Public Joint Stock Company "Chelyabinsk Pipe Plant"

Consolidated Financial Statements
For the Year Ended 31 December 2018 and
Independent Auditor's Report

PJSC "CHELYABINSK PIPE PLANT"

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PJSC "CHELYABINSK PIPE PLANT"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company") and its subsidiaries (the "Group") at 31 December 2018, and the consolidated results of its operations, cash flows and changes in equity for 2018, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 28 February 2019:

Boris Kovalenkov
Chief Executive Officer

Valery Borisov
Chief Financial Officer

28 February 2019

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of PJSC "Chelyabinsk Pipe Plant"

Opinion

We have audited the consolidated financial statements of PJSC "Chelyabinsk Pipe Plant" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

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

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Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Fair value of investment in CJSC TechnoInvest Aliance	
At 31 December 2018, the fair value of the investment in CJSC TechnoInvest Aliance amounted to Russian Rouble 3,294 million. We consider valuation of fair value of this investment to be a key audit matter due to signifance of the fair value and due to exsitence of significant management judgments and assumptions used in the model for valuation of fair value, such as quantity and category of mineral reserves at the deposit and selling price of finished goods. Refer to Note 10 to the consolidated financial statements.	During the audit we: • Obtained an understanding of key controls over the assessment of impairment indicators and calculation of recoverable amount of the assets; • Compared the data used in impairment model with appraiser's report on confirmed mineral reserves at the deposit; • With assistance of internal financial advisory specialists reviewed mathematical accuracy of the model, reasonableness of the assumptions used in management's forecasts, macroeconomic indicators and compliance of the methodology with valuation standards; • Analyzed accuracy and completeness of disclosures and their compliance with IFRS requirements.
Goodwill impairment	
At 31 December 2018, the carrying value of goodwill amounted to Russian Rouble 8,332 million. Due to the significance of the goodwill amount and the fact that the impairment review performed by the Group's management contains a number of significant judgments and estimates for each cash-generating unit including revenue and expenses growth, discount rate and growth rate, we identified test for goodwill impairment as a key audit matter. Refer to Note 9 to the consolidated financial statements.	During the audit we: • Checked accuracy of allocation of carrying amount of goodwill to cash-generating units; • Compared the data used in impairment models with approved budgets and forecasts; • Assessed reasonableness of the assumptions used in management's forecasts based on actual results, market data and trends; • Performed sensitivity analysis for key assumptions in the ranges of their possible change and compared future possible changes of the assumptions with economic and industry data available; and • Analyzed completeness of disclosures and their compliance with requirements of IAS 36 "Impairment of assets".
Related parties transactions	
In the normal course of business, the Group has a significant number of transactions with related parties. In the reporting period, such transactions, in particular, include: • Issuance of long-term loans; • Acquisition of current and non-current assets; • Payments of long-term advances. We consider this issue as a key, since the identification of related parties, disclosure in the	During the audit we: • Obtained an understanding of Group's process for management's identification of related parties; • Analized the agreements and documents for transactions taken place with related parties, and also management's conclusions that transactions carried out with market conditions; • Analyzed terms of other transactions for existence of indicators that counterparties are related parties; • Sent the confirmation letters to contractors to confirm transactions taken place and analyzed responses received; and • Analyzed correctness and completeness of

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
consolidated financial statements and analysis of transactions is complex and requires the use of professional judgment, and the disclosure of related party transactions in the consolidated financial statements is important for users. Refer to Note 27 to the consolidated financial statements.	disclosures for balances and transactions with related parties for their compliance with requirements of IFRS.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

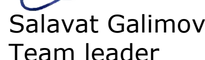
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.



Salavat Galimov
Team leader

28 February 2019

The Company: PJSC "Chelyabinsk Pipe Plant"

Certificate of state registration: №27-31, issued by the Administration of Leninskiy district of Chelyabinsk on 21.10.1992.

Primary State Registration Number: 1027402694186.

Certificate of registration in the Unified State Register: 1027402694186, issued by Tax Inspection of Leninskiy District of Chelyabinsk of the Russian Ministry of Taxation on 19.07.2002.

Address: 21 Mashinostroiteley str., Chelyabinsk, Russia 454129.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444.

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

PJSC "CHELYABINSK PIPE PLANT"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018
(millions of Russian Roubles, unless otherwise stated)

	Notes	31 December 2018	31 December 2017 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	47,628	50,260
Advances for capital construction and intangible assets		834	724
Intangible assets	8	2,642	1,852
Goodwill	9	8,332	7,942
Investments in associates and joint ventures		111	113
Other financial assets	10	3,294	3,876
Loans receivable	13	565	476
Deferred tax assets	25	949	795
Trade and other receivables	12	144	20
Other non-current assets		110	86
Total non-current assets		**64,609**	**66,144**
Current assets			
Inventory	11	25,716	30,380
Trade and other receivables	12	27,999	35,564
Current income tax prepayment		948	384
Loans receivable	13	1,248	914
Assets classified as held for sale		–	463
Cash and cash equivalents	14	21,554	19,094
Total current assets		**77,465**	**86,799**
TOTAL ASSETS		**142,074**	**152,943**
EQUITY AND LIABILITIES			
Share capital		2,498	2,498
Legal reserve		71	71
Translation reserve		2,077	1,610
Treasury shares	15	(19,309)	(19,608)
Actuarial gains reserve		335	310
Retained earnings		17,952	15,278
Equity attributable to owners of the Company		**3,624**	**159**
Non-controlling interests	9	187	4,787
Total equity		**3,811**	**4,946**
Non-current liabilities			
Borrowings	16	72,275	77,017
Accounts payable and accrued expenses	17	60	–
Deferred revenue		280	439
Retirement benefit obligations		216	306
Deferred tax liabilities	25	1,333	1,731
Total non-current liabilities		**74,164**	**79,493**
Current liabilities			
Borrowings	16	17,700	9,339
Accounts payable and accrued expenses	17	36,322	48,728
Advances from customers		6,955	7,909
Income tax payable		48	355
Other taxes payable	18	3,074	2,173
Total current liabilities		**64,099**	**68,504**
Total liabilities		**138,263**	**147,997**
TOTAL EQUITY AND LIABILITIES		**142,074**	**152,943**

PJSC "CHELYABINSK PIPE PLANT"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(millions of Russian Roubles, unless otherwise stated)

	Notes	2018	2017
Revenue	19	178,840	158,257
Cost of sales	20	(134,554)	(120,685)
Gross profit		**44,286**	**37,572**
Distribution costs	21	(9,357)	(10,518)
General and administrative expenses	22	(13,308)	(10,765)
Loss on disposal of property, plant and equipment and intangible assets		(7)	(163)
Impairment of assets	23	(1,488)	(278)
Operating profit		**20,126**	**15,848**
Finance income	24	417	600
Finance costs	24	(9,425)	(9,653)
Foreign exchange loss, net		(366)	(689)
Share of gain of associates and joint ventures		4	7
Dividend income		9	10
Gain on disposal of subsidiaries		–	88
Profit before income tax		**10,765**	**6,211**
Income tax	25	(3,039)	(2,179)
PROFIT FOR THE YEAR		**7,726**	**4,032**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on retirement benefits		25	34
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income		(466)	–
Exchange differences income on translating of foreign operations		515	460
Other comprehensive income for the year		**74**	**494**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,800**	**4,526**
Profit/(loss) for the year attributable to:			
Owners of the Company		7,821	4,323
Non-controlling interests		(95)	(291)
		7,726	**4,032**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		7,847	4,745
Non-controlling interests		(47)	(219)
		7,800	**4,526**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	26	25.77	13.95

	Notes	2018	2017
Operating activities			
Profit before income tax		10,765	6,211
Adjustments for:			
Depreciation and amortisation	20, 21, 22	6,893	7,388
Changes in pension and payroll accruals		(57)	99
Changes in allowance for inventory	20	148	(201)
Impairment of assets	23	1,488	278
Loss on disposals of property, plant and equipment and intangible assets		7	163
Share of gain of associates		(4)	(7)
Gain on disposal of subsidiary		–	(88)
Finance income	24	(417)	(600)
Finance costs	24	9,425	9,653
Dividend income		(9)	(10)
Foreign exchange differences on non-operating items		372	475
Other non-cash movements		39	(118)
Operating cash flows before working capital changes		**28,650**	**23,243**
Movements in working capital			
Decrease/(increase) in accounts receivable and prepayments		7,610	(7,289)
Decrease/(increase) in inventories		4,683	(8,744)
(Decrease)/increase in trade and other payables		(12,958)	26,157
Cash generated from operations		**27,985**	**33,367**
Income tax paid		(4,346)	(1,347)
Interest paid		(9,117)	(14,666)
Interest received		308	531
Net cash generated from operating activities		**14,830**	**17,885**
Investing activities			
Purchase of property, plant and equipment		(4,425)	(4,747)
Purchase of intangible assets		(1,067)	(589)
Purchase of other current and non-current assets		(11)	(2)
Proceeds from sale of property, plant and equipment		19	35
Net cash inflow on disposal of subsidiary		–	144
Net cash outflow on acquisition of joint venture		(40)	(10)
Dividends received		15	12
Proceeds from loans repaid		361	1,155
Loans given		(821)	(1,488)
Net cash used in investing activities		**(5,969)**	**(5,490)**
Financing activities			
Proceeds from borrowings		44,525	126,765
Repayment of borrowings		(42,684)	(131,438)
Payment of finance lease obligations		(141)	(130)
Cash paid to acquire treasury shares		–	(1,328)
Dividends payment	15	(3,709)	(3,338)
Advances (refunded)/received for sale of treasury share		(1,190)	1,190
Proceeds from government grant		719	243
Cash paid to acquire non-controlling interest	5	(5,504)	(188)
Net cash used in financing activities		**(7,984)**	**(8,224)**
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		1,583	112
Net increase in cash and cash equivalents		**2,460**	**4,283**
Cash and cash equivalents at the beginning of the year	14	19,094	14,811
Cash and cash equivalents at the end of the year	14	**21,554**	**19,094**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

