NIZHNEKAMSKNEFTEKHIM GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2019

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Independent Auditor's Report

To the Shareholders and Board of Directors of public joint stock company Nizhnekamskneftekhim:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of public joint stock company Nizhnekamskneftekhim ("PAO Nizhnekamskneftekhim") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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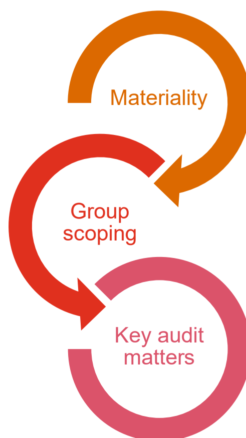
Our audit approach

Overview



Overall Group materiality: Russian Roubles ("RUB") 1,535 million, which represents 5% of profit before tax.

- We conducted audit work at PAO Nizhnekamskneftekhim, located in the city of Nizhnekamsk in the Russian Federation.
- The Group engagement team performed selected audit procedures on subsidiaries situated in the Republic of Tatarstan in the Russian Federation, as well as on a subsidiary located in Finland.
- Our audit scope addressed 99% of the Group's revenues and and more than 97% of the Group's absolute value of underlying profit before tax.

Key audit matters

- Revenue recognition and disclosure
- Contingent liabilities on legal cases

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RUB 1,535 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and disclosure The Group executes a large volume of revenue transactions with multiple counterparties from different countries and on different terms of transfer of ownership and risks. The Group recognises revenues from sales of goods based on the quantity of goods dispatched and the agreed prices. Although revenue recognition involves only limited judgement, due to the size and volume of transactions it is an audit area which requires significant time and resources and is therefore considered to be a key audit matter. As in prior year we continued focusing on this area. *See notes 5 and 8 of the consolidated financial statements for management's disclosures of the related accounting policies, judgements and estimates and detailed disclosure of the revenue of the Group for further information.*	We performed a wide range of audit procedures in the audit of revenue including, but not limited to: • assessment of the consistency of the revenue recognition policy application; • understanding of controls and evaluation of their effectiveness in the revenue cycle; • substantive detailed procedures, including circularisation procedures and sample testing; We incorporated an element of unpredictability by selecting transactions not otherwise tested due to their materiality and by testing operations with new customers. No exceptions or significant deficiencies were noted from our testing and the procedures performed.

Key audit matter	How our audit addressed the key audit matter
Contingent liabilities related to legal proceedings The Group is a defendant in certain legal proceedings and the likelihood of a negative outcome for them in these cases has been assessed by management. Given the materiality of certain claims against the Group and uncertainty about the outcome of the legal proceedings, the assessment of the outcome involves significant judgement, and the audit of this issue requires a significant amount of audit effort and therefore it remains to be the focus of the audit as in prior year. *Information on material court cases is disclosed in Note 37 to the consolidated financial statements.*	We performed audit procedures to assess the probability of various potential outcomes of the legal proceedings, and our work included: • considering how reasonable the position of the Group's management and their internal lawyers is regarding further actions to protect the Group’s position in court; • obtaining and assessing the Group’s external lawyers’ view on the matter, including an assessment of the most likely outcome; • obtaining written representations from the Group’s management on the assessment performed to determine the likelihood of a negative outcome for the Group from the legal proceedings. We also assessed the adequacy of disclosures on contingent liabilities related to legal proceedings in Note 37 to the consolidated financial statements, and we assessed their compliance with the disclosure requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Based on the work performed we concluded that the assessment of management with respect to the probability of a negative outcome of the legal proceeding are justifiable and no adjustments are required to the consolidated financial statements and that disclosure of the matter is sufficient and appropriate. While we found management's estimates regarding contingent liabilities to be acceptable for the purpose of these consolidated financial statements, this does not guarantee that inherently uncertain future events could lead to outcomes that are significantly different to these estimates.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Based on the risk assessment procedures and results of analysis on significance of consolidated financial statement lines of the Group's companies we identified PAO Nizhnekamskneftekhim as a significant component and performed audit procedures on consolidated financial statements in accordance with ISA 600 "Audits of Group financial statements".

The group engagement team determined significance of other components for each consolidated financial statement line individually. We performed selected audit procedures for subsidiaries situated in the Republic of Tatarstan in the Russian Federation, as well as on a subsidiary located in Finland. Our audit scope addressed 99% of the Group's revenues and more than 97% of the Group's absolute value of underlying profit before tax.

Other information

Management is responsible for the other information. The other information comprises the annual report of PAO Nizhnekamskneftekhim for 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Issuer's Report for the first quarter of 2020, which is expected to be made available to us after that date.

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

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

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

When we read the Issuer's Report for the first quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Denis Petrovich Derevyankin.

AO PricewaterhouseCoopers Audit

26 March 2020

Moscow, Russian Federation

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

Audited entity: Public joint stock company Nizhnekamskneftekhim

Record made in the Unified State Register of Legal Entities on 5 November 2002 under State Registration Number №1021602502316

Taxpayer Identification Number 1651000010

423574, Russian Federation, Republic of Tatarstan, Nizhnekamsk municipal district, Nizhnekamsk, Sobolekovskaya str, 23, office 129

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

Consolidated Statement of Comprehensive Income

	Note	2019	2018
Revenue	8	178,990	193,859
Cost of sales	9	(135,511)	(147,436)
Gross profit		**43,479**	**46,423**
Selling, general and administrative expenses	10	(14,759)	(15,967)
Other operating expenses (net)	11	(1,228)	(633)
Profit or loss from change in allowance for expected credit losses		401	(178)
Operating profit		**27,893**	**29,645**
Interest income		1,174	739
Interest expense		(143)	(99)
Revaluation of financial assets at fair value through profit or loss	17	363	(51)
Foreign exchange gain, net	12	1,559	1,146
Share in profit of associates	16	(111)	86
Profit before tax		**30,735**	**31,466**
Income tax charge	13	(6,706)	(6,684)
Net profit		**24,029**	**24,782**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subdivisions to presentation currency		(156)	167
Total items that may be reclassified subsequently to profit or loss		**(156)**	**167**
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations	28	(281)	(37)
Total items that will not be reclassified to profit or loss		**(281)**	**(37)**
Total other comprehensive income		**(437)**	**130**
Total comprehensive income		**23,592**	**24,912**
Profit attributable to:			
Shareholders of the parent company		24,018	24,689
Non-controlling interest		11	93
Net profit		**24,029**	**24,782**
Total comprehensive income attributable to:			
Shareholders of the parent company		23,649	24,746
Non-controlling interest		(57)	166
Total comprehensive income		**23,592**	**24,912**
Basic and diluted earnings per share (in Russian roubles)		**13.12**	**13.49**

Consolidated Statement of Financial Position

	Note	31 December 2019	31 December 2018 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	**14**	144,263	111,766
Right-of-use assets		156	-
Intangible assets	**15**	290	454
Investments in associates	**16**	344	540
Financial assets	**17**	2,405	1,679
Deferred income tax assets	**13**	269	266
Goodwill	**18**	83	83
Other non-current assets	**7, 19**	947	891
Total non-current assets		**148,757**	**115,679**
Current assets			
Inventories	**20**	17,182	19,357
Trade and other receivables	**21**	5,306	6,937
Income tax prepayments		256	23
Other prepaid and recoverable taxes	**7, 22**	7,603	8,985
Financial assets	**17**	-	15,000
Prepayments	**7, 23**	1,733	13,434
Cash and cash equivalents	**24**	34,461	30,986
Total current assets		**66,541**	**94,722**
Total assets		**215,298**	**210,401**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	**25**	6,332	6,332
Currency translation reserve		282	370
Retained earnings		138,494	151,263
Total equity attributable to shareholders of the parent company		**145,108**	**157,965**
Non-controlling interest		705	844
Total capital		**145,813**	**158,809**
Non-current liabilities			
Non-current loans and borrowings	**26**	49,665	32,783
Deferred income tax liabilities	**13**	4,294	3,379
Other non-current liabilities	**27**	1,700	1,095
Total non-current liabilities		**55,659**	**37,257**
Current liabilities			
Current loans and borrowings	**26**	421	802
Trade and other payables	**29**	5,907	6,366
Advances received and accrued liabilities	**7, 30**	6,056	5,986
Income tax payable		36	61
Other taxes payable	**7, 31**	1,322	1,103
Dividends payable		84	17
Total current liabilities		**13,826**	**14,335**
Total liabilities		**69,485**	**51,592**
Total equity and liabilities		**215,298**	**210,401**

