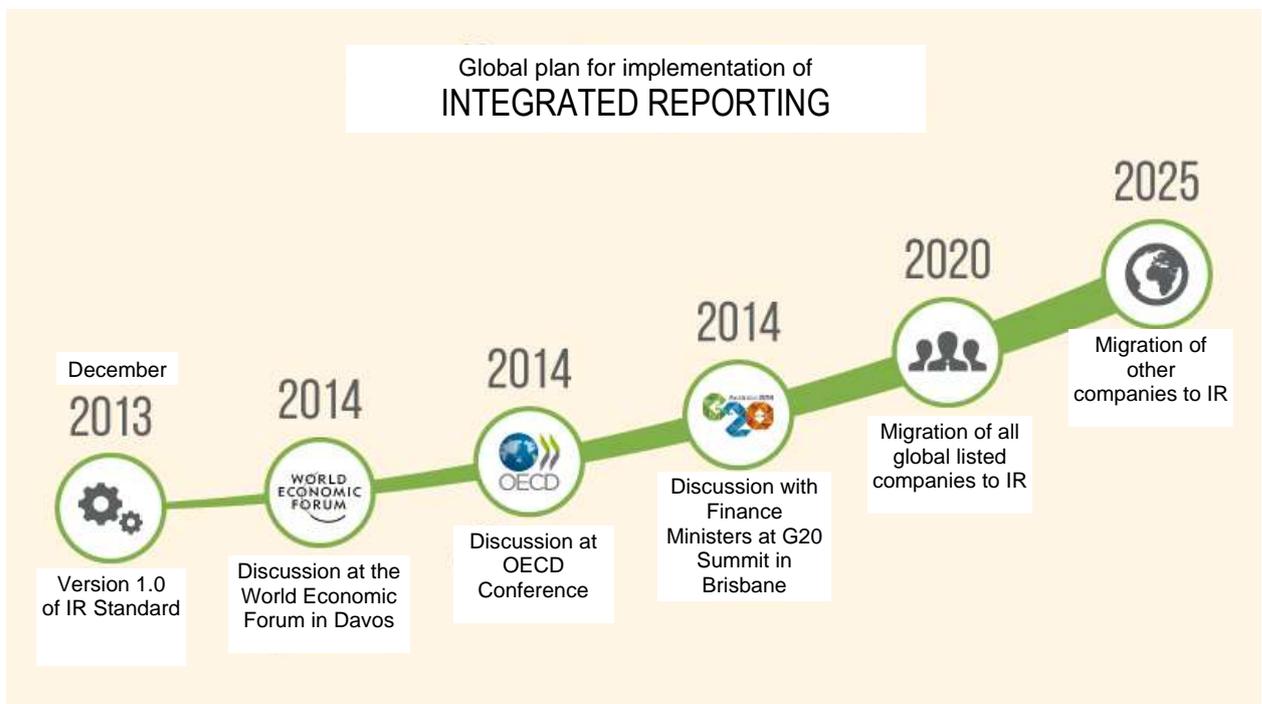


Figure 2 – Global integrated reporting implementation plan

According to the Russian regional integrated reporting network, by 2025, 400 companies will provide integrated reports as the main business performance document. The annual increase in number of such companies will be about 35 new members of the RRN network. This is due to the fact that the availability of such reports will gradually be included in the list of mandatory



requirements for company data provision. For example, in the list of listing requirements imposed by stock exchanges to its participants. Moreover, after publication of the International integrated reporting standard, the requirements of national and international regulators for the quality of integrated reporting will be introduced.

In general, integrated reporting is necessary for large companies for attraction of additional investments. When a holding includes more than 30 subsidiaries, it is very difficult to draw conclusions on its development and growth on the regulated reporting only (Lee, 2011). For investors, it is necessary to show the scope of activities and create an aggregate picture of company business across its footprint: social, environmental, and financial. And, of course, having full information, investors will be able to assess whether it is worth to invest in your company. A standardized approach to preparation of non-financial reports is now generally accepted unquestioned: the unified method of data preparation contributes to comparability of reporting information, quality of its preparation, and helps to improve business processes. There are a number of non-financial reporting platforms / standards. The most popular are the GRI (Global Reporting Initiative), IIRC integrated reporting guide (within the framework of this research paper, the study will be carried out according to these guidelines), AA1000 series standards, ISO series standards, etc. Up to now, there is a constant growth of reports on sustainable development, prepared using the Sustainable development guidelines (Global Reporting Initiative, GRI).