(millions of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company								
	Share capital	Legal reserve	Translation reserve	Treasury shares	Actuarial gains reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**2,498**	**71**	**1,222**	**(18,280)**	**276**	**22,381**	**8,168**	**5,170**	**13,338**
Profit/(loss) for the year	–	–	–	–	–	4,323	4,323	(291)	4,032
Other comprehensive income	–	–	388	–	34	–	422	72	494
Total comprehensive income/(loss) for the year	–	–	**388**	–	**34**	**4,323**	**4,745**	**(219)**	**4,526**
Dividends (Note 15)			–	–	–	(3,338)	(3,338)	–	(3,338)
Acquisition of treasury shares	–	–	–	(1,328)	–	–	(1,328)	–	(1,328)
Disposal of derivatives	–	–	–	–	–	(6,958)	(6,958)	–	(6,958)
Acquisition of non-controlling interests (Note 9)	–	–	–	–	–	(31)	(31)	(157)	(188)
Balance at 31 December 2017	**2,498**	**71**	**1,610**	**(19,608)**	**310**	**16,377**	**1,258**	**4,794**	**6,052**
Effect of initial application of IFRS 9 (Note 4)	–	–	–	–	–	(1,099)	(1,099)	(7)	(1,106)
Adjusted balance at 1 January 2018	**2,498**	**71**	**1,610**	**(19,608)**	**310**	**15,278**	**159**	**4,787**	**4,946**
Profit/(loss) for the year	–	–	–	–	–	7,821	7,821	(95)	7,726
Other comprehensive income/(loss)	–	–	467	–	25	(466)	26	48	74
Total comprehensive income/(loss) for the year	–	–	**467**	–	**25**	**7,355**	**7,847**	**(47)**	**7,800**
Dividends (Note 15)	–	–	–	–	–	(3,756)	(3,756)	–	(3,756)
Acquisition of non-controlling interest (Notes 5, 9)	–	–	–	–	–	(53)	(53)	(5,451)	(5,504)
Contribution to non-controlling interests (Note 9)	–	–	–	–	–	(898)	(898)	898	–
Disposal of treasury shares (Note 15)	–	–	–	299	–	26	325	–	325
Balance at 31 December 2018	**2,498**	**71**	**2,077**	**(19,309)**	**335**	**17,952**	**3,624**	**187**	**3,811**

1. GENERAL INFORMATION

Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company" or "Chelpipe") was established as a state owned enterprise in 1942 and was incorporated as an open joint stock company on 21 October 1992 as part of and in accordance with the Russian government's privatisation programme. The Company's registered address is 21 Mashinostroiteley str., Chelyabinsk 454129, Russia. Hereinafter, the Company together with its subsidiaries are referred to as the Group.

From October 26, 2018 the immediate parent of the Company is ARBORDEEN INTERNATIONAL LIMITED, which owns 49.3969% of the Company's issued share capital. Earlier, the immediate parent of the Company was Mountrise Limited, which owned 51.9969%. Mr. A.I. Komarov is the ultimate controlling party of the Group.

The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group has four reportable segments, namely steel pipe production ("SPP"), oilfield services ("OFS"), trunk pipeline systems ("TPS") and scrap procurement ("Meta"). The Group is one of the largest pipe producers in Russia holding significant domestic market shares in welded large diameter pipes, oilfield tubular and stainless seamless pipes. The oilfield services segment manufactures and provides support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development. The Group's trunk pipeline systems segment produces highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

The Group's principal manufacturing facilities are based in the Ural and West Siberia regions of Russia and in the Czech Republic.

The Company's principal subsidiaries are disclosed in Note 5. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Financial condition and going concern

These consolidated financial statements have been prepared by management on the assumption that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realize its assets and discharge its liabilities in the normal course of business.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

Income and expenses of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Recognition of revenue from Contracts with Customers

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.
The transfer of the control occurs when the ownership of the asset is passed, under consideration that the transaction price allocated to the asset is fixed, measurable and the accounts receivable are chargeable from clients.

The Group recognises the transfer of the control on the sale of goods when the title to the goods has passed to the customer.

The Group recognises the revenue from the services when providing the services and under consideration that the cost can be reliably measured and the collectability of an amount of consideration is probable.

Revenue is measured at the fair value of the consideration received or receivable net of recoverable taxes and discounts.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognised impairment loss. Cost for qualifying assets includes borrowing costs incurred to finance construction of property, plant and equipment in accordance with the Group's accounting policy. Depreciation commences when the assets are ready for their intended use.

Spare parts, backup equipment and auxiliary equipment are recognized in the financial statements as property, plant and equipment in accordance with par. 8 IAS 16 "Property, Plant and Equipment", if the recognition criteria are satisfied.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the carrying amount of replaced part is derecognised.

The Group defines capitalized costs spent on capital repairs as the Component of the item of property, plant and equipment (the «Component»). The component is repaired/replaced on a regular basis as part of property, plant and equipment, that is separated from the total amount of capital repairs on the basis of the following criteria:

- The interrepair cycle of the repair/replacement of the component should exceed 18 months. If the frequency of the repairs/replacement of the component is less than 18 months, the costs spent on these capital repairs are not capitalized;
- The total costs of repairs/replacement of the component should exceed 1 or the price of the separate replaced spare part should exceed 0.1.

The separated component is classified to the same group as the repaired item of property, plant and equipment. The costs spent on the replacement of the components and the costs of the component itself are recognized as fixed assets.

At each reporting date, the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount and are recognised in profit or loss.

Depreciation

Land is not depreciated. Other property, plant and equipment represent fixed assets such as equipment and vehicles. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or valuation less estimated residual value over their estimated useful lives.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses.

Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects ("R&D"), directly attributable to the design and testing of new or improved products, are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of intangible assets (excluding goodwill)

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is estimated to be less than the carrying amount of the asset, an impairment loss is recognised immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial instruments classification

At initial recognition, the Group`s financial assets are classified as follows:

Measured at amortized cost

The assets of this category should meet the following conditions:

- the financial asset is held within a business model which objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classified cash and cash equivalents, trade and other receivables, bank deposits and loans receivable as financial assets measured at amortised cost.

Measured at fair value through other comprehensive income

This category includes financial assets which meet the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classifies investments (other than in the Company or its subsidiaries) into this category if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling.

Measured at fair value through profit or loss

Any financial assets that do not meet conditions for categories mentioned above are measured at fair value through profit or loss.

Key principals to recognition and measurement

At initial recognition, an entity may make an irrevocable election to measure the equity instrument not held for trading at fair value through other comprehensive income.

The Group reclassifies its financial assets only when the business-model for managing them changes. Reclassification is applied prospectively from the reclassification date. When the Group reclassifies a financial asset into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous carrying value of the financial asset and fair value is recognised in profit or loss. When the Group reclassifies a financial asset out of the fair value through profit or loss measurement category, its fair value at the reclassification date becomes its new carrying amount.

The Group recognises loans and trade receivables and deposits at the date of their origin/arising/receiving. Initial recognition of other financial assets occurs, when the entity becomes a party to the contract.

At initial recognition, an entity measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. The Group designates the difference between the fair value at initial recognition and the transaction price as a gain or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to estimate fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any of such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

The Group transfers a financial asset if, and only if, it either:

- transfers the contractual rights to receive the cash flows of the financial asset, or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

- if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset;
- if the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognises the financial asset;

- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset.
- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control of the financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received is recognised in profit or loss.

Previously recognised components of other comprehensive income relating to the financial asset transferred are charged to gain/loss in the period. If, as a result of a transfer, a new financial asset is obtained or a new financial liability is assumed, the Group recognises the new financial asset, financial liability at fair value.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Impairment

Debt instruments, measured at amortized cost or at fair value through other comprehensive income, are tested for impairment by the Group.

The Group does not recognise impairment of equity instruments and financial assets measured at fair value through profit or loss.

The Group applies the expected credit loss model for calculating loss allowances on financial assets measured at amortized value.

At the end of the reporting period the Group asseses the level of credit risks (default risk). Evidence that a financial asset is credit-impaired includes observable data about the following events:

- internal/external corporate credit rating;
- company`s credit losses;
- historical credit loss experience;
- forward-looking factors specific to the debtors;
- forward-looking factors specific to the economic environment;
- loss allowance at an amount equal to lifetime expected credit losses for financial instrument.

The Group applies the simplified approach to measurement of the loss allowance at an amount equal to lifetime expected credit losses on receivables measured at amortised cost in accordance with IFRS 9.

Expected credit losses are a probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The Group designates expected credit losses on the financial assets by recognizing losses allowance. Decrease in the amount of expected credit losses in subsequent periods results in reversal of the previously recognised loss allowance and increase of the carrying value.

The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. Impairment losses (reversal of impairment) are charged to financial income/expenses as they arise.

Trade and other receivables

Trade and other receivables measured at amortised cost using the effective interest method.

The allowance for impairment of financial trade and other receivables is estimated using expected credit loss approach. The allowance for impairment of non-financial trade and other receivables is estimated using incurred loss approach.

The allowances are evaluated using the corresponding approaches at each reporting date.

Loans receivable

At initial recognition, loans receivable are measured at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest rate method less any impairment recognised. Interest revenue is calculated by applying the effective interest rate.

The allowance for impairment of financial loans receivable is estimated using expected credit loss approach.

Liabilities carried at amortised cost

When a financial liability is recognised initially, it is measured at its fair value. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted using the effective interest rate method. Refer to Note 16 for the estimated fair values of borrowings.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense only if they are not related to qualifying assets in accordance with IAS 23 "Borrowing costs" and calculated based on a time proportion using the effective interest method.

Trade and other payables

Trade and other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Equity instruments - share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Equity instruments – treasury shares

Where any Group company purchases the Company's shares, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Any difference between the price of treasury shares sold and the price at which they were purchased is recognised through retained earnings. Treasury shares are accounted for on a weighted average basis.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.
At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs if a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" at the reporting date.

Advances paid

Advances paid are carried at cost less allowance for impairment. An advance is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year from reporting date, or when the advance relates to an asset which itself will be classified as non-current upon initial recognition. Advances to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off to profit or loss when the services relating to the advances are received. If there is an indication that the assets, goods or services relating to an advance will not be received, impairment loss is recognised in the consolidated statement of comprehensive income.