A.F. Safin
General Director
26 March 2020

I.R. Yakhin
Chief Accountant

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2019	2018 (restated)
OPERATING ACTIVITIES			
Profit before income tax		**30,735**	**31,466**
Adjustments for:			
Depreciation charge	**9, 10**	6,207	5,101
Interest income, net		(1,031)	(640)
Expense/(Income) from investments, net		111	(97)
(Gain)/loss on revaluation of financial assets at fair value	**17**	(363)	51
Loss on disposal of property plant and equipment and other non-current assets	**14**	271	45
Foreign exchange gain, net		(1,810)	(601)
(Decrease)/increase in allowance for expected credit losses	**21**	(401)	178
Effect of discounting the loans issued	**17**	10	89
Write-down of inventories to net realisable value	**20**	174	9
Operating profit before working capital changes		**33,903**	**35,601**
Decrease in inventories	**20**	1 896	1,848
Decrease in trade and other receivables	**21**	1,966	497
Decrease/(increase) in other prepaid and recoverable taxes	**7, 22**	1,382	(1,935)
Decrease/(increase) in other assets	**7, 19, 23**	11,715	(10,680)
Decrease in trade and other payables and other liabilities	**27, 29**	(1)	(3,194)
Increase in advances received and accrued liabilities	**7, 30**	70	1,075
Increase in other taxes payable	**7, 31**	219	380
Changes in working capital		**17,247**	**(12,009)**
Interest paid		(44)	(23)
Income taxes paid		(6,108)	(5,038)
Net cash from operating activities		**44,998**	**18,531**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and advances issued for capital construction and acquisition of equipment		(37,047)	(33,719)
Purchase of subsidiaries		(335)	-
Purchase of intangible assets		(133)	(334)
Proceeds from sale of property, plant and equipment		3	110
Placement of deposits and other financial assets		(424)	(21,625)
Repayment of deposits and other financial assets		15,109	7,809
Interest income received		1,861	662
Borrowing costs capitalised		(1,893)	(140)
Dividends received		85	100
Net cash used in investing activities		**(22,774)**	**(47,137)**
FINANCING ACTIVITIES			
Proceeds from non-current loans and borrowings	**26**	21,752	36,893
Proceeds from current loans and borrowings	**26**	2,402	1,216
Repayment of non-current loans and borrowings	**26**	(141)	(123)
Repayment of current loans and borrowings	**26**	(2,657)	(1,093)
Payment of insurance premiums and commission for loans raising	**26**	(1,593)	(5,202)
Financing obtained under factoring agreements with recourse		-	2,820
Repayment of finance lease payables		(60)	(50)
Dividends paid		(36,521)	(25)
Net cash (used in)/from financing activities		**(16,818)**	**34,436**
Net increase in cash and cash equivalents		**5,406**	**5,830**
Cash and cash equivalents at the beginning of the year		30,986	24,373
Effect of exchange rate changes on cash held in foreign currencies		(1,931)	783
Cash and cash equivalents at the end of the year		**34,461**	**30,986**

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital	Currency translation reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Total equity
Balance at 1 January 2018	**25**	**6,332**	**276**	**126,611**	**133,219**	**697**	**133,916**
Profit		-	-	24,689	24,689	93	24,782
Other comprehensive income less deferred tax		-	94	(37)	57	73	130
Total comprehensive income		**-**	**94**	**24,652**	**24,746**	**166**	**24,912**
Dividends declared		-	-	-	-	(19)	(19)
Balance at 1 January 2019	**25**	**6,332**	**370**	**151,263**	**157,965**	**844**	**158,809**
Profit		-	-	24,018	24,018	11	24,029
Other comprehensive income less deferred tax		-	(88)	(281)	(369)	(68)	(437)
Total comprehensive income		**-**	**(88)**	**23,737**	**23,649**	**(57)**	**23,592**
Dividends declared		-	-	(36,506)	(36,506)	(82)	(36,588)
Balance at 31 December 2019	**25**	**6,332**	**282**	**138,494**	**145,108**	**705**	**145,813**

The accompanying notes 1 to 39 are an integral part of these consolidated financial statements.

Note 1. General Information

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

Major production facilities of the Group are located in Nizhnekamsk, Republic of Tatarstan, Russian Federation. Details of the Company’s subsidiaries are included in Note 34.

Note 2. Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, future implications of the current economic situation are difficult to predict, and current expectations and estimates of the management may differ from the actual results.

Exchange rates of major foreign currencies at 31 December 2019 were as follows: RUB 61.9057 = USD 1.00 (at 31 December 2018: RUB 69.4706) and RUB 69.3406 = EUR 1.00 (at 31 December 2018: RUB 79.4605).

Note 3. Adoption of New or Revised Standards and Interpretations

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives, and using certain expedients provided by the standard.

As at the date of transition to IFRS 16, the Group applied the following practical expedients:

(a) apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment);

(b) exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;

(c) retrospectively use the judgement for instance when determining the lease term under a contract that contains options to extend or terminate the lease;

(d) recognise lease payments associated with short-term (below 12 months as at 1 January 2019) leases or leases for which the underlying asset is of low value as an expense on a straight-line basis over the lease term.

The Group did not recognise assets and liabilities under operating leases of land with variable lease payments as they are contingent on the land tax rate and cadastral value of land. The Group accounts for the lease payments under these contracts as operating expenses when incurred. These payments are presented as operating cash flows in the statement of cash flows.

In addition, the Group has chosen not to reassess whether a contract is or contains a lease at the date of the first-time adoption of the standard. Instead, the Group decided to use the assessment carried out upon application of IAS 17 “Leases” and IFRIC 4 “Determining whether an Arrangement Contains a Lease” for contracts signed before the date of initial recognition.

At the date of initial application, the Group recognised a lease liability under lease contracts that were previously classified as operating leases under IAS 17. These liabilities are measured at the present value of remaining lease payments. The discount rate applied to the lease liabilities is 8.39% as at 1 January 2019.

For leases that were previously classified as finance leases, the Group recognised the carrying value of the leased assets in the amount of the carrying value of the right-of-use asset and the carrying value of the lease liability in the amount of the lease liability at the date of transitioning to the new standard. The basis of measurement described in IFRS 16 is only applicable starting from 1 January 2019.

Note 3. Adoption of New or Revised Standards and Interpretations (continued)

There were no onerous lease contracts that required adjustment of the right-of-use assets at the date of first-time adoption of the standard. The table below includes the reconciliation of the operating lease commitments as at 31 December 2018 and lease liabilities recognised as at 1 January 2019:

	1 January 2019
Total future minimum lease payments under non-cancellable operating leases at 31 December 2018	2,013
Adjustment of lease commitments:	
- land lease contracts	(1,616)
- service contracts previously classified as leases	(272)
- low value assets lease contracts and short-term lease contracts that are expensed on a straight-line basis	(17)
- future lease payments arising as a result of different methods used to account for the options to extend or terminate the lease	2
- effect from discounting	(17)
Operating lease liabilities recognised as at 1 January 2019	**93**
Liabilities under leases that were previously classified as finance leases	7
Lease liabilities as at 1 January 2019	**100**

The related right-of-use assets were measured as equal to the lease liability adjusted for lease advances or accrued lease payments under the lease contract recognised in the consolidated statement of financial position as at 31 December 2018.

Right-of-use assets recognised as at 1 January 2019 relate to the following underlying assets:

	1 January 2019
Equipment	91
Assets under leases that were previously classified as operating leases	**91**
Assets under leases that were previously classified as finance leases	101
Total right-of-use assets	**192**

The effect on the consolidated statement of financial position as at 1 January 2019 (including changes in the comparative information as described in Note 7) was as follows:

	31 December 2018	Change	1 January 2019
Assets			
Property, plant and equipment	111,766	(101)	111,665
Right-of-use assets	-	192	192
Total non-current assets	**115,679**	**91**	**115,770**
Total assets	**210,401**	**91**	**210,492**
Equity and liabilities			
Non-current liabilities			
Other non-current liabilities	(1,095)	(74)	(1,169)
Total non-current liabilities	**(37,257)**	**(74)**	**(37,331)**
Current liabilities			
Trade and other payables	(6,366)	(17)	(6,383)
Total current liabilities	**(14,335)**	**(17)**	**(14,352)**
Total liabilities	**(51,592)**	**(91)**	**(51,683)**
Total equity and liabilities	**(210,401)**	**(91)**	**(210,492)**

Note 3. Adoption of New or Revised Standards and Interpretations (continued)

Other New and Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group.

- IFRIC 23 – Uncertainty Over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- “Plan Amendments, Curtailments and Settlements” – Amendments to IAS 19 “Employee Benefits” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Note 4. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. According to the Group’s management, the new standard is not expected to affect significantly its consolidated financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance (in particular the definition of a liability); and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. Moreover, it is no longer required to assess if market participants can replace the missing elements or integrate the acquired operations and assets. An entity can apply a “concentration test”. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Note 4. New Accounting Pronouncements (continued)

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of materiality is consistent across all IFRSs. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of interest rate benchmarks such as LIBOR and other interbank offered rates (IBORs). The amendments provide a temporary exemption from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the exemption provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking projection in order to apply hedge accounting. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Classification of Liabilities as Current and Non-Current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as current or non-current depending on the rights that exist at the end of the reporting period. Liabilities are non-current if at the end of the reporting period an entity has a substantial right to defer their settlement for at least 12 months. The standard guidance no longer contains the requirement that such right should be unconditional. Expectations of the entity's management on whether it will subsequently use its right to defer the settlement of liabilities does not impact their classification. The right to defer the settlement of liabilities exists only if the entity complies with all applicable covenants at the year end. The liability is classified as current if the covenant is violated as at or before the reporting date even if at the end of the reporting period the creditor releases the entity from the obligation to comply with such covenant. The loan is classified as long-term if the loan agreement covenant is violated only after the reporting date. In addition, the amendments clarify requirements to the classification of debt which an entity may repay by converting it into the entity's equity. 'Repayment' is determined as a termination of the liability through settlements in the form of cash, other resources embodying economic benefits or the entity's equity instruments. There is an exception for convertible instruments that may be converted into equity, but only for those instruments where a conversion option is classified as an equity instrument being a separate component of the combined financial instrument. The Group is currently assessing the impact of the amendments on its financial statements.