In more than 10 years of its application in Russia, the guidelines were updated twice as compared to the very first version (GTI 2.0), which the reporting organizations got to know in the early 2000s. The release of the fourth version of the guidelines, which is more complex than the previous ones, did not scare the majority of companies that had been publishing reports for a long time, and this reporting platform remains the most popular one. Several companies announced their preparedness to migrate to the new version as soon as it was officially published. The number of integrated reports has increased over the past 2 years (mainly due to the nuclear industry companies publishing their public annual reports, in the preparation of which the international standard of integrated reporting of ISIO was used), while social reports are few in number, and environmental reports demonstrate amazing stability not changing statistically over time (Lotz, & Van der Merwe, 2010). The requirements of IIRC integrated reporting guidelines (within the framework of this research paper, the study will be carried out according to this guidelines) will be further discussed in the second part of this research paper. Integrated reports do not differ very much from sustainable development reports or usual annual reports in terms of structure and content, except for the use of the terminology related to the capital (human, natural, etc.).

The following integrated reporting model is the most common: such a report normally contains aggregated data that includes:

- market research,
- analysis of financial and operational figures, corporate governance report in accordance with the requirements of the Bank of Russia,
- industry-specific issues in accordance with the materiality matrix, review of personnel management, environmental protection and social investment activities,
- financial statements.

At the same time, the volume of "non-financial" data can vary from several pages (as in annual reports 10 years ago) to 2/3 of the report. The fundamental idea laid down in the International integrated reporting standard to describe (not yet measure) capital flows from the moment they are started to be used, to turning them into waste, thus showing how the added value is created, has not been put in motion yet. It is notable that despite the availability of information on the best reporting practices, the format of a social report on the triune outcome was chosen by some companies that published the first reports, which can be construed as a necessary stage in the development of non-financial reporting. Although representatives of the leading reporting



platforms often express a point of view that the developed standards can be easily used by companies and organizations of any size and ownership; trends not only in Russia but also in the world indicate that this is a desired future rather than a real now.

For the most part, companies continue to use the reporting platforms they have chosen previously. Three companies decided to migrate from a sustainable development report to an integrated one. At the same time, one company came back. Two more companies switched from integrated report to a creative form of annual report: the statement on application of non-financial reporting platforms is referred to one section only. Thus, it may be concluded that integrated reporting is at the development stage. It helps to reflect the focus of target audience on investment, the fact that it is aimed at future changes in the reporting and increases the company value in the market.

Methods of report for social part audits

Due to the growing interest of stakeholders in socially significant aspects of organizations, the issue of correct and competent display of this information in social (non-financial) reporting becomes urgent. Due to the increase in the number of social reports published by the largest organizations, there is a need for independent verification of such reports. Independent verification of financial statements / reports is currently voluntary in most countries, including Russia. The main purpose of independent social reporting verification is to check the completeness, accuracy, relevance and consistency of information provided in a report (Tantanatewin & Inkarojrit, 2016). Independent audit can be carried out both by public organizations and unions, and by professional audit and consulting companies. The Russian Union of Industrialists and Entrepreneurs, the largest organization representing the interests of the business community, can be particularly noted among public organizations that carry out the public confirmation procedure.

As at the beginning of May 2017, RUIE has carried out the procedure of public certification for 97 non-financial statements of 35 companies, which amounts to 12.9% of the total social reports registered in the National Register for all the time. At the same time, 20% of non-financial statements prepared in 2016 were certified by the RUIE, which indicates the growing popularity of this confirmation type. The purpose of the non-financial statement audit is to express an opinion on compliance of company activities and reporting with the principles of corporate social responsibility defined by international standards. At the moment, there are no uniform standards for verification of non-financial statements. Each audit company offering report verification services independently develops a methodology for assessment of non-financial reports (Singh, 2006). Various ratings, rankings and indices can be used as an additional source of information about company activities in the field of sustainable development. At the moment, there are thousands of indicators that provide stakeholders with the analysis opportunity.