Income tax

Income tax has been provided in the consolidated financial statements in accordance with local legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties and interest are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution.

Value added tax

Value added taxes ("VAT") related to sales are payable to the tax authorities in the quarter in which the Group (a) receives an advance on sales or (b) records sales revenue. The VAT liability is paid in the quarter following accrual of the liability. VAT incurred for purchases may be reclaimed, subject to certain restrictions against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable at the reporting date is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable are reviewed for impairment at each reporting date.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter of their useful life or of the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

On operating leases, the total lease payments, are charged to profit or loss on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency in which the company primarily operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RUB").

Monetary assets and liabilities of Russian-based entities are translated into functional currency at the official exchange rate of the CBRF set at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Exchange rates for currency in which the Group had significant transactions are as follows:

	31 December 2018	**31 December 2017**
Exchange rates at the year-end (Russian roubles)		
1 U.S. Dollar	69.4706	57.6002
1 Euro	79.4605	68.8668
1 Czech Koruna	3.0883	2.6931

	2018	**2017**
Average exchange rates for the year (Russian roubles)		
1 U.S. Dollar	62.7078	58.3529
1 Euro	73.9546	65.9014
1 Czech Koruna	2.8794	2.4930

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts represent an implicit cost of employing production workers and administrative workers and, accordingly, have been charged to the consolidated statement of comprehensive income as cost of sales, distribution costs or general and administrative expenses depending on the nature of work performed by the employee.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

In addition, Group companies operate various pension schemes. The schemes are generally funded through payments to pension insurance plans. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are recognised as employee benefit expense when they are due.

A defined benefit plan is a pension plan under which the Group pays pension benefits to an employee on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the unfunded defined benefit obligation at the reporting date, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit for the period in the period in which they arise.

Pension plan liabilities under defined benefit plans are included in line "Retirement benefit obligations" in the consolidated statement of financial position. The Group did not have pension plan assets at the reporting date.

Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants relating to assets are included in non-current or current liabilities as deferred revenue.The Group recognizes government grants as income in the same periods as the corresponding costs if any associated with government grants. Grants related to depreciable assets are recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from estimates. Management also makes certain judgments, apart from those involving estimates, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of goodwill

The Group tests goodwill for impairment at least annually, at the cash-generating units ("CGU") level using value-in-use calculations.

The value-in-use calculation is based on projections for expected discounted cash flows and takes into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term financial and economic forecasts.

Goodwill was allocated to the following CGUs: Meta, OFS and TPS. All CGUs were tested for impairment at 31 December 2018. The tests carried out did not identify any additional impairment of goodwill to previously recognized impairment (Note 9).

Impairment of tangible assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

At 31 December 2018, a number of property, plant and equipment and capital works-in-progress are shown net of an impairment provision in amount of 1,274 (31 December 2017: 772) as disclosed in Note 7.

Deferred taxes

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on estimates, the Group recognised at 31 December 2018 a deferred tax asset in the amount of 694 (31 December 2017: 708) in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits (Note 25).

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgment is applied in determining which entities are related parties of the Group. In applying this judgment, management obtains listing of the major shareholders' interests in other entities on a regular basis, it monitors the level of transactions with any individual entity, and reports identified related parties to those charged with governance for their review and approval on an annual basis.

Accounts receivable

At initial recognition receivables are measured at fair value. Fair value of long-term and short-term trade receivables (interest-free) from major counterparties is calculated as present value of all future cash flows discounted using the prevailing market interest rate for the financial instruments with a similar credit rating. In the subsequent periods, receivables are measured at amortised cost using the effective interest method. Short-term receivables free from interest from other counterparties are measured at the original invoice amount if the effect of discounting is immaterial.

The Group recognises the bad debt provision (non-financial receivables) using the incurred loss approach to account for estimated losses resulting from
inability of customers to pay.

The Group recognises loss allowance for expected credit losses to account for losses resulting from inability of customers (financial receivables) to pay.

At 31 December 2018, expected credit losses amounted to 3,881 (31 December 2017: 3,319) as disclosed in Note 12.

Estimating loss allowance, the CODM reviews current overall economic conditions, ageing of the accounts receivable balances and other data:

- internal/external corporate credit rating;
- company`s credit losses;
- historical credit loss experience;
- forward-looking factors specific to the debtors;
- forward-looking factors specific to the economic environment;
- loss allowance at an amount equal to lifetime expected credit losses for financial instrument.

Fluctuations in economic environment, industry or customer-specific conditions may require revaluation of the recognised allowance presented in the consolidated financial statements.

Inventory obsolescence

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, among other things, arm's length transactions in the period around the reporting date. At 31 December 2018, the allowance for inventory obsolescence amounted to 1,165 (31 December 2017: 1,048) as disclosed in Note 11.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and equipment	5 to 30
Other	3 to 15

The factors that could affect the estimation of useful lives and residual values of the Group's assets include the following:

- Changes in asset utilisation rates;
- Changes in regulations and legislation;
- Changes in the Group's business plans; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new standards, amendments to standards or interpretations were adopted by the Group in these interim condensed consolidated financial statements:

- IFRS 9 "Financial Instruments";
- IFRS 15 "Revenue from Contracts with Customers (and the related Clarifications)";
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions";
- Amendments to IAS 40 "Transfers of Investment Property";
- Amendments to IFRS 4 "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts";
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- Annual Improvements to IFRSs 2014-2016 Cycle.

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2018 had no material effect on the interim condensed consolidated financial statements of the Group, except for effect of application of IFRS 9 described below.

IFRS 9 "Financial Instruments"

In 2018, the Group adopted IFRS 9 "Financial Instruments". This standard introduced new requirements for classification and measurement of financial instruments and for recognition of impairment of financial assets.

Classification

Financial assets of the Group were divided into the following categories:

Measured at amortised cost

The assets of this category should meet the following conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classified cash and cash equivalents, trade and other receivables, bank deposits and loans receivable as financial assets measured at amortised cost.

Measured at fair value through other comprehensive income

This category includes financial assets which meet the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group reclassified investment to CJSC "TechnoInvest Aliance" as financial asset measured at fair value through other comprehensive income. It was previously classified as available-for-sale and measured at cost.

Measured at fair value through profit or loss

Any financial assets that do not meet conditions for categories mentioned above are measured at fair value through profit or loss.

Impairment

The Group applies the 'expected credit losses' model ("ECL model") as opposed to an 'incurred credit loss model' under IAS 39. The ECL model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Group applies the simplified approach to recognise lifetime expected credit losses for its accounts receivables carried at amortised cost in accordance with IFRS 9.

Effect of initial application of IFRS 9

The Group used the modified retrospective approach for initial application of IFRS 9. Effect of application was recognized in the consolidated statement of changes in equity as an adjustment of opening balance of retained earnings and non-controlling interests at 1 January 2018.

Effect of initial application of IFRS 9 on the carrying amount of the particular types of financial assets as follows (excluding deferred tax effect):

	At 31 December 2017	Effect of initial application of IFRS 9	At 31 December 2017 (adjusted)
Non-current assets			
Other financial assets	3,213	663	3,876
Loans receivable	583	(107)	476
Trade and other receivable	131	(111)	20
Current assets			
Trade and other receivables	37,225	(1,661)	35,564
Loans receivable	915	(1)	914
Total		**(1,217)**	

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 16 "Leases"[1];
- IFRS 17 "Insurance Contracts"[2];
- IFRIC 23 "Uncertainty Over Income Tax Treatments"[2];
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"[3];
- Amendments to IFRS 9 "Prepayment Features With Negative Compensation"[1];
- Amendments to IAS 28 "Long-Term Interests in Associates and Joint Ventures"[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[1].

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[3] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will replace the current lease guidance including IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any revaluation of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 is effective for annual reporting periods beginning on 1 January 2019, the Group does not intend the early adoption of IFRS 16. The modified retrospective approach is to be applied for the purpose of transition to the new standard. According to this approach, impact of IFRS 16 application is measured at the date of initial application. The Group management now assesses the potential impact of adoption of IFRS 16 on the consolidated financial statements.

The impact of the adoption of other Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by the Group's management, however, no material effect on the Group's financial position or results of its operations is anticipated.

5. SUBSIDIARIES

The Company's effective ownership interest of principal subsidiaries, including the Company's ownership interest through its subsidiaries, is as follows:

				Effective ownership, %	
Subsidiary	**Country of incorporation**	**Activities**	**Operating segment**	**31 December 2018**	**31 December 2017**
JSC Pervouralsk New Pipe Plant (PNTZ)	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House (UTS)	Russia	Pipe distribution	SPP	100.00%	100.00%
LLC Meta	Russia	Scrap procurement	Meta	100.00%	100.00%
JSC Samaravtormet	Russia	Scrap procurement	Meta	98.05%	98.05%
OJSC UNP Vtorchermet	Russia	Scrap procurement	Meta	100.00%	100.00%
LLC Meta-Invest	Russia	Rent of property	Meta	100.00%	100.00%
JSC Pipeline Bends (SOT)	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s. (MSA)	Czech Republic	Manufacturing and distribution of pipeline valves	TPS	100.00%	50.11%
LLC ETERNO	Russia	Manufacturing and distribution of pressed and welded components of pipelines	TPS	100.00%	50.11%
JSC RIMERA	Russia	Oilfield services	OFS	100.00%	100.00%
OOO ALNAS (ALNAS)	Russia	Oilfield services	OFS	100.00%	100.00%
PJSC Izhneftemash (INM)*	Russia	Oilfield services	OFS	88.38%	74.99%
OOO RIMERA-Service	Russia	Oilfield services	OFS	100.00%	100.00%

* Adjusted for preferred shares that belong to non-controlling interests.

In 2018 the Group acquired the non-controlling interest of LLC ETERNO and MSA a.s. from a related party for a total amount of 5,300 and the non-controlling interest of INM from a third party for a total amount of 204.