Unless described otherwise above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

Note 5. Significant Accounting Policies

Statement of compliance

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

Basis of preparation of the consolidated financial statements

The Group operates in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, as modified by:

- Assets, liabilities and contingent liabilities of acquired subsidiaries measured at fair value at the acquisition date in accordance with IFRS 3 "Business Combinations";
- Financial instruments measured at fair value through profit and loss and at fair value through other comprehensive income in accordance with IFRS 9 "Financial Instruments".

Note 5. Significant Accounting Policies (continued)

Basis of preparation of the consolidated financial statements (continued)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16, these policies have been consistently applied to all the periods presented in the consolidated financial statements, unless otherwise stated (Note 3).

Principles of consolidation

Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of the holdings of other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered.

When preparing the consolidated financial statements, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in compliance with those applied by the Group.

Non-controlling interest is the part of net results and equity of a subsidiary attributable to the interest, which is not owned by the Company either directly or indirectly. Non-controlling interest forms a separate component of the Group's equity.

Business combinations

The acquisition method of accounting is used to include subsidiaries in the consolidated financial statements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting fair value of the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses, if any.

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 the carrying amount of the unit, 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.

Note 5. Significant Accounting Policies (continued)

Business combination (continued)

If acquired at bargain price, when the fair value of net assets exceeds the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date, any excess (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Purchases and sales of non-controlling interests

Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in the consolidated statement of changes in equity.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates.

Other post-acquisition changes in the Group’s share of net assets of an associate are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the profit or loss for the year in a separate line in the consolidated statement of comprehensive income, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately in the consolidated statement of comprehensive income.

Losses of associates are initially recognised in the consolidated financial statements as long as investments in associates are not written down to nil. Then losses are recorded in the consolidated financial statements to the extent the Group has assumed obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Foreign currency translation

Foreign exchange translation differences

The stand-alone financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency of almost all Group entities is the Russian rouble (“RUB”). The Russian rouble has also been selected as the presentation currency of the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates of the Central Bank of the Russian Federation (“CBRF”) effective at the date of the transactions.

Note 5. Significant Accounting Policies (continued)

Foreign exchange translation differences (continued)

Exchange differences arising from foreign currency transactions and 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 in the consolidated statement of comprehensive income separately from other income or expenses.

Foreign exchange differences of foreign entities

At each reporting date, the assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian rouble are translated into Russian roubles at the exchange rate effective as at each balance sheet date. All items included in equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian roubles at average exchange rates of each reporting period.

All resulting exchange differences are treated as a separate component of equity, and the accumulated amount is recognised as currency translation reserve in the consolidated statement of changes in equity, and movements in the reserve are recorded within other comprehensive income in the consolidated statement of comprehensive income. When control over a foreign entity is lost, the previously recognised exchange differences on translation of assets and liabilities to a different presentation currency of the consolidated financial statements are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a foreign entity without loss of control, the related portion of accumulated currency translation differences from recalculation of assets and liabilities is reclassified to non-controlling interest within equity.

Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised at a transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised net of discounts, value added taxes, export duties, excise tax and other similar mandatory payments.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. Contract asset is recognised when the Group obtain the right for consideration under contracts in exchange for goods and services transferred by the Group to the customer and if such right is dependent on the future performance of the Group. If the payments exceed the amount of goods transferred or services rendered, a contract liability is recognised.

Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Product sales

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales is recognised based on the price specified in the contract, net of the discounts.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the Group provides any additional services to the customer after control over goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

Note 5. Significant Accounting Policies (continued)

Provision of services

The Group provides its services under contracts with fixed consideration amounts. Revenue from services is recognised in the reporting period in which they are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. The line “Interest income” of the consolidated statement of comprehensive income is intended for recognising interest income on financial assets carried at amortised cost, such as loans issued and deposits using the effective interest rate.

Interest expense

The line item “Interest expense” of the consolidated statement of comprehensive income is intended for recognising interest expense on financial liabilities carried at amortised cost, such as loans and borrowings received using the effective interest rate less capitalised borrowing costs, interest on finance leases, interest expenses on employee benefits.

Property, plant and equipment

All property, plant and equipment are stated at cost, except for assets acquired prior to 1 January 2003 which have been adjusted for the impact of changes in the general purchasing power in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”, less accumulated depreciation.

Items acquired after 1 January 2003 are recorded at cost less accumulated depreciation and impairment loss, if any, in the consolidated financial statements. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Depreciation is computed under the straight-line method over the estimated useful lives of the assets, which are:

	Useful life
Buildings, construction and transmission devices	5–100 years
Machinery and equipment	1 to 55 years
Motor vehicles and other assets	2 to 40 years

For the purpose of disclosure in the consolidated financial statements land owned by the Group is included in “Land, buildings, construction and transmission equipment”. Land is not depreciated.

Gain or loss arising on the disposal of property, plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income in line “Other operating expenses, net”.

Note 5. Significant Accounting Policies (continued)

Construction in progress

Construction in progress comprises costs directly related to construction of property, plant and equipment. Depreciation of these assets commences when the assets are ready for intended use. Construction in progress includes prepayments for capital construction net of VAT.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for use or sale (a qualifying asset) are added to the cost of this asset, until such time as the asset is substantially ready for its intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

The Group capitalises borrowing costs that could have been avoided if it had not incurred any expenses for acquisition, construction or production of a qualifying asset. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowing less any investment income on the temporary investment of these borrowings are capitalised.

Right-of-use assets

The Group leases equipment and transport vehicles. The contracts may include both lease and non-lease components. The Group allocates consideration under the lease contract between the lease and non-lease components on the basis of the relative stand-alone price.

Assets arising from the lease contracts are initially recognised at the present value.

Right-of-use assets are measured at cost, including:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred;
- costs to restore the asset to the condition required by the lease terms and conditions.

The right-of-use asset is depreciated using the straight-line method over the shorter of its useful life and the lease term.

If the Group is reasonably certain to exercise a purchase option, the Group depreciates the right-of-use asset over the useful life of the underlying asset. The Group calculates the depreciation of the right-of-use assets on the straight-line basis during the estimated useful life, namely:

	Useful life
Manufacturing equipment	1 to 7 years
Motor vehicles	1 to 6 years

Intangible assets

Intangible assets are recognised at cost less accumulated amortisation and accumulated impairment loss.

The Group's intangible assets, other than goodwill, have definite useful lives and are amortised on a straight-line basis over their expected useful lives.

	Useful life
Software products	1–10 years
Patents	1–20 years
Licences	1–17 years

Note 5. Significant Accounting Policies (continued)

Intangible assets (continued)

Costs incurred on the development, implementation and enhancement of software are capitalised and amortised over its expected useful life. Software costs relating to the maintenance of existing software are recognised as an expense in the period in which they occur.

Impairment of assets except for goodwill and financial assets

The Group reviews the carrying amounts of its non-current non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). 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.

The recoverable amount is the higher of fair value less cost of disposal 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised for the asset 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 in profit and loss.

Inventories

Inventories are recorded at the lower of cost and net realisable value. When inventory is released to production or disposed of otherwise it is valued using the moving average method. Cost of finished goods and semi-finished products comprises raw material, direct labour, other direct costs and relevant variable costs but excludes borrowing costs and other costs that are not directly related to production. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Work in progress (semi-finished goods) is measured at net production cost per unit.

Inventories are recorded in the consolidated statement of financial position within current assets (line “Inventories”) if they are consumed in the next reporting period or non-current assets (line “Other non-current assets”) if they are consumed not earlier than after 12 months.

Prepayments

In the consolidated financial statements prepayments are carried at cost less provision for impairment and VAT on prepayments. Prepayments are classified as non-current when the goods or services relating to these prepayments are expected to be obtained after one year, or when these prepayments relate to an asset, which will itself be classified as non-current at initial recognition.

If there is an indication that the assets (for example, goods) or services relating to the prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year in line “Other operating expenses, net”.

Value-added tax

Output value added tax (“VAT”) related to sales is payable to the budget and recorded on an accrual basis based on invoices issued to customers. Input VAT on goods and services is offset against output VAT subject to certain limitations.

Prepayments are recognised in the consolidated statement of financial position less VAT on prepayments that was recovered from the budget.

Contract liabilities are recognised in the consolidated statement of financial position less VAT on contract liabilities that was paid to the budget.

Note 5. Significant Accounting Policies (continued)

Excise tax

The amount of excise tax deductible or recoverable from the budget is recorded within line “Other prepaid and recoverable taxes” in the consolidated statement of financial position.

In connection with changes in the Russian tax legislation and reduced custom duties on oil and certain types of oil products which resulted in the growth of feedstock prices for entities involved in the feedstock further processing, and introduction of excise taxes for a number of petrochemical products, the Russian Government developed a compensation mechanism for these entities in the form of a mark-up factor applied to excise amounts in accordance with paras 15 and 20, Article 200 of the Russian Tax Code.

In accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, the excess of excise tax deductions over excise accruals due to application of an index prescribed by the Russian law is recorded by the Group as government assistance in the consolidated financial statements. This excess in the amount established by law is recognised as a decrease in raw materials expenses within the cost of sales, if all required conditions are met. The excise tax on sold goods is recorded in the “cost of sales” line of the consolidated statement of comprehensive income, the excise on unsold products is recorded as a decrease in the “inventories” line of the consolidated statement of financial position.

Financial instruments: Key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortised cost, as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly voluntary transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Group. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held by the Group and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the market quotation for financial liabilities is the current asking price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost (“AC”) 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 allowance for expected credit losses (“ECL”) Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

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 gross carrying amount of the financial instrument.

Note 5. Significant Accounting Policies (continued)

Financial instruments – initial recognition

Financial instruments at fair value through profit or loss (FVTPL) are initially recognised at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC, resulting in an immediate accounting loss.

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

Financial assets – classification and subsequent measurement – measurement categories

Financial assets of the Group are classified into the following specified categories:

- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

Classification and subsequent measurement of debt financial assets depend on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets carried at amortised cost

Loans, notes issued and receivables

Loans, notes issued and trade and other receivables are initially recognised at fair value and subsequently carried at cost amortised at the effective interest rate (except for short-term receivables for which interest is insignificant) net of allowance for expected credit losses.

Note 5. Significant Accounting Policies (continued)

Financial assets carried at amortised cost (continued)

Loans, notes issued and receivables (continued)

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

On the initial recognition of loans, notes issue, trade and other receivables profit/losses resulting from difference between the carrying value and the fair value are recorded in the consolidated statement of comprehensive income in line “Other operating expenses, net”.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and exposed to an insignificant risk of changes in value. However, in accordance with IFRS 9 “Financial Instruments”, for cash on settlement accounts the Group assesses counterparties using ratings assigned to them by international or national agencies.

No allowance for expected credit losses is accrued if the ratings have not decreased against the previous reporting period and also if the bank’s grade is within the range of the least investment grade. If the counterparty risk has deteriorated against the previous reporting period and also, if the counterparty was assigned a grade falling under the range of “obligations speculative to a large extent” and below, an allowance for expected credit losses will be accrued following the internal methodologies for setting up provisions for impairment of financial assets.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Deposits

Cash placed on deposits with a maturity of more than three months and received upon their closing is recognised in the consolidated statement of cash flows on a gross basis (net basis approach is not applied).

Financial assets at fair value through profit or loss

Equity securities

The securities held by the Group that are traded in an active market are measured at fair value. Investments that are not quoted in an active market are recorded at fair value based on the approach applied in equity accounting method using necessary adjustments.

Fair value calculations for investments in credit institutions also use a market multiplier for net assets of similar companies. Gains or losses arising from changes in fair value of equity instruments are recognised in profit or loss.

Dividends on equity securities are recognised in profit and loss when the Group's right to receive the dividends is established.

Trade and other receivables from factoring agreements without recourse option

Factoring agreements without recourse option result in de-recognition of trade receivables. Trade receivables from factoring agreements without recourse option are measured at fair value through profit or loss as financial assets according to “other” business model.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current period and did not make any reclassifications.

Note 5. Significant Accounting Policies (continued)

Impairment of financial assets – allowance for expected credit losses

Under IFRS 9 "Financial Instruments", the Group determined two approaches to the measurement of allowance for expected credit losses:

- General model and
- Simplified model.

The general model is applied to the Group's financial assets, such as other loans, deposits, cash and cash equivalents, long-term trade receivables, and other receivables.

The Group measures ECL and recognises an allowance for credit losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information about past events and current conditions. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Under the general approach, the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. For trade receivables, if an asset is assessed not to be impaired individually, a group of similar assets may be assessed using a simplified approach.

The allowance for expected credit losses for receivables may depend on the Group's past experience of non-collection of payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, impairment losses are recognised through setting up an ECL allowance in the amount to make assets carrying amount reach the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Note 5. Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

Uncollectible assets are written off against the related ECL allowance after all the necessary procedures to recover the asset, in full or in part, have been completed and the final amount of the loss has been determined. Subsequent reversal of the amounts previously written off is credited to profit for the year.

Financial liabilities

Financial liabilities, including loans and borrowings, trade and other payables, lease liabilities, dividends payable are initially measured at fair value, net of transaction costs. Subsequently, financial liabilities are carried at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Loans and borrowings

Loans and borrowings are recognised initially at fair value net of transaction costs incurred, and they are subsequently carried at amortised cost using the effective interest method.

Lease liabilities

Liabilities arising from the lease contracts are initially recognised at the present value. Lease liabilities include net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payment that depends on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts that the Group expects to pay under the guarantees of the residual value;
- exercise price of a purchase option, provided that the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease contracts, if the lease term reflects the Group’s exercise of such option.

Options to extend and to terminate the lease are provided for in a number of lease contracts for equipment and transport vehicles of the Group. These options are intended for achieving maximum operational flexibility when the Group manages assets that it is reliant on in its operations. Most of the options to extend or terminate the lease may be exercised by the Group only, rather than the relevant lessor. The options to extend (or periods after the terms set out in the options to terminate the lease) are not included in the lease term unless it is reasonably certain that the lease will be extended (or it will not be terminated). The assessment of the liability also includes lease payments to be made as part of exercising the options to extend when it is reasonably certain that the lease will be extended.

Lease payments are discounted at the interest rate implicit in the lease. If this rate is not easily determinable, which is generally the case with the Group's existing lease contracts, the Group applies the incremental borrowing rate, i.e. the rate that the Group would pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset with a cost similar to the cost of the right-of-use asset in a similar economic environment.

Note 5. Significant Accounting Policies (continued)

Lease liabilities (continued)

For determining the incremental borrowing rate, the Group:

- where possible, uses information on the Group's recently received financing from a third party as inputs and adjusts it for changes in the terms of financing for the period from the date when such third party financing was obtained,
- uses an incremental approach whereby the calculations start from risk-free interest rate, which is adjusted for credit risk, and
- makes adjustments for the lease contract specifics, e.g. lease term, country, currency and security.

Lease payments consist of the principal liability and finance costs. Finance costs are recorded in profit or loss over the lease term so as to achieve a constant periodic rate of interest on the outstanding liability balance for each period.

Payments on short-term leases of equipment and transport vehicles and leases of any low value assets are recognised as expenses in profit or loss on a straight-line basis. The short-term leases are lease contracts for the term of no more than 12 months. The low value assets include IT equipment with the value of no more than RR 300,000.

Operating lease

Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee (i.e. for operating leases), the operating lease payments are charged to revenue and other income on a straight-line basis.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Advances received

Advances received are liabilities under contracts in accordance with IFRS 15. Advances received recognised at the end of prior reporting period have been recorded within revenue for the reporting period in the consolidated statements of comprehensive income.

Employee benefits

Short-term benefits to employees in respect of services rendered during a reporting period are recognised as an expense in that reporting period.

Pension and other post-employment benefits

The Group makes mandatory insurance contributions to the State Pension Fund. In the Russian Federation, contributions to the Russian Federation State Pension Fund are calculated by applying a regressive rate to the annual gross remuneration of each employee, where the regressive rate is determined based on the current legislation.

Moreover, some entities of the Group have signed agreements with non-government pension funds on additional pension schemes for which the Group has recognised the construction obligation.

Under a collective agreement between the Group's company and its employees, the Group has a number of long- term benefit liabilities: jubilee benefits, lump sum benefit on retirement and regular fixed payments to non-working pensioners.

Liabilities on lump-sum benefit on retirement and fixed payments to non-working pensioners are treated by the Group as post-employment benefit liabilities. The Group classifies these obligations as defined benefit plans. There are no assets on these plans. The Group uses the projected unit credit method to determine the discounted value of its defined benefit obligations and related current service cost, and where applicable, past service cost. When evaluating its defined benefit liability, the Group recognises the past service cost as current expenses.

Note 5. Significant Accounting Policies (continued)

Pension and other post-employment benefits (continued)

Jubilee benefits are classified and recorded by the Group as other long-term benefits.

When calculating post-employment and other long-term benefits, the Group uses such assumptions as expected salary growth, staff turnover, average life expectancy and discount rate equivalent to interest rates on top-quality government bonds with a currency and maturity similar to that of the defined benefit plan.

Gains and losses from revaluation on pension plans are fully recognised in the consolidated statement of comprehensive income within other comprehensive income. Expenses/income from revaluation related to other long-term benefits are recognised in the consolidated statement of comprehensive income as a component of cost of sales and selling, general and administrative expenses within labour expenses.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation effective at the reporting date. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it relates to transactions that are recognised in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating costs.

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 consolidated financial statements 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 (enacted or substantively enacted at the reporting date).

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

The Group determines whether it is necessary to recognise deferred tax on temporary differences associated with dividends of subsidiaries from retained earnings of subsidiaries, taking into account tax rates applicable to such dividends under effective legislation and the ability to control reversal of these temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets and deferred tax liabilities are recorded in the consolidated financial statements on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at each 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 taxation 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, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

Share capital

Ordinary shares and preference shares are recognised in the consolidated statement of financial position in line “Share capital” within equity.