In 2016, half of the Russian companies that published social statements used at least one type of certification. According to this indicator, we are still behind Western countries. At the same time, while in some industries the statements are published aggressively and most of them are verified, other industries lag behind significantly. For example, the leading industries in CSR are oil and gas and chemical industries, metallurgy and power economy. Of 17 reports certified by RUIE 14 are relevant to specified industries (John, 2006). Industries such as food and finance, despite the large number of reports published, are reluctant to the certification procedure. Companies operating in pharmaceutical, woodworking industries, construction and housing, communal services, publish less non-financial reports for the most part. The procedure of independent verification of non-financial statements increases the level of stakeholders confidence in the reporting and improves the quality of statements. Users of a verified social report can be confident in the accuracy of the data provided, as well as in the fact that the report was not drawn up in order to make the company look good but in order to represent the reality. In Russia, the issue of social report certification is particularly relevant in relation to certain industries that are currently conservative in terms of non-financial information disclosure.



Furthering measurements of sustainable development through social audit as exemplified by Transneft PJSC

Public Joint-Stock Company Transneft (before 21.07.2016 - Open Joint-Stock Company "Joint-Stock Company for Oil Transportation Transneft"). Full corporate name of the Company in English: Oil Transporting Joint Stock Company "Transneft". The Founder is the Government of the Russian Federation. Transneft was registered by the Moscow Registration Chamber on August 26, 1993, Certificate No. 026.800. Location: Russian Federation, Moscow. Address: 119180, Moscow, Bolshaya Plyanka str. 57. Shareholders of the Company, whose share in the authorized capital of Transneft exceeds 2% as of 31.12.2017:

- 1) The Russian Federation represented by the Federal Agency for the Administration of State Property. The share in the charter capital of the Company: 78.1057%
- 2) Non-Bank Credit Institution Closed Joint-Stock Company "National Settlement Depository". Share in the authorized capital: 21.1744 %

As of December 31, 2017, the Company and its subsidiaries have an oil pipeline system located in the territory of the Russian Federation and a related petroleum product pipeline system located in the territory of the Russian Federation, the Republic of Belarus, Ukraine and the Republic of Kazakhstan. Subsidiaries are entities controlled by the Company. The Company controls a subsidiary when the Company is exposed to risks related to variable income from its involvement in an investment vehicle or has the right to receive such income, and has the ability to use its powers in relation to that entity in order to influence the income amount.

Table 1. Corporate business model

Products: Oil Petroleum products: high-octane and low-octane gasoline, diesel fuel, heating oil, kerosene, other	Markets: Asia Europe Russia
Key business processes: Geological exploration Oil production Gas production Processing / Refinery Marketing and sales	Resources: Proven and probable resources Personnel
Profit formula	
Income: Oil product transportation – 45% Petroleum products sale – 53% Construction contract services – 2%	Costs: Material costs – 4% Labor costs – 25% Prime cost – 21% Depreciation – 20% Electric energy – 6% Other costs – 24%

The Company is the sole founder of NGPF Transneft JSC, classified as a non-consolidated structured company before December 31, 2016. In the context of the decision to incorporate NGPF Transneft JSC in favor of the sole shareholder of AK Transneft PJSC in accordance with the requirements of the Russian legislation, starting from December 31, 2016 NGPF Transneft JSC is included in consolidated financial statements of the Company. At the date of inclusion in consolidated financial statements, assets of NGPF Transneft JSC amounted to 63,838 million rubles. As a result of these changes, the group recognized the profit in the amount of 8,364 million rubles. The primary mission of NGPF Transneft JSC is non-state pension protection of Company



employees. Subsidiaries consolidated in financial statements of the Company and dependent and jointly controlled companies – 62 companies.

Table 2. Key indicators of profit and loss statement

Name of indicator	Amount		Absolute change	Change, %
	Year 2017	Year 2016		
Revenue – total including:	815,652	774,380	41,272	5.3
Service revenue oil transportation	558,775	499,838	58,937	11.8
Service revenue petroleum product transportation	57,309	48,186	9,123	18.9
Sales revenue commercial oil	171,512	193,147	-21,635	-11.2
Other revenue	28,056	33,209	-5,153	-15.5
Operating costs	-581,590	-541,053	-40,537	7.5
Operating profit	234,062	233,327	735	0.3
Net finance costs	-64,390	-134,894	70,504	-52.3
Changes in group structure	-	8,796	-8,796	-
Share in loss of associates and jointly controlled companies	-4,419	-10,786	6,667	-61.8
Profit before tax	165,553	96,443	69,110	71.7
Current profit tax	-43,149	-27,164	-15,985	58.8
Deferred profit tax	21,023	-9,779	30,802	-
Profit tax expense	-22,126	-36,943	14,817	-40.1
Profit for the reporting period	143,427	59,500	83,927	2.4
Other comprehensive (costs)/income net of income tax	-5,488	1,931	-7,419	-
Total comprehensive income net of income tax	137,939	61,431	76,508	2.2