6. SEGMENT REPORTING

The Group has identified the following segments based upon reports used by the chief operating decision maker ("CODM"):

- Steel pipe production ("SPP") – representing manufacturing and distribution of pipes and other related products;
- Oilfield services ("OFS") – representing equipment manufacturing and support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development; and
- Trunk pipeline systems ("TPS") – representing production of highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.
- Scrap procurement ("Meta") – representing procurement, storage, recycling of ferrous and non-ferrous scrap metal including collection, sorting, shredding, processing, etc.,with further selling of scrap metal.

In 2018 Scrap procurement was presented by the CODM as an individual reporting segment for the purposes of analyzing information and making decisions (previously it was reported as a part of "SPP" segment).

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Impairment loss provisions relate only to those charges made against allocated assets.

The CODM assesses the financial performance of the each segment separately for the purpose of making decisions about resource allocation and performance evaluation. Segment performance is estimated based on the adjusted EBITDA.

Adjusted EBITDA is determined as profit/loss for the period adjusted by finance income and costs, income tax, depreciation and amortization, foreign exchange gain/loss, change in fair value of derivatives, gain/loss on disposal of subsidiaries, gain/loss on disposal of property plant and equipment and intangible assets, impairment of advances for capital construction, changes in allowance for impairment of loans receivable, interest receivable, property plant and equipment and intangible assets, social and charity expenses, not related to operating activities, and excess of the Group's share in provisional value of net assets acquired over the cost of acquisition ("Segment EBITDA"). Because of this term is not defined in IFRS, the Group's definition of Segment EBITDA may differ from that of other companies.

The segment information presented is based on information reviewed by the CODM, which differs from IFRS. Reconciliations are provided for the differences between this information and the information included in the consolidated financial statements. The adjustments between the information reviewed by the CODM and IFRS financial information (included in the Adjustment column in the following tables) include the following:

- Reclassifications – the CODM reviews information classified and presented in conformity with Russian statutory accounting which includes recording amounts gross versus net, and aggregating and reclassifying some line items for purpose of making decisions about resources allocation to a segment and assessing its performance; and
- Other adjustments – other adjustments arise due to differences between IFRS and statutory accounting and they are primarily related to adjustments for impairment of property, plant and equipment; intangible assets,trade and other receivables; discounting of borrowings; and recalculation of deferred taxes.

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2018 is as follows:

	Segment information as reviewed by CODM						
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Eliminations**	**Total as per IFRS consolidated financial statements**
Revenue from external customers	151,169	12,344	3,063	12,221	43	–	178,840
Inter–segment revenue	2,975	1,114	3,485	18,549	–	(26,123)	–
Cost of sales	(115,959)	(10,590)	(5,263)	(29,469)	(72)	26,799	(134,554)
Distribution costs	(7,835)	(297)	(307)	(449)	(507)	38	(9,357)
General and administrative expenses	(10,282)	(1,718)	(595)	(609)	610	(714)	(13,308)
Impairment of assets	(1,127)	(232)	19	(148)	–	–	(1,488)
Share of gain of associates	–	4	–	–	–	–	4
Dividend income	9	–	–	–	–	–	9
Less: impairment of property, plant and equipment	713	15	–	–	–	–	728
Less: impairment of advances for capital construction	25	–	–	–	–	–	25
Less: reversal of impairment of loans receivable	30	172	(1)	11	–	–	212
Less: social and charity expenses	217	1	1	–	–	–	219
Less: depreciation and amortisation	4,152	1,922	674	145	–	–	6,893
Adjusted segment EBITDA	**24,087**	**2,735**	**1,076**	**251**	**74**	–	**28,223**
Depreciation and amortisation	(4,152)	(1,922)	(674)	(145)	–	–	(6,893)
Impairment of property, plant and equipment	(713)	(15)	–	–	–	–	(728)
Impairment of advances for capital construction	(25)	–	–	–	–	–	(25)
Reversal of impairment of loans receivable	(30)	(172)	1	(11)	–	–	(212)
Social and charity expenses	(217)	(1)	(1)	–	–	–	(219)
Finance income	430	29	47	34	(9)	(114)	417
Finance costs	(9,202)	(245)	(20)	(38)	(34)	114	(9,425)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(86)	73	(1)	7	–	–	(7)
Foreign exchange (loss)/gain, net	(330)	(41)	4	1	–	–	(366)
Income tax	(2,533)	(178)	(202)	(116)	(10)	–	(3,039)
Profit/(loss) for the year	**7,229**	**263**	**230**	**(17)**	**21**	–	**7,726**

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2017 is as follows:

	Segment information as reviewed by CODM						Total as per IFRS consolidated financial statements
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Eliminations**	
Revenue from external customers	135,206	11,407	2,571	9,020	53	–	158,257
Inter–segment revenue	2,396	1,007	2,341	13,485	–	(19,229)	–
Cost of sales	(104,274)	(10,462)	(4,147)	(21,271)	(52)	19,521	(120,685)
Distribution costs	(9,074)	(275)	(369)	(380)	(538)	118	(10,518)
General and administrative expenses	(7,791)	(1,383)	(598)	(724)	141	(410)	(10,765)
Impairment of assets	(68)	(99)	(6)	(47)	(58)	–	(278)
Share of gain of associates	–	–	–	–	7	–	7
Dividend income	15	–	3	–	(8)	–	10
Less: impairment of property, plant and equipment	22	8	–	–	(1)	–	29
Less: impairment of advances for capital construction	100	–	–	–	–	–	100
Less: reversal of impairment of loans receivable	(11)	–	–	–	–	–	(11)
Less: social and charity expenses	97	7	1	–	–	–	105
Less: depreciation and amortisation	4,746	1,824	662	109	47	–	7,388
Adjusted segment EBITDA	**21,364**	**2,034**	**458**	**192**	**(409)**	–	**23,639**
Depreciation and amortisation	(4,746)	(1,824)	(662)	(109)	(47)	–	(7,388)
Impairment of property, plant and equipment	(22)	(8)	–	–	1	–	(29)
Impairment of advances for capital construction	(100)	–	–	–	–	–	(100)
Reversal of impairment of loans receivable	11	–	–	–	–	–	11
Social and charity expenses	(97)	(7)	(1)	–	–	–	(105)
Finance income	998	57	134	12	(4)	(597)	600
Finance costs	(9,433)	(730)	(75)	(29)	17	597	(9,653)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(270)	(4)	–	96	15	–	(163)
Foreign exchange (loss)/gain, net	(708)	(14)	40	(1)	(6)	–	(689)
Gain on disposal of subsidiaries	88	–	–	–	–	–	88
Income tax	(1,865)	(134)	(85)	(67)	(28)	–	(2,179)
Profit/(loss) for the year	**5,220**	**(630)**	**(191)**	**94**	**(461)**	–	**4,032**

Segment information related to the Group's consolidated statement of financial position at 31 December 2018 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Total as per IFRS consolidated financial statements**
Non-current assets	81,522	9,112	13,971	1,607	(41,604)	64,608
Current assets	67,662	5,859	5,623	3,150	(4,829)	77,465
Total assets	**149,184**	**14,971**	**19,594**	**4,757**	**(46,433)**	**142,073**
Non-current liabilities	72,511	1,484	228	19	(79)	74,163
Current liabilities	58,224	5,779	2,611	2,138	(4,653)	64,099
Total liabilities	**130,735**	**7,263**	**2,839**	**2,157**	**(4,732)**	**138,262**

Segment information related to the Group's consolidated statement of financial position at 31 December 2017 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Total as per IFRS consolidated financial statements (restated)**
Non-current assets	70,212	8,500	11,439	225	(24,232)	66,144
Current assets	89,917	6,157	5,350	2,629	(17,254)	86,799
Total assets	**160,129**	**14,657**	**16,789**	**2,854**	**(41,486)**	**152,943**
Non-current liabilities	77,977	2,224	232	2	(942)	79,493
Current liabilities	66,840	12,590	2,623	1,330	(14,879)	68,504
Total liabilities	**144,817**	**14,814**	**2,855**	**1,332**	**(15,821)**	**147,997**

Group's revenue: geographical segments

The Group operates in three main geographical areas. Sales are based on the country in which the customer is located. The geographical distribution of the Group's sales is presented in the table below:

	2018	**2017**
Russian Federation	144,251	125,223
Foreign countries	21,420	25,897
Commonwealth of Independent States	13,169	7,137
Total revenue	**178,840**	**158,257**

Group revenue: major customers

The Group's sales to major customers are set out in the table below:

	2018	**2017**
Customer 1	24,395	25,070
Customer 2	21,312	23,838
Customer 3	17,733	15,795
Total revenue	**63,440**	**64,703**

7. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Notes	Land	Buildings	Infrastruc-ture	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2017		527	34,226	3,846	66,892	5,185	3,218	113,894
Accumulated depreciation at 1 January 2017		–	(10,918)	(2,409)	(43,149)	(3,435)	–	(59,911)
Accumulated impairment at 1 January 2017		–	(150)	(67)	(345)	(15)	(262)	(839)
Carrying amount at 1 January 2017		**527**	**23,158**	**1,370**	**23,398**	**1,735**	**2,956**	**53,144**
Additions and transfers		–	357	66	4,537	460	(177)	5,243
Disposals (cost)		(1)	(190)	(7)	(1,948)	(418)	(112)	(2,676)
Effect of translating from functional to presentation currency (cost)		4	170	–	88	24	1	287
Disposals (accumulated depreciation)		–	26	5	1,311	125	–	1,467
Disposals (accumulated impairment)		–	1	–	24	–	71	96
Depreciation charge		–	(820)	(131)	(5,894)	(312)	–	(7,157)
Effect of translating from functional to presentation currency (depreciation)		–	(31)	–	(55)	(14)	–	(100)
Impairment recognised	23	–	–	–	–	–	(47)	(47)
Impairment reversed	23	–	–	7	–	–	11	18
Disposal of subsidiary (cost)		–	(59)	(1)	(7)	(1)	–	(68)
Disposal of subsidiary (accumulated depreciation)		–	46	1	5	1	–	53
Cost or valuation at 31 December 2017		530	34,504	3,904	69,562	5,250	2,930	116,680
Accumulated depreciation at 31 December 2017		–	(11,697)	(2,534)	(47,782)	(3,635)	–	(65,648)
Accumulated impairment at 31 December 2017		–	(149)	(60)	(321)	(15)	(227)	(772)
Carrying amount at 31 December 2017		**530**	**22,658**	**1,310**	**21,459**	**1,600**	**2,703**	**50,260**
Additions and transfers		17	275	78	4,934	468	409	6,181
Disposals (cost)		–	(231)	(18)	(2,663)	(369)	(237)	(3,518)
Effect of translating from functional to presentation currency (cost)		4	202	–	103	29	2	340
Disposals (accumulated depreciation)		–	114	10	1,814	302	–	2,240
Disposals (accumulated impairment)		–	9	–	21	–	159	189
Reclassification (cost)		4	(1,885)	3,548	(1,930)	263	–	–
Depreciation charge		–	(729)	(246)	(5,948)	(319)	–	(7,242)
Effect of translating from functional to presentation currency (depreciation)		–	(43)	–	(71)	(17)	–	(131)
Impairment recognised	23	–	–	–	(25)	–	(676)	(701)
Impairment reversed	23	–	–	–	–	–	10	10
Reclassification (depreciation)		–	611	(1,918)	1,505	(198)	–	–
Cost or valuation at 31 December 2018		555	32,865	7,512	70,006	5,641	3,104	119,683
Accumulated depreciation at 31 December 2018		–	(11,744)	(4,688)	(50,482)	(3,867)	–	(70,781)
Accumulated impairment at 31 December 2018		–	(140)	(60)	(325)	(15)	(734)	(1,274)
Carrying amount at 31 December 2018		**555**	**20,981**	**2,764**	**19,199**	**1,759**	**2,370**	**47,628**

At 31 December 2018, bank borrowings were secured by property, plant and equipment with carrying value of 70 (31 December 2017: 1,220) (Note 28). Additionally at 31 December 2018, the Group has 343 of plant and equipment under finance leases (31 December 2017: 385). The entire amount guarantees the related finance lease obligation as disclosed in Note 16.

8. INTANGIBLE ASSETS

	Note	Software	Know–how	Lease rights	Development cost capitalised	Other	Total
Cost at 1 January 2017		686	8	171	1,083	606	2,554
Accumulated amortisation at 1 January 2017		(365)	(4)	(35)	(93)	(462)	(959)
Accumulated impairment at 1 January 2017		(8)	–	(78)	(14)	–	(100)
Carrying amount at 1 January 2017		**313**	**4**	**58**	**976**	**144**	**1,495**
Additions and transfers		252	2	16	250	149	669
Disposals (cost)		(50)	–	(25)	(53)	(30)	(158)
Reclassification (cost)		(15)	–	–	2	13	–
Effect of translating from functional to presentation currency (cost)		3	–	–	–	2	5
Effect of translating from functional to presentation currency (amortisation)		(2)	–	–	–	(1)	(3)
Disposals (accumulated amortisation)		46	–	25	2	23	96
Disposals (accumulated impairment)		–	–	–	14	–	14
Amortisation charge		(98)	(1)	(30)	(91)	(46)	(266)
Reclassification (amortisation)		4	–	–	–	(4)	–
Cost at 31 December 2017		876	10	162	1,282	740	3,070
Accumulated amortisation at 31 December 2017		(415)	(5)	(40)	(182)	(490)	(1,132)
Accumulated impairment at 31 December 2017		(8)	–	(78)	–	–	(86)
Carrying amount at 31 December 2017		**453**	**5**	**44**	**1,100**	**250**	**1,852**
Additions and transfers		669	–	–	353	132	1,154
Disposals (cost)		(22)	–	–	(22)	(113)	(157)
Reclassification (cost)		–	–	(14)	–	14	–
Effect of translating from functional to presentation currency (cost)		9	–	–	–	3	12
Effect of translating from functional to presentation currency (amortisation)		(9)	–	–	–	(1)	(10)
Disposals (accumulated amortisation)		21	–	–	92	39	152
Disposals (accumulated impairment)		8	–	–	–	–	8
Amortisation charge		(122)	(1)	(14)	(129)	(66)	(332)
Reclassification (amortisation)		(9)	–	7	(3)	5	–
Imparement recognized	23	–	–	–	(37)	–	(37)
Cost at 31 December 2018		1,532	10	148	1,613	776	4,079
Accumulated amortisation at 31 December 2018		(534)	(6)	(47)	(222)	(513)	(1,322)
Accumulated impairment at 31 December 2018		–	–	(78)	(37)	–	(115)
Carrying amount at 31 December 2018		**998**	**4**	**23**	**1,354**	**263**	**2,642**

9. GOODWILL AND NON–CONTROLLING INTERESTS

Movements of goodwill allocated by CGUs and non–controlling interests are presented in the table below:

	2018		2017	
	Goodwill	**Non–controlling interests**	**Goodwill**	**Non–controlling interests**
At 1 January	**7,942**	**(4,794)**	**7,613**	**(5,170)**
Cost	16,696	(4,794)	16,589	(5,170)
Accumulated impairment	(8,754)	–	(8,976)	–
IFRS 9 (first adoption impact)	–	7	–	–
At 1 January adjusted	**7,942**	**(4,787)**	**7,613**	**(5,170)**
Cost	16,696	(4,787)	16,589	(5,170)
Accumulated impairment	(8,754)	–	(8,976)	–
Loss attributable to non-controlling interests	–	95	–	291
Decrease due to disposal				
Logistic Severo-Zapad (CGU Pipe)				
Cost	–	–	(222)	–
Accumulated impairment	–	–	222	–
Contribution to non-controlling interests				
ETERNO (CGU TPS)	–	(898)	–	–
Purchase of non-controlling interest				
ETERNO (CGU TPS)	–	4,776	–	–
MSA (CGU TPS)	–	464	–	–
INM (CGU OFS)	–	211	–	157
Effect of translating from functional to presentation currency (cost)				
MSA (CGU TPS)	390	(48)	329	(72)
At 31 December	**8,332**	**(187)**	**7,942**	**(4,794)**
Cost	17,086	(187)	16,696	(4,794)
Accumulated impairment	(8,754)	–	(8,754)	–

Goodwill acquired is allocated to the Group's cash–generating units, which are TPS, Meta and OFS.

The goodwill allocation to the Group's cash generating units is presented in the table below:

	31 December 2018	31 December 2017
TPS	6,930	6,540
Meta	733	733
OFS	669	669
Total carrying value of goodwill	**8,332**	**7,942**

Goodwill impairment test

The recoverable amount of a CGU is determined based on value–in–use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five–year period. Cash flows beyond the five–year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long–term average growth rate for the business in which the CGU operates.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to CGU.

At 31 December 2018, the Group tested goodwill for impairment using following key assumptions for value–in–use calculations:

	TPS	Meta	OFS
Excess of recoverable amounts over carrying values of CGU	1,133	1,529	3,433
Used key assumptions			
EBITDA margin	20%-22%	1%	19%-30%
Discount rate	14.53%	12.62%	13.86%
Terminal growth rate	4%	4%	3%

The recoverable amount of the TPS CGU would be equal to its carrying value if the EBITDA margin decreased by 1.3 percentage points or applicable discount rate increased by 1.8 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the Meta CGU would be equal to its carrying value if the EBITDA margin decreased by 2.3 percentage points or applicable discount rate increased by 10.7 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decreased by 2.5 percentage points or applicable discount rate increased by 4.4 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

10. OTHER FINANCIAL ASSETS

In 2011, the Group acquired 30% of the ordinary share capital of CJSC TechnoInvest Aliance ("TechnoInvest") from a third party for a cash consideration of 3,213. The company owns the significant asset – a mineral resource license, and no operating activity exists at the moment. The Group classified such investment as a financial asset available-for-sale and included it in the separate line "Other financial assets" in the consolidated statement of financial position.

TechnoInvest has conducted exploration and evaluation of mineral resources, pilot testing of complex ore processing and developed a technology for production of rare and rare earth metals. Currently design and survey work are being conducted. Achievement of the payback of the project depends on future events, including the usage of a license permitting the extraction of mineral resources. To date TechnoInvest has been reliant on borrowings and equity provided by concerned parties. To continue its planned exploration and development activities TechnoInvest will continue to be reliant on funding provided by concerned parties or successfully raise alternative sources of equity or debt finance.

In 2018, the Group adopted IFRS 9 "Financial Instruments". This standard introduced new requirements for classification and measurement of financial instruments and for recognition of impairment of financial assets.

The Group reclassified investment to TechnoInvest as financial asset measured at fair value through other comprehensive income. It was previously classified as available-for-sale and measured at cost.

At December 2018 the fair value of investments in TechnoInvest was measured by independent professional appraiser comprised 3,294 (31 December 2017: 3,876)

11. INVENTORY

	31 December 2018	31 December 2017
Raw materials	14,570	16,371
Finished goods and goods for resale	6,247	9,217
Work in progress	6,064	5,840
Allowance for inventory	(1,165)	(1,048)
Total inventory	**25,716**	**30,380**

At 31 December 2018 bank borrowings were not secured by inventory (31 December 2017: 185) (Note 28).

12. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017 (restated)
Non-current trade and other receivables		
Trade receivables	206	111
Interest receivable	60	20
Other receivables	104	–
Allowance for impairment of trade, interest and other receivables	(229)	(111)
Total financial assets in long-term receivables	**141**	**20**
Advances and prepayments	3	–
Total non-financial assets in long-term receivables	**3**	–
Total non-current trade and other receivables	**144**	20
Current trade and other receivables		
Trade receivables	24,852	29,900
Interest receivable	805	721
Other receivables	2,000	1,775
Allowance for impairment of trade, interest and other receivables	(3,457)	(3,109)
Total financial assets in short-term receivables	**24,200**	**29,287**
VAT and other taxes recoverable	2,078	3,896
Advances and prepayments	1,916	2,480
Allowance for impairment of advances and prepayments	(195)	(99)
Total non-financial assets in short-term receivables	**3,799**	**6,277**
Total current trade and other receivables	**27,999**	**35,564**
Total trade and other receivables	**28,143**	**35,584**

The Group usually provides customers with an average of 25–60 days credit. For major customers the Group can provide an average credit of 90–120 days. The ageing analysis of gross trade, interest and other receivables (except advances and prepayments), based on maturity date, is as follows:

	31 December 2018	31 December 2017
Current due	23,332	28,730
1-30 days past due	1,650	1,292
31-60 days past due	213	342
61-90 days past due	88	290
91-180 days past due	268	220
181-365 days past due	979	334
More than 365 days	1,497	1,319
Total trade, interest and other receivables	**28,027**	**32,527**

Expected credit loss of trade, interest and other receivables (except advances and prepayments) is as follows:

	31 December 2018	31 December 2017
Current due	1,397	1,820
1-30 days past due	60	13
31-60 days past due	5	10
61-90 days past due	4	10
91-180 days past due	19	20
181-365 days past due	835	75
More than 365 days	1,366	1,272
Total amount of expected credit loss of trade, interest and other receivables	**3,686**	**3,220**

Net amount of trade, interest and other receivables (except advances and prepayments) is as follows:

	31 December 2018	31 December 2017
Current due	21,935	26,910
1-30 days past due	1,590	1,279
31-60 days past due	208	332
61-90 days past due	84	280
91-180 days past due	249	200
181-365 days past due	144	259
More than 365 days	131	47
Net amount of trade, interest and other receivables excepting credit loss	**24,341**	**29,307**

Movements in the allowance for impairment of trade, interest and other receivables, advances and prepayments are as follows:

	Trade, interest and other receivables		Advances and prepayments	
	2018	**2017**	**2018**	**2017**
At 1 January	**(1,448)**	**(1,471)**	**(99)**	**(167)**
Effect of initial application of IFRS 9 (Note 4)	(1,772)	–	–	–
At 1 January (adjusted)	**(3,220)**	**(1,471)**	**(99)**	**(167)**
Allowance recorded (Note 23)	(1,995)	(445)	(121)	(90)
Allowance reversed (Note 23)	1,407	262	2	103
Effect of translating from functional to presentation currency		(4)	(5)	–
Receivables written–off during the year as uncollectible	122	210	28	55
At 31 December	**(3,686)**	**(1,448)**	**(195)**	**(99)**

At 31 December 2018, bank borrowings were not secured by accounts receivable (31 December 2017: 173) (Note 28).

13. LOANS RECEIVABLE

	31 December 2017	31 December 2017 (restated)
Non–current loans receivable		
Loans receivable from related parties at interest rate as follows		
– 7.5% to 10.5% p.a.	267	519
– CBRF Key rate +1.5-2% p.a.	263	–
Loans receivable from third parties at interest rates as follows		
– 0.01% p.a. (bank deposit)	10	–
– 7.5% to 10.5% p.a.	25	64
Allowance for impairment of loans receivable	–	(107)
Total non-current loans receivable	**565**	**476**
Current loans receivable		
Loans receivable from related parties at interest rates as follows		
– 5 to 6.1% p.a.	59	26
– 8.7 to 8.75% p.a.	427	250
– 10.25% to 13% p.a.	249	324
– CBRF Key rate + 1% p.a.	141	–
– CBRF Key rate + 2% p.a.	32	32
Loans receivable from third parties at interest rates as follows		
– 0.01% p.a. (bank deposit)	10	108
– 1 to 3 % p.a.	417	–
– 3 to 5% p.a.	137	114
– 7.5% to 8.5% p.a.	42	175
Allowance for impairment of loans receivable	(266)	(115)
Total current loans receivable	**1,248**	**914**
Total loans receivable	**1,813**	**1,390**

Changes in the allowance for impairment of loans receivable were as follows:

	2018	2017
At 1 January	**(114)**	**(111)**
Effect of initial application of IFRS 9 (Note 4)	(108)	–
At 1 January (adjusted)	**(222)**	**(111)**
Allowance recorded (Note 23)	(28)	–
Allowance reversed (Note 23)	–	11
Effect of translating from functional to presentation currency	(16)	(14)
At 31 December	**(266)**	**(114)**

14. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand and balances with banks, RUB	9,695	7,161
Cash balances with banks, Euro, Czech Koruna and other currencies	8,760	6,612
Cash balances with banks, U.S. Dollar	411	4,535
Term deposits in RUB (interest rate: 0.01% to 7.5% p.a.)	2,472	786
Term deposits in U.S. Dollar (interest rate: 1.53% to 1.56% p.a.)	192	–
Term promissory notes	24	–
Total cash and cash equivalents	**21,554**	**19,094**

Balances with banks can be withdrawn on demand and are not interest–bearing. Term deposits have an original maturity of three months or less, and are interest–bearing.

15. EQUITY

At 31 December 2018, the total authorised number of ordinary shares is 472,382,880 shares with a par value of RUB 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote.

At 31 December 2017, the Group held 169,516,132 treasury shares for a total amount of 19,608. In October 2018, the Group sold 2,850,000 treasury shares to the final beneficiary for cash consideration of 325. At 31 December 2018, the Group held 166,666,132 treasury shares for a total amount of 19,309.

In 2018, the Company declared dividends in the amount of 3,756 and paid them in the amount of 3,709 (2017: dividends were declared and paid in amount of 3,338).

16. BORROWINGS

	31 December 2018	31 December 2017
Non–current borrowings		
Loans with fixed rates	32,065	21,554
Bonds payable	24,908	24,885
Loans with floating rates	14,281	30,010
Credit lines with fixed rates	997	511
Finance lease liabilities	24	57
Total non–current borrowings	**72,275**	**77,017**
Current borrowings		
Loans with fixed rates	7,558	2,478
Loans with floating rates	4,999	1,409
Credit lines with fixed rates	4,180	439
Credit lines with floating rates	724	4,881
Factoring	202	–
Finance lease liabilities	37	132
Total current borrowings	**17,700**	**9,339**
Total borrowings	**89,975**	**86,356**

Bonds payable

The bonds payable represent bonds of 001R programme issued by the Group in December 2016 and during 2017, as described below.

	BO–001R–01	BO–001R–02	BO–001R–03	BO–001R–04
Date of issue	December 2016	February 2017	March 2017	June 2017
Number of bonds	5,000,000	5,000,000	5,000,000	10,000,000
Par value, thousands of Russian Roubles	1	1	1	1
Total amount	**5,000**	**5,000**	**5,000**	**10,000**
Bonds expiry date	100% of par value at 1,456-th day from the date of placement	100% of par value at 1,820-th day from the date of placement	100% of par value at 2,548-th day from the date of placement	100% of par value at 3,640-th day from the date of placement
Coupon rate, % p.a.	10.75	9.85	9.7	8.95
Coupon yield payment period	Semi-annually	Semi-annually	Quarterly	Semi-annually

The carrying value of the bonds is presented in the table below:

	31 December 2018	31 December 2017
BO–001R–01	4,976	4,964
BO–001R–02	4,986	4,982
BO–001R–03	4,991	4,989
BO–001R–04	9,955	9,950
Total carrying value	**24,908**	**24,885**

Loans and credit lines

The Group has various borrowing agreements with lenders including loans, revolving credit facilities and letter of credit facilities.

During the period the Group entered into additional borrowing facilities totalling 34,419 which comprised loans of 19,000 and credit lines of 15,419, including the following:

- Credit lines totaling 13,900 expiring in January 2019, July, September, December 2021, February, December 2022, August and December 2023. The credit lines bear interest at rates varying between 8.40% to 10.7% p.a.;
- Credit lines denominated in US Dollar in the amount of 1,042 expiring in August 2019. The interest rate of LIBOR 1m + margin (1,4/1,5) and the interest rate is determined at the time of the loan drawdown.
- Credit lines denominated in Euro in the amount of 477 expiring in August 2019. The interest rate of LIBOR 1m + individual interest rate.

At 31 December 2018, the Group had available undrawn amounts under credit lines totaling 28,703 (31 December 2017: 12,854).

The nominal interest rates are presented below:

	Currency	31 December 2018	31 December 2017
Loans with fixed rates	RUB	8.50%-9.90%	9.75%
Loans with fixed rates	Euro	3.20%-3.79%	1.36%-3.79%
Loans with fixed rates	Other	3.00%-4.03%	3.00%-4.03%
Loans with floating rates	RUB	10.5%; key rate +bank margin	10.5%
Loans with floating rates	Euro	EURIBOR 3M + 1.40% EURIBOR 3M + 1.90%	EURIBOR 3M + 1.90%
Loans with floating rates	U.S. Dollar	LIBOR 3M + 1.8%; LIBOR 3M + 2.1%	LIBOR 3M + 2.1%
Loans with floating rates	Other	–	PRIBOR 1M + 2.00% PRIBOR 1M + 2.20%
Credit lines with fixed rates	RUB	8.40%-10.70%	8.15%-11.90%
Credit lines floating rates	Euro	LIBOR 1M + individual interest rate	0.40%-1.36%
Credit lines floating rates	U.S. Dollar	LIBOR 1M + 1.4%	–

The non–current borrowings maturity schedule, excluding the present value of minimum lease payments, is as follows:

	31 December 2018	31 December 2017
1 to 2 years	16,258	7,916
2 to 3 years	12,857	14,342
3 to 4 years	15,267	10,668
4 to 5 years	12,922	15,142
More than 5 years	14,947	28,892
Total non–current borrowings	**72,251**	**76,960**

Finance leases

Minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Due in 1 year	46	158	37	132
Due between 1 and 5 years	28	66	24	57
Total	**74**	**224**	**61**	**189**

All finance lease liabilities are effectively collateralised by the leased equipment as the right to the asset reverts to the lessor if the Group defaults on the lease.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	**Financing cash flows**	**Non-cash changes**	**31 December 2018**
Borrowings	86,167	1,841	1,906*	89,914
Finance lease liabilities	189	(141)	13	61
	86,356	**1,700**	**1,919**	**89,975**

	1 January 2017	**Financing cash flows**	**Non-cash changes**	**31 December 2017**
Borrowings	90,582	(4,673)	258	86,167
Finance lease liabilities	474	(130)	(155)	189
	91,056	**(4,803)**	**103**	**86,356**

* Non-cash movements are mostly effected by the foreign exchange differences.