Note 5. Significant Accounting Policies (continued)

Dividends

Dividends payable and related taxation thereon are recognised in the period in which they have been declared and become legally payable under the Russian law.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the Russian legislation and as reflected in the statutory financial statements of the individual entities of the Group.

These amounts may differ significantly from the amounts calculated on the basis of IFRS. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the events after the reporting date note.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company adjusted by dividends after-tax attributable to preference shareholders, by the weighted average number of ordinary shares outstanding during the reporting year.

Provisions for liabilities and charges

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

The amount recorded as provision is the best estimate of payments required to settle obligations at the reporting date accounting for obligation related risks and uncertainty. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Note 6. Critical Accounting Estimates and Judgements

Due to uncertainties in business operations only estimates instead of accurate amounts can be determined for certain line items of consolidated financial statements. An estimate requires that the Group management make assumptions, which are based on the most recent reliable information available. Estimates may affect the reported amounts of assets and liabilities at the reporting date, income and expenses for the reporting period, as well as disclosure of contingent assets and liabilities in the consolidated financial statements.

Estimates are based on subjective factors and depend on experience, current and expected economic conditions and other information available to the Group's management. Judgements that have the most significant effect on the amounts reported 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 are disclosed below. Actual results may differ from those estimates.

Useful lives of property, plant and equipment

Management regularly reviews the appropriateness of asset useful lives exercising professional judgement as to the estimated period during which they will continue to bring economic benefits to the Group. The effect of any changes in estimates is accounted for on a prospective basis (Note 14).

Impairment of non-financial assets

Management of the Group regularly tests tangible and intangible assets of the Group, including goodwill, for any indication of impairment. Management applies their judgement in estimating the timing and value of cash flows within the recoverable amount calculation for the assets. Key assumptions in management's analysis relate to determining the discounting rate, sales volume (including sales growth rates) and prices, and raw materials prices (Note 18).

Note 6. Critical Accounting Estimates and Judgements (continued)

Fair value measurement of investments in securities

Management of the Group determined fair value of its investments in securities by reference to their market quotes at the reporting date. The fair value of investments in securities, for which there are no market quotes, was calculated using the equity method. For investments in bank securities an adjustment was made for an average market banking multiplier that reflects the market data on comparable banks. Management of the Group considered it necessary to apply the banking multiplier to assess investments in bank securities due to increasing risks in the securities market (Note 17).

Amortisation of right-of-use assets

When determining the lease term, the management considers all facts and circumstances that serve as the economic drivers for exercising the option to extend the lease or non-exercising the option to terminate the lease. The options to extend (or periods after the term set out in the options to terminate the lease) are not included in the lease term unless it is reasonably certain that the lease will be extended (or it will not be terminated).

For leasing office space, equipment and transport vehicles, the following factors are generally most relevant:

- As a rule, the Group is reasonably certain that it will extend (or will not terminate) the lease, if significant penalties are set out for terminating (or not extending) the lease contract.
- As a rule, the Group is reasonably certain that it will extend (or will not terminate) the lease, if any capitalised costs on improvement of the leased asset are expected to have a significant residual value.

In other cases, the Group considers other factors, including the lease duration in prior periods, as well as costs and disruption in the ordinary course of business required when the leased asset is replaced. The majority of options to extend the lease for leases of office space and transport vehicles were not reflected in the lease liability, because the Company was able to replace the assets without any significant costs and disruption in the ordinary course of business.

Assessment of post-employment benefit obligations

Management of the Group has determined that certain lump sum payments to employees on retirement and fixed benefits paid to non-working retirees constitute a constructive post-employment benefit obligation of the Group. Consequently, a liability in respect of post-employment benefits has been recognised in the consolidated statement of financial position. Management of the Group continue to review such programs and continue to assess whether they give rise to an obligation (Note 28).

Provisions for environmental obligations

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group pays fees for the negative impact on the environment and the right to discharge pollutants or other waste, within legal norms, and recognises such payments within current period expenses. Management believes these fees cover all environmental obligations; therefore, the Group has no provision for environmental obligations (Note 37).

Note 7. Changes in Comparative Information

The Group made adjustments to the comparative information in the consolidated statement of financial position and the consolidated statement of cash flows. The Group's management chose to record prepayments and contract liabilities net of VAT. In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the adjustments have been made retrospectively and comparative information has been changed accordingly.

Note 7. Changes in Comparative Information

The adjustment had the following effect on the consolidated statement of financial position at 31 December 2018:

	Note	As originally presented at 31 December 2018	Adjustment	As adjusted at 31 December 2018
Assets				
Other non-current assets	**19**	1,546	(655)	891
Total non-current assets		**116,750**	**(655)**	**116,095**
Other prepaid and recoverable taxes	**22**	9,010	(25)	8,985
Prepayments	**23**	15,758	(2,324)	13,434
Total current assets		**97,071**	**(2,349)**	**94,722**
Total assets		**213,821**	**(3,004)**	**210,817**
Equity and liabilities				
Advances received and accrued liabilities	**30**	(6,173)	187	(5,986)
Other taxes payable	**31**	(3,920)	2,817	(1,103)
Total current liabilities		**(17,339)**	**3 004**	**(14,335)**
Total liabilities		**(55,012)**	**3,004**	**(52,008)**
Total equity and liabilities		**(213,821)**	**3,004**	**(210,817)**

The adjustment had the following effect on the consolidated statement of financial position at 1 January 2018:

	Note	As originally presented at 1 January 2018	Adjustment	As adjusted at 1 January 2018
Assets				
Other prepaid and recoverable taxes	**22**	7,147	(97)	7,050
Prepayments	**23**	2,641	(383)	2,258
Total current assets		**64,903**	**(480)**	**64 423**
Total assets		**151,069**	**(480)**	**150,589**
Equity and liabilities				
Advances received and accrued liabilities	**30**	(5,163)	252	(4,911)
Other taxes payable	**31**	(951)	228	(723)
Total current liabilities		**(12,961)**	**480**	**(12,481)**
Total liabilities		**(17,153)**	**480**	**(16,673)**
Total equity and liabilities		**(151,069)**	**480**	**(150,589)**

As the amount of changes is insignificant, the consolidated statement of financial position at 1 January 2018 is not presented.

The effect of the adjustment on the consolidated statement of cash flows was as follows for 12 months 2018:

	As originally presented for 2018	Adjustment	As adjusted for 2018
(Increase)/decrease in other prepaid and recoverable taxes	(2,474)	539	(1,935)
(Increase)/decrease in other assets	(12,665)	1,985	(10,680)
Increase/(decrease) in advances received and accrued liabilities	1,010	65	1,075
Increase/(decrease) in other taxes payable	2,969	(2,589)	380
Changes in working capital	**(11,982)**	**-**	**(11,982)**

Note 8. Revenue

Analysis of revenue by category is presented in the table below:

	2019	2018
Revenue from contracts with customers	178,880	193,739
Lease income	110	120
Total	**178,990**	**193,859**

Timing of revenue recognition (for each revenue stream) is as follows:

	2019	2018
Revenue from sales of products and goods	171,849	186,589
Total revenue recognised at a point in time	**171,849**	**186,589**
Revenue from services rendered	7,031	7,150
Total revenue recognised over time	**7,031**	**7,150**
Total revenue from contracts with customers	**178,880**	**193,739**

The Group derives revenue from the sale of goods and services at a point of time and over time in the following key regions:

	2019	2018
Russian Federation	90,734	98,453
Export (revenue amounts to more than 10% of the total revenue):		
Europe	49,013	55,176
Asia	22,600	24,307
Other countries	16,533	15,803
Total	**178,880**	**193,739**

Revenues from external customers for each group of similar products or services are as follows:

	2019	2018
Synthetic rubber	72,330	76,046
Plastics	53,865	61,629
Other petrochemicals	45,654	48,914
Total	**171,849**	**186,589**

Counterparties accounting for 10% or more of the Group's total revenue are absent. The following table presents the analysis of revenues by major customers for which sales amount to above RUB 1,000 million each:

	2019	2018
Major 34 customers (2018: 35 customers)	117,554	125,666
Other customers	61,436	68,193
Total	**178,990**	**193,859**

The Group applies a practical expedient in IFRS 15.121 and does not include disclosure of outstanding performance obligations at the reporting date that are part of contracts with expected lifetime of one year or less.

Note 9. Cost of Sales

	2019	2018
Raw materials and consumables	83,272	99,415
Energy and heating	24,431	23,714
Personnel costs	12,147	11,071
Depreciation	5,465	4,407
Purchased services	3,706	3,361
Transportation expenses	3,425	3,800
Repairs and maintenance	1,790	1,689
Other expenses	177	322
Rent expenses	71	77
Changes in inventories of finished goods, goods dispatched and work in progress	1,027	(420)
Total	**135,511**	**147,436**

Note 9. Cost of Sales (continued)

Thus, the line “Raw materials and consumables” is reduced by excise recovered from the budget in the amount of RUB 19,847 million for 2019 (2018: RUB 18,563 million) as a partial compensation of the growing feedstock costs.