The Transneft Group revenue has grown by 41,272 million rubles or 5.3% mainly due to the increase in revenues from provision of oil and petroleum product transportation services. The amount of revenue net of revenue from sales of commercial oil and petroleum products increased in 2017 by 65,601 million rubles or 11.4% compared with the same period last year and amounted to 78.8% of the total revenue for the reporting period. The change in revenue from the sale of goods (works, services) in 2017 compared to 2016 occurred as a result of:



- revenue growth from oil transportation services due to changes in tariffs, oil transportation volumes and cargo flows, as well as due to introduction of new tariffs;
- revenue growth from rendering services on transportation of petroleum products as a result of changing tariffs and volumes of petroleum product transportation, and cargo traffic;
- reduction of revenues from oil export sales under the agreement with the Chinese national united oil corporation, mainly due to lower oil prices with the growth of the US dollar exchange rate;
- revenue growth from rendering of services in oil compounding by increasing compounding volumes;
- revenue growth from the rental of communication facilities;
- revenue growth from other activities, mainly due to provision of agency and information and consulting services.

The total amount of operating costs in 2017 compared to 2016 increased by 40,537 million rubles or 7.5 %. Excluding depreciation and amortization and cost of goods sold, operating costs increased by 48,023 million rubles or 20.9%. The increase in the total operating costs of Transneft Group was mainly due to the increase in the amount of depreciation. The growth of depreciation is mainly due to commissioning of new fixed assets, reconstruction and modernization of fixed assets during 2016-2017.

Table 3. Key financial and economic indicators

Operating cost items	Year 2017	Share, %	Year 2016	Share, %	Change	Change, %
Labor costs	132,202	22.7	114,462	21.2	17,740	15.5
Electric energy	34,471	5.9	32,043	5.9	2,428	7.6
Materials	24,592	4.2	22,999	4.3	1,593	6.9
Repair services	14,382	2.5	13,608	2.5	774	5.7
Insurance costs	6,640	1.1	6,126	1.1	514	8.4
Taxes	17,005	2.9	12,309	2.3	4,696	38.2
Pension account	10,524	1.8	3,173	0.6	7,351	3.3
Other operating costs	38,099	6.6	25,172	4.4	12,927	51.4
Total operating costs	277,915	47.7	229,892	42.3	48,023	20.9
Depreciation and amortization	116,763	20.1	111,818	20.7	4,945	4.4
Cost of goods sold exported commercial oil	141,766	24.3	163,318	30.2	-21,552	-13.2
Cost of goods sold commercial oil in domestic market	23,680	4.1	23,126	4.3	554	2.4



Cost of goods sold commercial petroleum products	1,658	0.3	4,107	0.8	-2,449	-59.6
Prime cost of other goods sold	610	0.1	351	0.1	259	73.8
One-time costs	19,198	3.3	8,441	1.6	10,757	2.3
Total operating costs	581,590	100.0	541,053	100.0	40,537	7.5

Also from the increase in the amount of labor costs, insurance premiums and social expenses; growth in the amount of pension accruals; increase in the amount of other taxes attributable to operating costs; increase in expenses under service contracts for reception/delivery, transfer, transshipment, discharge/loading of oil and under service contracts for reception of petroleum products, delivery (pumping) to destination points, shipment at destination points with the enterprises of Transneft Group due to the increase in transportation volumes of oil and petroleum products; decrease in the cost of exported oil which is mainly due to lower oil prices. Long-term accounts receivable show the debt arising from the sale in 2002 of a share in the ordinary partnership founded for construction of the Baltic pipeline system, with payment by installments for 25 years. The balance of the debt is denominated in conventional units and is subject to repayment in equal installments on before 30.01.2027.

Payment is effected in Russian rubles at US dollar exchange rate set by the Bank of Russia on the date of payment. As compared to 31.12.2016, the debt on the sale of a share in the ordinary partnership increased due to the growth of the US dollar exchange rate. The change in short-term accounts receivable at the end of the reporting year compared to the previous year was mainly due to: the increase in advances paid in connection with acquisition of fixed assets and advances paid to entities of Transneft Group under service contracts for acceptance/delivery, pumping, transshipment, discharge/loading of crude oil; increase in accounts receivable on interest accrued by loans granted to entities of Transneft Group; decrease in accounts receivable on the budget in terms of value added tax and income tax of consolidated taxpayer group. As of 31.12.2017 and 31.12.2016, short-term accounts receivable are recognized net of the bad debt provision.