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2018	**31 December 2017**
Non-current liabilities		
Investment tax credit	60	–
Total	**60**	**–**
Current liabilities		
Trade payables	31,504	42,716
Wages and salaries payable (non-financial liabilities)	2,638	2,035
Accrued liabilities and other creditors	1,716	3,662
Interest payable	464	315
Total	**36,322**	**48,728**
Total accounts payable and accrued expenses	**36,382**	**48,728**

18. OTHER TAXES PAYABLE

	31 December 2018	31 December 2017
Value added tax	1,937	1,089
Social insurance contributions	816	724
Property tax	164	194
Personal income tax	131	140
Other taxes	26	26
Total taxes payable	**3,074**	**2,173**

19. REVENUE

	2018	2017
Domestic sales of pipes	112,620	99,597
Domestic sales of pipeline valves	12,578	4,573
Domestic sales of oilfield services	11,580	10,511
Domestic sales of scrap	6,810	9,163
Domestic sales of other goods	663	1,379
Export of pipes	33,717	32,202
Export of oilfield services	489	733
Export of pipeline valves	282	63
Export of other goods	71	25
Export of scrap	30	11
Total revenue	**178,840**	**158,257**

20. COST OF SALES

	2018	2017
Raw materials	78,253	78,522
Cost of goods for resale	15,605	14,542
Production overheads and repairs	13,000	9,920
Salaries and salary taxes	12,250	11,895
Energy and utilities	6,689	6,293
Depreciation and amortisation	5,966	6,648
Changes in balances of work in progress and finished goods	2,643	(6,934)
Changes in allowance for inventory	148	(201)
Total cost of sales	**134,554**	**120,685**

Due to changes in methodology and approach to classification of expenses the reclassification of comparative data was made in cost of sales between «Raw materials», «Production overheads and repairs», «Energy and utilities», «Cost of goods for resale» and «Changes in balances of work in progress and finished goods».

21. DISTRIBUTION COSTS

	2018	2017
Transportation, surveyor and customs expenses	5,485	6,298
Salaries and salary taxes	1,479	1,386
Packing, storage and handling	965	1,181
Advertising and marketing expenses	661	766
Commission	300	343
Office expenditure	100	106
Insurance	94	148
Depreciation and amortisation	59	67
Operating lease expenses	31	34
Other	183	189
Total distribution costs	**9,357**	**10,518**

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries and salary taxes	6,870	5,261
Non–production overheads and repairs	2,943	2,609
Depreciation and amortisation	868	673
Taxes other than income tax	833	965
Consultancy, audit and legal services	814	529
Social and charity expenses	219	105
Insurance	36	47
Auxiliary materials	29	71
Other	696	505
Total general and administrative expenses	**13,308**	**10,765**

In 2018, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to 20,599 (2017: 18,542).

Due to changes in methodology and approach to classification of expenses the reclassification of comparative data was made in General and administrative expenses between «Non-production overheads and repairs», «Auxiliary materials» and «Other».

23. IMPAIRMENT OF ASSETS

	2018	2017
Property, plant and equipment and intangible assets (Notes 7, 8)	728	29
Trade and other receivables (Note 12)	707	170
Loans receivable (Note 13)	28	(11)
Advances for capital construction	25	100
VAT and other taxes recoverable	–	(10)
Total impairment of assets	**1,488**	**278**

24. FINANCE INCOME AND COSTS

	2018	2017
Interest income on deposits and loans receivable	417	600
Total finance income	**417**	**600**
Interest cost on borrowings	9,380	9,589
Finance charges under finance lease	27	38
Interest cost on employee benefits liabilities	18	26
Total finance costs	**9,425**	**9,653**

25. INCOME TAX

Income tax comprises the following:

	2018	2017
Current tax	3,474	1,964
Deferred tax	(435)	215
Income tax expense	**3,039**	**2,179**

Reconciliation between the statutory rate and actual income tax charge is provided below:

	2018	2017
Profit before income tax	10,765	6,211
Theoretical tax expense at statutory rate	2,153	1,246
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non–deductible employee benefits	236	175
– Social costs	121	118
– Receivables and loans written–off during the year as uncollectible	103	157
– Change in measurement of inventory balances	25	27
– Unrecognised deferred tax assets	25	(3)
– Loss on disposal of property, plant and equipment	5	55
– Interest expenses	1	25
– Loss on disposal of subsidiaries, shares of subsidiaries	–	95
– Other non–deductible expenses	370	284
Income tax expense	**3,039**	**2,179**

Differences between IFRS and Russian and Czech Republic tax principles give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% for Russia and 19% for Czech Republic:

	1 January 2017	Credited/ (charged) to profit and loss	Effect of disposal of subsidiary	Effect of derecognition of derivatives	Effect of translating from functional to presentation currency	31 December 2017	IFRS 9 (first adoption impact)	31 December 2017 (adjusted)	(Charged)/ credited to profit and loss	Credited to other comprehensive income	Effect of translating from functional to presentation currency	31 December 2018
Tax effects of deductible temporary differences:												
Accounts payable and accruals	523	(369)	4	–	–	158	–	158	158	–	(2)	314
Accounts and loans receivable	148	10	–	–	–	158	244	402	91	–	5	498
Other deductible temporary differences	130	25	(4)	–	5	156	–	156	(35)	–	5	126
Losses carried forward	580	128	–	–	–	708	–	708	(15)	–	1	694
Deferred revenue	14	39	–	–	–	53	–	53	(34)	–	–	19
Total deductible temporary differences	**1,395**	**(167)**	–	–	**5**	**1,233**	**244**	**1,477**	**165**	–	**9**	**1,651**
Set off of tax	(712)					(432)		(682)				(702)
Deferred tax assets	**683**					**801**		**795**				**949**
Tax effects of taxable temporary differences:												
Property, plant and equipment and intangible asset	(1,729)	65	3	–	(11)	(1,672)	–	(1,672)	166	–	(12)	(1,518)
Other financial assets	–	–	–	–	–	–	(133)	(133)	–	116	–	(17)
Inventories	(459)	(15)	–	–	3	(471)	–	(471)	94	–	3	(374)
Derivatives	(68)	–	–	68	–	–	–	–	–	–	–	–
Borrowings and loans	(39)	(98)	–	–	–	(137)	–	(137)	19	–	1	(117)
Other deductible temporary differences	–	–	–	–	–	–	–	–	(9)	–	–	(9)
Total taxable temporary differences	**(2,295)**	**(48)**	**3**	**68**	**(8)**	**(2,280)**	**(133)**	**(2,413)**	**270**	**116**	**(8)**	**(2,035)**
Set off of tax	712					432		682				702
Deferred tax liabilities	**(1,583)**					**(1,848)**		**(1,731)**				**(1,333)**

At 31 December 2018, unrecognized deferred tax assets are 2,582 (31 December 2017: 1,670), including unrecognized deferred tax assets on unused tax losses carried forward in the amount of 2,550 (31 December 2017: 1,687).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so and intends to settle on a net basis.

26. EARNINGS PER SHARE

For the year ended 31 December 2018, basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company in the amount of 7,821 (2017: 4,323) by the weighted average number of ordinary shares outstanding for the year ended 31 December 2018, excluding treasury shares, which comprised 303,460,173 shares (2017: 309,771,330 shares).

The Company has no potentially dilutive ordinary shares; accordingly, diluted earnings per share is the same as the basic earnings per share.

27. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Related parties of the Group predominantly comprise parties under the control of the Group's controlling shareholders.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2018 are detailed below:

	Entities controlled by the Group's controlling shareholder	**Entities under significant influence of the Group's controlling shareholder**
Trade and other receivables	417	1,226
Loans receivable	1,085	229
Trade and other payables	(304)	(189)
Loans payable	(9)	–

Income and expense items with related parties as well as purchases for the year ended 31 December 2018 were as follows:

	Entities controlled by the Group's controlling shareholder	**Entities under significant influence of the Group's controlling shareholder**
Revenue	128	321
Purchases	(1,176)	(284)
Distribution costs	(14)	(21)
General and administrative expenses	(1,387)	(500)
Finance income, net	72	15

In 2018, the Group acquired from the related party property, plant and equipment and R&D in the amount of 188 (2017: 119), as well as intangible assets in the amount of 430 (2017: 132).

In 2018, the Group sold treasury shares to the related party in the amount of 325 and also acquired the non-controlling interest of LLC ETERNO and MSA a.s. from a related party for a total consideration of 5,300.

At 31 December 2018 the Group entered into the surety agreements under liabilities of the related parties with banks in the amount of 100.

Transactional cash flows with related parties for the year ended 31 December 2018 were as follows:

	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	(3,178)	(461)
Financing activities	(6,490)	-
Investing activities	(114)	(901)

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2017 are detailed below:

	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Trade and other receivables	256	987
Loans receivable	920	127
Loans payable	(8)	–
Trade and other payables	(1,475)	(163)

Income and expense items with related parties for the year ended 31 December 2017 were as follows:

	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	77	–
Purchases	(484)	(228)
Distribution costs	(8)	(14)
General and administrative expenses	(1,581)	(306)
Finance income, net	53	5

Transactional cash flows with related parties for the year ended 31 December 2017 were as follows:

	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	(2,690)	(1,323)
Financing activities	1,190	–
Investing activities	(469)	(72)

Directors' and key management remuneration

At 31 December 2018, the Board of Directors of the Company comprised 7 directors (31 December 2017: 7 directors). For the year ended 31 December 2018, compensation to the members of the Board of Directors of the Company amounted to 197 and was included in general and administrative expenses (2017: 134). For the year ended 31 December 2018, aggregate remuneration of executives amounted to 1,141 and was included in general and administrative expenses (2017: 740).

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

The Group is involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti–avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of submission of tax declaration. Under certain circumstances reviews may cover longer periods.