Note 10. Selling, General and Administrative Expenses

	2019	2018
Personnel costs	4,604	4,412
Transportation expenses	3,115	2,610
Taxes other than income tax	1,638	1,591
Advertising and other services	1,525	2,620
Repairs and maintenance	901	968
Depreciation charge	742	694
Materials and supplies	406	1,258
Insurance	401	394
Energy and heating	191	189
Lease	138	178
Other expenses	1,098	1,053
Total	**14,759**	**15,967**

Note 11. Other Operating Expenses, Net

	2019	2018
Gain on sale of currency	(364)	(546)
Gain on disposal of other assets	(140)	(89)
Decrease in provision for advances issued	-	(27)
Other Income	(552)	(487)
Total other operating income	**(1,056)**	**(1,149)**
Fines and penalties under commercial agreements	992	220
Maintenance of social infrastructure and charity	455	1,046
Loss on disposal of property, plant and equipment	284	59
Write-off of goodwill	81	-
Increase in provision for advances issued	3	-
Expenses from investments	-	50
Other expenses	469	407
Total other operating expenses	**2,284**	**1,782**
Total	**1,228**	**633**

Note 12. Foreign Exchange Gain, Net

	2019	2018
Foreign exchange gain/(loss) on loans and borrowings	3,686	(1,085)
Foreign exchange (loss)/gain on cash and cash equivalents	(1,874)	616
Foreign exchange gain on deposits	-	1,147
Foreign exchange (loss)/gain on other operations	(253)	468
Foreign exchange gain, net	**1,559**	**1,146**

Note 13. Income Tax Expenses

Income tax expenses comprise the following:

	2019	2018
Current income tax expense	5,444	6,063
Deferred income tax	855	599
Income tax for the previous periods payable	407	22
Total	**6,706**	**6,684**

Note 13. Income Tax Expense (continued)

The income tax rate applicable to the majority of the Group's 2019 and 2018 income is 20%. As AO Polymatiz operates in a free-trade zone "Alabuga", it applies the income tax rate of 2% for 2019 (2018: 2%). The following presents a reconciliation of theoretical income tax calculated at the rate effective to the amount of actual income tax expense recorded in the consolidated statement of comprehensive income.

	2019	2018
Profit before income tax	**30,735**	**31,466**
Theoretical income tax expense	6,112	6,284
Tax effect of income and expenses which are not assessable for taxation purposes	187	378
Income tax for the previous periods payable	407	22
Income tax expense	**6,706**	**6,684**

The following table presents the net balance of deferred tax assets and liabilities:

	2019	2018
Deferred income tax assets	(269)	(266)
Deferred income tax liabilities	4,294	3,379
Deferred income tax liabilities, net	**4,025**	**3,113**

Note 13. Income Tax Expense (continued)

Temporary differences between the Russian statutory tax regulations and the amounts recorded in these consolidated financial statements give rise to the following deferred tax liabilities. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% and 2% for AO Polymatiz at 31 December 2019 (31 December 2018: 20% and 2% for AO Polimatiz).

	31 December 2019	Business combination (acquisition/sale)	Charged/ (Credited) to profit or loss	31 December 2018	Charged/ (Credited) to profit or loss	1 January 2018
Property, Plant and Equipment	(303)	-	(14)	(289)	(35)	(254)
Trade and other receivables	(19)	-	172	(191)	(30)	(161)
Tax losses carry forwards	(31)	-	2	(33)	(5)	(28)
Other	(248)	-	(79)	(169)	(26)	(143)
Deferred tax assets	**(601)**	**-**	**81**	**(682)**	**(96)**	**(586)**
Offsetting deferred tax liabilities	**332**	**-**	**(84)**	**416**	**95**	**321**
Total deferred tax assets	**(269)**	**-**	**(3)**	**(266)**	**1**	**(265)**
Property, Plant and Equipment	4,166	57	950	3,159	700	2,459
Financial assets	94	-	(79)	173	48	125
Inventories	128	-	(169)	297	(158)	455
Other	238	-	72	166	105	61
Deferred tax liability	**4,626**	**57**	**774**	**3,795**	**695**	**3,100**
Offsetting deferred tax assets	**(332)**	**-**	**84**	**(416)**	**(95)**	**(321)**
Total deferred income tax liabilities	**4,294**	**57**	**858**	**3,379**	**600**	**2,779**
Deferred income tax liabilities, net	**4,025**	**57**	**855**	**3,113**	**599**	**2,514**

Intercompany dividends received from the majority of subsidiaries of the Group are taxable at a 0% rate in accordance with applicable tax legislation. Therefore, the Group does not recognise deferred tax liabilities on retained earnings of such subsidiaries, which could be distributed to the Company in the future.

Note 14. Property, Plant and Equipment

	Land, buildings, construction and transmission equipment	Machinery and equipment	Motor vehicles and other assets	Construc-tion in progress	Total
Carrying amount at 1 January 2018	**28,186**	**16,693**	**5,735**	**30,882**	**81,496**
Cost balance at 1 January 2018	**63,243**	**68,002**	**8,397**	**30,898**	**170,540**
Additions	77	836	144	34,304	35,361
Transfers from assets under construction	12,689	9,183	-	(21,872)	-
Disposals	(101)	(447)	(119)	(36)	(703)
Cost balance at 31 December 2018	**75,908**	**77,574**	**8,422**	**43,294**	**205,198**
Accumulated depreciation and impairment at 1 January 2018	**(35,057)**	**(51,309)**	**(2,662)**	**(16)**	**(89,044)**
Accrued for the period	(1,328)	(3,050)	(531)	-	(4,909)
Written-off on disposal	57	348	116	-	521
Accumulated depreciation and impairment at 31 December 2018	**(36,328)**	**(54,011)**	**(3,077)**	**(16)**	**(93,432)**
Carrying value at 31 December 2018	**39,580**	**23,563**	**5,345**	**43,278**	**111,766**
Cost balance at 1 January 2019	**75,908**	**77,574**	**8,422**	**43,294**	**205,198**
Additions	48	1,006	201	37,315	38,570
Additions on acquisition of subsidiaries	301	-	1	-	302
Transfers from assets under construction	11,289	6,398	86	(17,773)	-
Disposals	(714)	(692)	(74)	(210)	(1,690)
Cost balance at 31 December 2019	**86,832**	**84,286**	**8,636**	**62,626**	**242,380**
Accumulated depreciation and impairment at 1 January 2019	**(36,328)**	**(54,011)**	**(3,077)**	**(16)**	**(93,432)**
Accrued for the period	(1,861)	(3,563)	(555)	-	(5,979)
Additions on acquisition of subsidiaries	(2)	-	-	-	(2)
Written-off on disposal	565	569	162	-	1 296
Accumulated depreciation and impairment at 31 December 2019	**(37,626)**	**(57,005)**	**(3,470)**	**(16)**	**(98,117)**
Carrying value at 31 December 2019	**49,206**	**27,281**	**5,166**	**62,610**	**144,263**

Assets under construction mainly consists of projects that enhance production facility of plastics and rubber. Upon completion, these assets are reclassified to “buildings, construction and transmission equipment” and “machinery and equipment”.

At 31 December 2019, construction in progress includes advances issued for capital construction and purchase of equipment in the amount of RUB 33,938 million (at 31 December 2018: RUB 14,759 million), including advances for construction of new ethylene complex with the capacity of 600 thousand tonnes per year and for construction of a new power plant with the capacity of 495 MW (combined cycle plant – TPP).

At 31 December 2019, the carrying amount of land included in “Land, buildings, facilities and transmission devices” was RUB 607 million (at 31 December 2018: RUB 571 million).

At 31 December 2019, included in the original cost of property, plant and equipment are fully depreciated assets which are still in service in the amount of RUB 43,826 million (at 31 December 2018: RUB 44,226 million).

The Group's property, plant and equipment with a carrying value of RUB 545 million (at 31 December 2018: RUB 556 million) have been pledged as security for non-current and current loans and borrowings.

Included in additions for 2019 are capitalised borrowing costs of RUB 1,642 million (2018: RUB 348 million), net of investment income from temporary investment of borrowed funds in the amount of RUB 749 million (2018: RUB 0 million).

Were the estimated useful lives of assets to differ by 10% from management’s estimates, the depreciation for 2019 would increase by RUB 664 million or decrease by RUB 544 (2018: increase by RUB 545 million, decrease by RUB 446 million).

The Group management did not identify any impairment indicators related to the property, plant and equipment and goodwill as at 31 December 2019 and 31 December 2018.