The change in accounts payable at the end of the reporting year compared to the previous year was mainly due to an increase in advances received from buyers and customers under contracts for the transportation of oil and petroleum products.

Conducting social audit by the example of Transneft PJSC

Social audit by the example of Transneft PJSC will be conducted by the example of personnel and environmental policy of the Company.

Table 4. Structure by category

Indicator	2016	2017
Workers	79.1	78.9
Executives	13.7	13.2
Specialists	7.2	7.9
Administrative workload coefficient	7.2	7.5



Table 5. Labor cost structure

Indicators	2016	2017
Fixed portion	64	69
Regular bonuses	23	17
Lumpsum bonuses	16	21

Table 6. Personnel loyalty assessment

Indicator	2016	2017
Recruitment turnover coefficient	1.5	1.9
Personnel attrition turnover coefficient	2.9	2.1
Attrition coefficient	7.1	6.3

There is a positive trend in investment in mining operations. Transneft PJSC sets priorities to environmental protection and ensuring a high level of environmental safety of production facilities. Gross emissions in the reporting year decreased vs. 2016 by 5.69 ths. tonnes (6,56%) and amounted to 81.045 ths. tons. During the reporting year, the Company captured and neutralized 7.449 ths. tons of harmful emissions, which is 359 tons (5%) more than in 2016.

Table 7. Personnel performance assessment

Indicators	2016	2017
Labor efficiency	135.5	142
Average pay	8.3	9.6
Labor efficiency increment rate	9.4%	11.3%
Pay increment rate	7.2%	7.7%

Table 8. Indicators of natural capital flows

Indicator	2016	2017
Introduction rate	19.6%	16.8%
Retirement rate	17.5%	17.2%
Exhaustibility rate	-1.1%	-1.0%

Table 9. Natural resource delivery and intensity indicators

Indicator	2016	2017
Delivery	15.34%	16.11%
Intensity	11.1%	10.9%

Table 10. Pollution density

Indicator	2016	2017
Emission factor	3.4%	3.2%
Environment control factor	1.9%	2.3%

Table 11. Mineral output factor

Indicator	Oil volume (ths. t)	
	2016	2017
Proven and probable reserves	526,300	533,551
Measured and identified mineral resources	732,574	751,329

The level of production environmental friendliness is determined by the key performance indicator "Reduction of pollutant specific emissions into the atmosphere", which shows complex characteristics of the work performed, ensuring the reduction of negative impact on the



environment during transportation of oil and petroleum products through main pipelines of Transneft PJSC.

Table 12. Environmental control costs

Indicator	2017
Current environmental control costs (ths. rubles)	1,936,618.15
Investments in fixed assets for environmental control (ths. rubles)	3,400,192.67
Harmful emissions into the atmosphere (ths. t)	80.75
Water disposal to surface water bodies (ths. m ³)	9,052.61
Removed waste per year (t)	116,515.22

Specific emissions into the atmosphere in 2017 decreased by 0.012 kg/t (6.95%) compared to the previous year and amounted to 0.158 kg/t with a plan to reduce the specific emissions into the atmosphere in 2017 by 5%.

Table 13. Credit rating of the Company

Company	2016	2017
Moody's	Foreign currency payment – Baa2 Outlook - Negative	Foreign currency payment – Ba1 Outlook - Stable
Standard & Poor's	Foreign currency payment - BBB, Outlook - Stable, National currency payment - BBB+, Outlook - Stable	Foreign currency payment - BB+, Outlook - Stable, National currency payment - BBB-, Outlook - Stable

In 2017, discriminatory international pressure on Russian companies persisted, which also affected Transneft PJSC as one of the backbone companies of the Russian oil and gas sector. Due to complicated political situation and imposition of economic sanctions against Russia, the sovereign credit rating was downgraded by Moody's and Standard & Poor's rating agencies by one step during 2017. Accordingly, Transneft PJSC credit ratings were also downgraded, though the Company's own financial stability is general is retained by rating agencies.