At 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate, and that it is probable that the Group's tax, currency and customs positions will be sustained.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks related to recovery of input VAT. The impact of any challenge by the tax authorities cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 147 at 31 December 2018 (31 December 2017: 188) which relate primarily to corporate profit tax and VAT. There is no liability recorded for this exposure as management does not believe payment is probable.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Capital expenditure commitments

At 31 December 2018, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totalling 960 (31 December 2017: 199).

Collaterals for Group's obligations

Assets pledged and restricted

At 31 December 2018 and 2017, the Group has the following assets pledged as collateral:

	Notes	31 December 2018		31 December 2017	
		Asset pledged, carrying value	Related liability	Asset pledged, carrying value	Related liability
Ceskoslovenska obchodni banka		–	–	1,135	5
MONETA Leasing, s.r.o.		62	31	76	27
ČSOB Leasing		8	7	9	6
Property, plant and equipment	7	**70**	**38**	**1,220**	**38**
Ceskoslovenska obchodni banka		–	–	185	1
Inventory	11	–	–	**185**	**1**
Ceskoslovenska obchodni banka		–	–	173	1
Trade and other accounts receivable	12	–	–	**173**	**1**
Total		**70**	**38**	**1,578**	**40**

Shares pledged and restricted

At 31 December 2018, there were no shares pledged by the Group as collateral.

At 31 December 2017, the following Group's shares were pledged as collateral:

Pledger	Company	Pledgee	Year	Percent of share capital
Group's shareholders	Chelpipe	PJSC VTB Bank	2017	25%+1 share
Group's shareholders	Chelpipe	Bank GPB (JSC)	2017	25%+1 share
The Group	PNTZ	PJSC VTB Bank	2017	25%+1 share
The Group	PNTZ	Bank GPB (JSC)	2017	25%+1 share
The Group	SOT	Sberbank	2017	100.00%

At 31 December 2018 the Group entered into the surety agreements under liabilities of the related (Note 27) and the third parties with banks and other counterparties. The amount of surety agreements under the EUR denominated liabilities was 23. The amount of surety agreements under the RUB denominated liabilities was 120.

29. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management is carried out by treasury departments of each of the Group's companies. Treasury departments of the companies of the Group identify, evaluate and take measures to minimise financial risks in close co–operation with Chelpipe's treasury department.

In 2018, the management has identified and assessed the most significant corporate level risks (including financial risks). The Group's risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance and exposures.

The Group does not use derivative financial instruments to hedge its risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and USD.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency. The companies of the Group do not have a formal policy to manage their foreign exchange risk against their functional currency.

Analysis of the financial instruments by currency is as follows:

	31 December 2018			31 December 2017		
	RUB	**U.S. Dollar**	**Euro**	**RUB**	**U.S. Dollar**	**Euro**
Trade receivables	21,532	520	716	26,316	462	919
Interest receivable	135	–	–	201	–	–
Other receivables	1,076	307	55	1,354	36	19
Loans receivable	1,793	4	16	1,390	–	–
Cash and cash equivalents	12,191	603	8,760	7,947	4,535	6,612
Monetary financial assets	**36,727**	**1,434**	**9,547**	**37,208**	**5,033**	**7,550**
Loans, credit lines and bonds payable	(79,314)	(4,198)	(6,200)	(77,664)	(1,991)	(6,512)
Accounts payable and accrued expenses	(31,438)	(669)	(1,173)	(38,821)	(1,553)	(6,004)
Finance lease liabilities	(45)	–	(16)	(165)	–	(24)
Interest payable	(461)	(2)	(1)	(313)	(1)	(1)
Factoring	(202)	–	–	–	–	–
Monetary financial liabilities	**(111,460)**	**(4,869)**	**(7,390)**	**(116,963)**	**(3,545)**	**(12,541)**
Total, net	**(74,733)**	**(3,435)**	**2,157**	**(79,755)**	**1,488**	**(4,991)**

At 31 December 2018, if the Russian Rouble had weakened/strengthened by 20% (31 December 2017: 20%) against the U.S. Dollar with all other variables held constant, the Group's post–tax profit for the year would have been 550 lower/ higher (31 December 2017: 238 higher/lower), mainly as a result of foreign exchange losses/gains on translation of U.S. Dollar–denominated accounts receivable, loans receivable, borrowings and accounts payable .

At 31 December 2018, if the Russian Rouble had weakened/strengthened by 20% (31 December 2017: 20%) against the Euro with all other variables held constant, the Group's post–tax profit for the year would have been 345 higher/lower (31 December 2017: 799 lower/ higher), mainly as a result of foreign exchange losses/gains on translation of Euro–denominated accounts receivable, loans receivable, borrowings and accounts payable.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because its finished products and raw materials are not traded on a public market.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing its exposure to interest rate risk. In 2018, the Group's borrowings at floating rate were denominated in U.S. Dollar, Euro and other currencies. At 31 December 2018, floating interest rate loans account for 22% of the total amount of the Group's borrowings (31 December 2017: 42.0%).

Group analyzes the risks associated with changes in interest rates on an ongoing basis. Various scenarios are simulated taking into account refinancing, renewal of credit, current positions and alternative financing. On the basis of these scenarios, the Group calculates the impact on profit and loss of a defined interest rate change. In each model for all currencies is used the same interest rate change. The Group performed an analysis of sensitivity to changes in interest rates for liabilities that represent the major interest–bearing positions and include all types of loan agreements with floating rates. Management estimates the risk of changes in fixed interest rates on existing agreements as low. According to the analysis of sensitivity performed for the year ended 31 December 2018, the impact of a 100 basis points shift in interest rate on post–tax profit would have been an increase/decrease of 187 (2017: 212).

(iv) Fair value measurements

The carrying amounts of financial instruments such as trade and other receivables, cash and cash equivalents, promissory notes issued, bonds payable, accounts payable and accrued expenses, finance lease liabilities, factoring approximate their fair values.

The Group's financial instruments which carrying values differ from their fair values are disclosed in the table below:

	Level of the fair value hierarchy	Notes	31 December 2018		31 December 2017	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans receivable	Level 3	13	1,813	1,081	1,390	1,348
Financial liabilities						
Loans and credit lines	Level 3	16	64,804	65,768	61,282	61,470

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 2, Basis of preparation.

The fair values of Level 3 financial assets and liabilities were calculated based on the present value of future principal and interest cash flows, discounted at market discount rate that reflects the credit risk of counterparties.

(b) Credit risk

Credit risk is managed at the level of individual companies of the Group. The carrying value of financial assets represents the maximum credit exposure. The carrying value of financial assets at 31 December 2018 was 47,708 (31 December 2017: 49,791).

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors. Credit risk exposure mainly depends on the individual characteristics of customers.

The Group's major clients are represented by final customers, i.e. large oil and gas or pipeline construction companies. Limits of the accounts receivable are established on quarterly basis and monitored by the management of the Group.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The table below shows the balances with banks at the reporting date.

	Agency	Rating	31 December 2018	31 December 2017
Sberbank	Moody's	Baa3	1,222	5,864
PJSC VTB Bank	Moody's	Baa3	6,707	4,372
Bank GPB (JSC)	Moody's	Ba1	9,438	3,851
JSC Alfa–Bank	Moody's	Ba1	1,085	2,330
AO UniCredit Bank	Fitch	BBB-	1,812	2,058
AO Raiffeisenbank	Moody's	Baa3	643	443
Other			647	176
Total risk concentrations within cash balances with banks			**21,554**	**19,094**

The table below shows the balances of the three major counterparties for trade receivables:

	31 December 2018	31 December 2017
Counterparty 1	3,366	14,092
Counterparty 2	3,050	1,893
Counterparty 3	2,015	1,676
Total risk concentrations within trade receivables	**8,431**	**17,661**

The table below shows the balances of the three major counterparties for loans receivable at the reporting date:

	31 December 2018	31 December 2017
Counterparty 1	766	776
Counterparty 2	417	236
Counterparty 3	263	114
Total risk concentrations within loans receivable	**1,446**	**1,126**

At 31 December 2018, balances due from overseas customers comprise 3,981 (31 December 2017: 3,086).

Key customers of the Group are mainly represented by state–owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business.

At 31 December 2018, balances of loans receivable and interest receivable comprise 1,948 (31 December 2017: 1,591) and include balances due from related parties of 1,314 (31 December 2017: 1,162).

Cash was collected from key customers according to the contractual terms during the reporting period, and management does not expect any losses from non–performance by these counterparties.

(c) Liquidity risk

The Group believes prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Group's liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Borrowings are presented without effect of reclassification due to breach of covenants. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2018				
Trade and other payables	35,936	–	–	–
Promissory notes issued	–	–	–	1
Borrowings	28,295	16,505	40,733	18,242
Finance lease liabilities	46	22	6	–
Factoring	202	–	–	–
Total	**64,479**	**16,527**	**40,739**	**18,243**
At 31 December 2017				
Trade and other payables	48,422	–	–	–
Promissory notes issued	–	–	–	1
Borrowings	9,587	14,232	82,720	–
Finance lease liabilities	158	42	24	–
Total	**58,167**	**14,274**	**82,744**	**1**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management understands the term 'capital' as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with other companies in the industry, the Group monitors capital on the basis of portion of net debt in total net equity and net debt. This measure is calculated as net debt divided by total capital.

Net debt is calculated as total debt (including long– and short–term borrowings (Note 16), as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as net equity plus net debt. Net equity is calculated as equity (as shown in the consolidated statement of financial position) less treasury shares.

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is not limited by debt covenants but is subject to approval from banks.

Measures of net debt to total equity and debt at 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017 (restated)
Total borrowings	89,975	86,356
Less: cash and cash equivalents	(21,554)	(19,094)
Net debt	**68,421**	**67,262**
Total equity	3,811	4,946
Less: treasury shares	19,309	19,608
Net equity	**23,120**	**24,554**
Total net equity and net debt	91,541	91,816
Net debt to net equity and net debt ratio	**75%**	**73%**

30. EVENTS AFTER THE REPORTING PERIOD

In 2019 the Group concluded a preliminary agreement on the trademark aquisition with the related party for amount of 5,600. The Group made a secuirity payment under this agreement in the amount of 2,600.