Note 15. Intangible Assets

	Patents and licenses	Software	Other	Total
Carrying amount at 1 January 2018	**238**	**80**	**5**	**323**
Cost balance at 1 January 2018	**595**	**307**	**272**	**1,174**
Additions	168	160	6	334
Disposals	(16)	(66)	(1)	(83)
Cost balance at 31 December 2018	**747**	**401**	**277**	**1,425**
Accumulated amortisation at 1 January 2018	**(357)**	**(227)**	**(267)**	**(851)**
Accrued for the period	(69)	(133)	-	(202)
Written-off on disposal	16	66	-	82
Accumulated depreciation at 31 December 2018	**(410)**	**(294)**	**(267)**	**(971)**
Carrying amount as of 31 December 2018	**337**	**107**	**10**	**454**
Cost balance at 1 January 2019	**747**	**401**	**277**	**1,425**
Additions	34	99	-	133
Disposals	(94)	(122)	-	(216)
Cost balance at 31 December 2019	**687**	**378**	**277**	**1,342**
Accumulated amortisation at 1 January 2019	**(410)**	**(294)**	**(267)**	**(971)**
Accrued for the period	(80)	(136)	-	(216)
Written-off on disposal	13	122	-	135
Accumulated depreciation at 31 December 2019	**(477)**	**(308)**	**(267)**	**(1,052)**
Carrying amount at 31 December 2019	**210**	**70**	**10**	**290**

Note 16. Investments in Associates

The Group has investments in the following associates that are accounted for under the equity method:

		Carrying amounts		Ownership, %	
Associate	**Activities of an associate**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
OOO Elastokam*	Production of polyurethane	162	360	50.00%	50.00%
OOO Gazenergoneftekhim	Production of key chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms	136	134	49.00%	49.00%
PAO Yamal-Povolzhye	Transportation of gas and derivative products via pipelines	46	46	33.40%	33.40%
OOO Tatneft-NK-Oil	Production of oil products	-	-	26.00%	26.00%
Total		**344**	**540**		

**As under the incorporation documents the Group does not exercise control of OOO Elastokam, this investment is recognised within investments in associates.*

The carrying value of the Group's investment in its associate OOO Tatneft-NKNK-Oil is nil. The unrecognised share of loss of this associate is RUB 0 million for 2019 (2018: RUB 49 million). Cumulatively, the unrecognised share of losses of this associate is RUB 618 million (2018: RUB 618 million).

The table below presents changes of the Group's investments in associates:

	2019	2018
Balance at the beginning of the period	**540**	**544**
Dividends received from associates	(85)	(90)
Share of the Group in associates' profit	(111)	86
Balance at the end of the period	**344**	**540**

Note 16. Investments in Associates (continued)

Place of business and country of incorporation of all associates is the Russian Federation.

Summaries of the Group's share of associates' revenue, profit or loss for the year, assets and liabilities for 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Total assets	1,472	1,757
Total liabilities	(742)	(633)
Net assets	730	1,124
The Group's share in net assets	**344**	**540**

	2019	2018
Revenue	2,718	3,508
(Loss) /profit for the period	(223)	173
The Group's share in (loss)/profit for the year	**(111)**	**86**

Note 17. Financial Assets

	Level of fair value hierarchy	31 December 2019	31 December 2018
Non-current			
Financial assets measured at fair value through profit or loss			
Equity securities	1, 3	1,765	1,178
Financial assets carried at amortised cost			
Loans issued	2	510	501
Notes receivable	2	130	-
Total		**2,405**	**1,679**
Current			
Financial assets carried at amortised cost			
Deposits (more than 3 months)	2	-	15,000
Total		**-**	**15,000**

At 31 December 2019, the loans issued at amortised cost are presented net of allowance for expected credit losses for the loan issued to an associate in the amount of RUB 278 million (at 31 December 2018: RUB 388 million).

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

	Ownership interest, %		Level of fair value hierarchy	31 December 2019	31 December 2018
	31 December 2019	31 December 2018			
OAO Tatneftekhiminvest-holding	6.98%	6.98%	3	924	643
PAO AK Bars Bank	1.46%	1.46%	3	580	510
Other	-	-	1,3	261	25
Total				**1,765**	**1,178**

The table below discloses sensitivity of financial assets' fair value calculation for changing one or more of the alternative assumptions (market multipliers for net assets of comparable companies):

	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
31 December 2019	580	market multipliers for banks	±5%	± 29
31 December 2018	510			± 26
31 December 2019	1,531	net assets of analysed companies	±10%	± 153
31 December 2018	1 178			± 118

Note 17. Financial Assets (continued)

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

	2019	2018
Carrying amount at the beginning of the year	**1,178**	**1,242**
Revaluation reported in profit or loss	363	(51)
Acquisition of financial assets	224	-
Disposal of equity securities	-	(13)
Carrying amount at the end of the year	**1,765**	**1,178**

Note 18. Goodwill

	2019	2018
Carrying amount at the beginning of the year	**83**	**83**
Carrying amount at the end of the year	**83**	**83**

Goodwill impairment test

The recoverable amount was determined based on the value-in-use calculations. The calculations used actual results of operations for 2019 and business plan figures for 2020-2024 (in 2018: actual results of operations for 2018 and business plan figures for 2019-2023).

The growth rates do not exceed long-term average growth rates projected for the business sector in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

Key assumptions	**2019**	**2018**
Sales growth rate	4.0%	3.0%
Pre-tax discount rate	12.6%	13.2%

The pre-tax discount rate assumption was primarily based on inflation rates with account for the Russian Central Bank's refinancing rate and risks specific to investment projects. The weighted average growth rates used in the 2019 calculations are consistent with the mid-term inflation rates.

Management believes that potential reasonable changes in the above assumptions would not result in any goodwill impairment.

Note 19. Other Non-Current Assets

	31 December 2019	31 December 2018
Catalysts	603	821
Other non-current assets	344	70
Total	**947**	**891**

Note 20. Inventories

	31 December 2019	31 December 2018
Inventories and supplies	8,966	10,114
Work in progress	3,627	4,318
Finished products	2,984	2,633
Goods dispatched	1,605	2,292
Total	**17,182**	**19,357**

At 31 December 2019, inventories amounting to RUB 72 million have been pledged as a security for bank loans and borrowings received by the Group (at 31 December 2018: RUB 346 million). Major part of such loans and borrowings is represented by loans and borrowings received by a trading company of the Group to finance its current activities.

Note 20. Inventories (continued)

In 2019, the Group reversed RUB 6 million (2018: RUB 12 million) of a previous inventory write-down. The Group sold (used in production) all the goods that had been previously written down for approximately their net carrying value. The amount reversed has been included in cost of sales in profit or loss for the year.

In 2019, the Group recognised RUB 180 million (2018: RUB 21 million) of the inventories write-down to their net realisable value as an expense.

Note 21. Trade and Other Accounts Receivable

	31 December 2019	31 December 2018
Short-term accounts receivable		
Trade receivables	5,443	7,292
Other receivables	144	224
Allowance for expected credit losses	(281)	(579)
Total	**5,306**	**6,937**

Trade receivables

	31 December 2019	31 December 2018
Short-term trade receivables		
Foreign trade activity	3,393	4,544
Domestic trade activity	2,050	2,748
Total	**5,443**	**7,292**

The Group applies two approaches to measuring expected credit losses provided under IFRS 9: i) simplified model; and ii) general model. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

To minimise credit risk, the companies of the Group have established credit risk policies. When entering into new contracts the Group companies follow internal guidelines that include consideration and review by the relevant Group departments of the terms and conditions of the draft contracts. The review is generally held by departments responsible for financial, commercial and legal matters as w ell as economic security.

Management believes that the fair value of receivables is not significantly different from its carrying value.

Movements in the allowance for expected credit losses are shown below:

	2019		**2018**	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Balance at the beginning of the year	**511**	**68**	**290**	**127**
Newly recorded allowance	128	47	257	46
Release of unused allowance	(402)	(64)	-	(103)
Financial assets derecognised during the period	(4)	(3)	(36)	(2)
Balance at the end of the year	**233**	**48**	**511**	**68**

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large. The Group’s management believes that the recorded allowance for doubtful debts is sufficient to cover the Group's credit risk (Note 38).

Note 22. Other Prepaid and Recoverable Taxes

	31 December 2019	31 December 2018
Value-added tax recoverable	4,950	6,220
Excise tax recoverable	2,646	2,762
Other taxes prepaid	7	3
Total	**7,603**	**8,985**

Note 23. Prepayments

	31 December 2019	31 December 2018
Prepayments to suppliers	1,744	13,442
Impairment provision	(11)	(8)
Total	**1,733**	**13,434**

In 2019, a loss of RUB 3 million from the impairment of the impairment provision was recognised (2018: recognised an impairment provision release of RUB 27 million) .

The decrease in prepayments to suppliers and contractors as part of operating activities was due to changes in 2019 contractual payment terms.

Note 24. Cash and Cash Equivalents

	31 December 2019	31 December 2018
Current accounts		
- in Russian roubles	624	16,975
- in foreign currency	10,283	5,505
Deposits		
- in Russian roubles	23,551	166
- in foreign currency	-	8,336
Other cash and cash equivalents	3	4
Total	**34,461**	**30,986**

Note 25. Shareholders' Equity and Earnings per Share

At 31 December 2019, the Company had authorised, issued and paid up voting ordinary share capital of 1,611,256,000 ordinary registered shares (31 December 2018: 1,611,256,000 ordinary registered shares) and 218,983,750 preferred registered shares (31 December 2018: 218,983,750 preferred registered shares) at the nominal value of 1 Russian rouble per share.

At 31 December 2019 the Company has authorised share capital comprised of 27,400,000,000 declared ordinary registered shares (at 31 December 2018: 27,400,000,000 shares) and 218,983,750 declared preferred registered shares (at 31 December 2018: 218,983,750 shares) with par value of RUB 1 each.

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

The ultimate controlling party and ultimate parent is AO TAIF ("TAIF"), which controls OOO Telecom-Management which owns over 50% shares of the Group. At the reporting date, the Group has no other shareholders with more than 20% shares owned.