Table 14. Tax indicators

Indicator	2016	2017
Taxes	12,309	17,005
Tax burden coefficient	61.69%	86.62%

The following calculations can be used for description of the intellectual capital. $K = 4.85$. Value-to-book ratio = 213.83 bln. Rubles.

Table 15. Structure of intellectual capital in IA

Indicator	2017	Structure
Result of intellectual activity (RIA) with the development of the intellectual property management model	4,386	48.29%
Other IA	4,695	51.71%
Total	9,081	100%

Table 16. IA significance in Company operations

Indicator	2016	2017
IA value	4,535	9,081
Share of IA in balance currency	0.18%	0.34%

The study showed that a distinctive feature of a comprehensive economic analysis is a specific approach to economic activity research. The data is indicative of a rapid increase in the volume



of intangible assets in recent years. Thus, in 2017, the volume of intangible assets amounted to 9,081 million rubles, which is 2.2 times more than in 2016.

Table 17. Assessment of IA flow and state

Indicator	2016	2017
Introduction rate	9.2%	9.4%
Retirement rate	1.3%	2.1%
Depreciation rate	24.6%	21.1%
Availability rate	57.5%	63.2%

Table 18. Assessment of IA utilization efficiency

Indicator	2016	2017
Return	1.7	0.9
Profitability	1.1	0.7

The first non-financial reporting document of Transneft PJSC was published in 2016. The relevance of such document is conditioned by great attention paid by Transneft to environmental and social issues, economic efficiency and business development of the Group. Present-day information disclosure practices account for the request by various groups of sustainability report potential users for publishing detailed information on sustainable development of companies. Transneft PJSC statements proclaim commitment of the Group to comply with the most advanced disclosure practices and preparedness to cover all areas of sustainable development of the Transneft on the pages of the sustainable development report. In the sustainable development report, the terms Transneft PJSC, the Company are understood to mean Public Joint-Stock Company Transneft. The term Transneft Group means:

- when describing economic activities and production results – Transneft PJSC and legal entities being part of Transneft system in accordance with the Charter of Transneft PJSC;
- when describing financial results of Transneft PJSC and its subsidiaries defined in accordance with the International Financial Reporting Standards (IFRS).

The content of non-financial reporting of Transneft PJSC data covers the data pertaining to the reporting period from January 1 to December 31, 2016. Non-financial statements of Transneft PJSC includes information about legal entities being part of Transneft Group. The list of essential Transneft system entities is annually approved by the President of the Company based on the criteria established by the Board of Directors. When preparing non-financial reporting, Transneft PJSC draws upon principles and methods of the 4G Global Reporting Initiative guidelines (GRI 4.0), supplemented by a set of industry-specific indicators of non-financial reporting, recommended for companies in the oil and gas sector (Oil and Gas Sector Disclosures).

Proposals on improvement of the social audit methodology for furthering the sustainable development as exemplified by Transneft PJSC.

When preparing non-financial statements, Transneft PJSC focuses on disclosure of information in accordance with the Core level of disclosure. A table containing a complete list of indicators covered by non-financial reporting, as well as an indication of respective pages, is given in the appendix to non-financial statements. Non-financial statements of Transneft PJSC were not verified by independent professional auditors. Nevertheless, Transneft realizes the importance of professional external verification procedures which increase the level of non-financial reporting credibility and intends to carry them out in the future. Some indicators in tables, graphs and charts in non-financial statements differ from the sum of the summands because of rounding. The methodology for determining the content of Transneft PJSC non-financial statements for 2016 is



based on internal corporate consultations, during which the opinions of Company senior officials are collected. Moreover, they take into account the opinion of department and subsidiary management that holds direct information about the situation in specific areas inclusive of possible boundaries of aspects within the Company. In addition, during the reporting period, Transneft PJSC endorses a dialogue with key stakeholders. During collection, classification and analysis of issues raised and topics covered across the entire spectrum of interaction channels, Transneft PJSC received information about the areas of primary concern for the stakeholders. An additional source of information was the analysis of performance indicators and high points during the reporting period: they evaluated the effect of different changes within the Company, concerning, specifically, corporate governance and strategy implementation, the structure, content and boundaries of aspects which can be considered fundamental. Transneft PJSC analyzed the best practices of Russian and foreign oil and gas companies in determining the content of non-financial statements.

A preliminary list of aspects was developed on the basis of the information collected. The preliminary list was discussed by the task group with the heads of departments and business areas of the Company in order to generate a set of aspects exhibiting a high level of materiality impact and influence on the assessment and decisions of stakeholders and determination of their boundaries. The specific list of essential aspects is determined at Transneft top management level, taking into account the vision of the current situation and the strategic development direction. A detailed list of material aspects identified in the process of determining the content of non-financial statements is given in the appendix to financial statements. Transneft PJSC implements a significant investment program, creates and puts into operation new production facilities, diversifies supply lines, flexibly and efficiently manages capital expenditures. The entities of the Transneft system continuously carry out maintenance, repair and modernization of pipelines and other production facilities, introduce energy and resource saving technologies, develop and apply innovative methods and technologies for in-line inspection and monitoring of pipelines. A wide range of measures is being taken to ensure anti-terrorist protection of production facilities, including the use of engineering features.

Development and advanced training of employees as an essential condition for effective production activities is one of the priorities of Transneft system personnel policy. This policy includes initiatives for the development of human resources, improvement of training systems, education and strengthening of corporate culture, social responsibility, high motivation of teams, including young professionals. Promotion of these measures made it possible to decrease the turnover rate in the reporting year to 3.8%, i.e. by 0.5% vs. 2015. The personnel of Transneft system entities is on average by 80-85% represented by workers from among the locals, which also contributes to solution of employment problems in regions. The main tasks of Transneft system entities in the area of labor protection and ecology are the reduction of pipeline-related accident rate, total elimination of discharge of poorly treated waste water, minimization of harmful production factors on workers and the population. For performance of these tasks, Transneft has implemented and applies appropriate management systems, in particular, the occupational health and safety management system based on the requirements of International standard BS OHSAS 18001:2007, the Energy management system (in accordance with ISO 50001:2011 standard), and the Environmental management system (according to ISO 14001:2004 standard).

Measures are taken for conservation and restoration of biological systems in operations areas, protection of listed animals, bio monitoring of water resources, etc. During the reporting period, specific emissions of harmful substances into the atmosphere were reduced by 1%, the current costs of environmental protection measures amounted to 1.9 billion rubles. In addition to production tasks, Transneft entities implement a wide range of social and charitable projects and activities focused on the improvement of life quality and development of the social infrastructure in operations areas, support of science, education, culture and sports. At the moment, the entities of the Transneft system have current agreements on cooperation and social partnership with several constituent entities of the Russian Federation, within the framework of which targeted



charitable donations, measures for economic development, improvement of the investment climate and solution of the main social problems of the regions are provided.

For many years Transneft PJSC has been supporting the Museums of the Moscow Kremlin, the state Tretyakov Gallery, the Association of National Arts and Crafts of Russia, acting as a sponsor of such events as the International Military Music Festival "Spasskaya Tower" and many others. Production and social projects and activities of Transneft complement each other and ensure comprehensive and sustainable development of the system, and enable achievement of goals and objectives dictated by national strategic interests. Transneft PJSC defines environmental protection and ensuring a high level of environmental safety of production facilities as its highest and constant priority. Transneft system entities have developed, implemented and certified the Environmental management system. In 2004, Transneft system entities received international ISO 14001 Compliance certificates DQS and IQNet. The environmental management system has been developed in relation to the administrative management structure of the company. 19 regulations of the environmental management system which define the responsibility, authority and interaction of personnel in the environmental management system have been approved.

Conclusion

Social reporting is under development and is used for furthering the sustainable development measurements. It helps to reflect the focus of target audience on investment, the fact that it is aimed at future changes in the reporting and increases the company value in the market. A non-financial statement is a company profile that reflects its public image. It provides an opportunity to see what the company strategy is, what it does for its implementation, what results and at what price it is achieved. The provided reporting information characterizes stability and reliability of the company. The very fact of report submitting to the public space indicates that the company is moving towards increasing information openness and transparent activities, that it is responsible for the price of the results achieved, is open to a dialogue and cooperate with stakeholders. Improving the quality of information disclosed by companies as an important factor in building trust and reputation remains an important challenge in this regard. Transneft PJSC is a Russian partially government-owned company, the operator of oil trunk pipelines and petroleum product pipelines in Russia, the largest pipeline company in the world. The main factors that led to the increase in the amount of cash flows used in financial activities for the year ended December 31, 2015 compared to the same period in 2014 by 59,611 million rubles or 66.3% are the decrease in the amount of cash flows used for repayment of bonds, loans and borrowings in the amount of 24,251 million rubles.

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