Note 25. Shareholders' Equity and Earnings per Share (continued)

Earnings per Share

	2019	2018
Profit attributable to the shareholders of the parent company, RUB million	24,018	24,689
Weighted average number of participating shares	1,830,239,750	1,830,239,750
Earnings per participating share (net and diluted earnings per share)(Russian roubles per share)	**13.12**	**13.49**

Special Right "The Golden Share"

The Government of the Republic of Tatarstan has a special right (the right of Golden Share) to veto certain decisions which can be vetoed in accordance with the legislation and the Charter of PAO Nizhnekamskneftekhim. These decisions relate to the following: amendments and addenda to the Company's charter or adoption of a new edition; reorganisation of the Company; liquidation of the Company, creation of the liquidation commission and approval of the interim and final liquidation balance sheets; changes in share capital; entering into significant transactions and transactions with related parties in accordance with the Law of the Russian Federation "On Joint Stock Companies".

Rights attributable to preferred shares

Preferred shareholders have the right to participate with voting rights in General Shareholders' Meetings at which issues relating to the amendment of their rights or to the Company's liquidation or reorganisation are discussed.

Preferred shareholders have the right to receive annual dividends of at least RUB 0.06 per share, and this amount can be accumulated for a period of up to three years and paid when funds are available to do so and authorised by the Company's Board of Directors. Since the dividend on each preferred share cannot be less than that on each ordinary share, for the purposes of the earnings per share calculation preferred shares are considered to be participating shares.

In the event that no decision is taken in the General Shareholders' Meeting regarding payment of dividends on preferred shares, or if a decision is made to pay less than the minimum amount shown above, preferred shareholders acquire voting rights equivalent to those of the holders of ordinary shares until such time as the minimum dividends are paid.

On liquidation, preferred shareholders have the right to receive a distribution of the nominal amount of their shares, after the settlement of all external liabilities in accordance with the relevant legislation, before any amounts are paid to ordinary shareholders.

The statutory accounting reports of the Company are the basis for profit distribution. The Russian legislation identifies net income as the basis for distribution. For 2019, the net statutory profit of the Company as reported in the published statutory reporting forms was RUB 23,708 million (for 2018: RUB 24,252 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation.

On 6 March 2019, the Board of Directors made recommendations to the Annual General Shareholders' Meeting of PAO Nizhnekamskneftekhim to pay dividends on PAO Nizhnekamskneftekhim's shares based on the 2018 performance in the amount of RUB 36,495 million for ordinary and preferred shares based on RUB 19.94 per share. This decision was approved at the Annual General Shareholders' Meeting on 12 April 2019.

Note 26. Loans and Borrowings

Non-Current Loans and Borrowings

	31 December 2019	31 December 2018
Loans and borrowings with fixed interest rates		
Loans and borrowings in Russian roubles	15,091	15,134
Loans and borrowings with floating interest rates		
Loans and borrowings in Euros	40,873	23,005
Less: insurance premium and commissions for loans raising	(6,193)	(5,202)
Less: current portion repayable within one year and recognised within current loans and borrowings	(106)	(154)
Total non-current loans and borrowings	**49,665**	**32,783**

Note 26. Loans and Borrowings (continued)

Non-current loans and borrowings (continued)

The contractual undiscounted maturity profile calculated using interest rates in effect at 31 December 2019 and 31 December 2018 was as follows:

	31 December 2019	31 December 2018
1 to 3 years	5,026	3,758
3 to 5 years	8,530	4,842
5 to 9 years	43,745	23,296
9 to 15 years	13,163	21,909
Total	**70,464**	**53,805**

In 2018 and 2019, the Group raised loans from a consortium of German banks led by Deutsche Bank AG due in 2033 for the purposes of realisation of its investment program, and from AO Alfa Bank due in 2026 or the purposes of increase its working capital.

The insurance premium and the fees paid when raising loans from a consortium of German banks organised by Deutsche Bank AG in 2018 and 2019 are recognised as transaction costs and included in the calculation of the effective interest rate on the credit line.

Borrowings denominated in Russian roubles include RUB-denominated coupon bonds. The bonds were placed on MOEX on 20 December 2018, the final maturity date is 7 December 2028. Frequency of the coupon payment is once in six months. AO Raiffeisenbank and AO Alfa Bank acted as organisers of the issue.

For loans and borrowings obtained with floating interest rates, EURIBOR rates at the reporting date are applied in order to calculate future cash flows.

The fair value of non-current loans and borrowings is determined as follows:

a) The fair value of floating rate instruments is normally their carrying amount.

b) The estimated fair value of fixed interest rate instruments is based on the discounted cash flow method using effective interest rates for new instruments with similar credit risk and remaining maturity.

At 31 December 2019, the fair value of non-current loans and borrowings issued at a fixed interest rate with the carrying value of RUB 15,043 million (31 December 2018: RUB 15,044 million) determined based on the above methodology by applying the rate of 7% (2018: 9.6%) amounts to RUB 17,870 million (31 December 2018: RUB 15,829 million).

Current loans and borrowings

	31 December 2019	31 December 2018
Loans and borrowings with fixed interest rates		
Loans and borrowings in Euros	157	118
Loans and borrowings in US Dollars	150	123
Loans and borrowings in Russian roubles	8	61
Loans and borrowings with floating interest rates		
Loans and borrowings in US Dollars	-	207
Loans and borrowings in Euros	-	139
Current portion of long-term loans and borrowings repayable within one year	106	154
Total	**421**	**802**

The contractual undiscounted maturity profile calculated using interest rates in effect at 31 December 2019 and 31 December 2018 was as follows:

	31 December 2019	31 December 2018
Within three months	489	777
From three months to one year	1,862	1,913
Total	**2,351**	**2,690**

Note 26. Loans and Borrowings (continued)

Current loans and borrowings (continued)

To calculate future cash flows of current loans and borrowings with floating interest rate the EURIBOR rates as of the reporting date are used.

The fair value of current loans and borrowings within one-year maturity approximates their carrying value.

The below table summarises movements in loans and borrowings received by the Group arising from financial activities, including cash- and non-cash related changes.

	2019	2018
Carrying amount at 1 January	**33,585**	**522**
Financing activities		
Cash flows		
Non-current loans and borrowings received	21,752	36,893
Non-current borrowings repaid	(141)	(123)
Payment of insurance premiums and commissions for loans raising	(1,593)	(5,202)
Current loans and borrowings received	2,402	1,216
Current loans and borrowings repaid	(2,657)	(1,093)
Operating and investing activities		
Cash flows		
Interest and costs paid on loans and borrowings	(2,106)	(253)
Non-cash changes		
Foreign exchange (gain)/loss, net	(3,686)	1,084
Interest and borrowing costs accrued and capitalised	2,607	464
Exchange differences on translation of foreign subdivisions	(77)	77
Carrying amount at 31 December	**50,086**	**33,585**

Note 27. Other Non-Current Liabilities

	31 December 2019	31 December 2018
Post-employment benefit obligations (Note 28)	1,336	1,062
Non-current trade accounts payable	183	-
Other non-current liabilities on benefits to employees (Note 28)	92	32
Non-current lease liabilities	89	1
Total	**1,700**	**1,095**

Note 28. Non-Current Liabilities on Benefits to Employees

The Group’s pension and other post-employment obligations and actuarial assumptions used in their determination are described below.

The amounts disclosed in the consolidated financial statements are as follows:

Post-employment benefit obligations

	2019	2018
Obligation at the beginning of the year	**1,062**	**1,017**
Expenses charged to profit or loss, including:		
Current service cost	44	164
Interest expense	85	70
Benefits paid	(136)	(226)
Expenses charged to other comprehensive income, including:		
Actuarial losses	281	37
Obligations at the end of the year	**1,336**	**1,062**

The change in the discount rate in 2019 and the change in the retirement age in 2018 had a significant impact on actuarial losses.

Note 28. Non-Current Liabilities on Benefits to Employees (continued)

Other non-current employee benefit obligations

	2019	2018
Obligations at the beginning of the year	**32**	**23**
Current service cost	12	10
Interest expense	3	2
Benefits paid	(6)	(7)
Remeasurement losses/ (gains)	51	4
Obligations at the end of the year	**92**	**32**

Key actuarial assumptions are as follows:	2019	2018
Discount rate	6.41%	8.81%
Tariff/ salary growth rates	3.99%	4.11%
Average staff turnover, males	6.52%	6.81%
Average staff turnover, females	3.87%	4.12%

Due to the existing post-employment benefit obligations, the Group is exposed to various risks. The most significant risks are described below:

1. Interest rate risk. Lower yield of state bonds will result in higher long-term employee benefit obligations.
2. Inflation risk. As a part of the Group's post-employment benefit obligations is adjusted based on the consumer price index, the pension plan is exposed to the inflation risk. Higher inflation rate will result in higher post-employment benefit obligations.

Sensitivity analysis of the post-employment benefit obligation by significant actuarial assumptions is set out in the table below. The table includes estimated increase in the post-employment benefit obligation with a 1% change in the actuarial assumption, in absolute terms, and other assumptions unchanged.

	2019	2018
Discount rate – 1% lower	103	66
Tariff/salary growth rate – 1% higher	102	68

Next year, the Group plans to settle its post-employment benefit obligations of RUB 167 million.

The average term of the post-employment benefit obligation is from 9 to 12 years.

In 2019 the Group made contributions to the Russian Federation State Pension Plan of RUB 2,837 million (2018: RR 2,599 million). These contributions are included in personnel costs within cost of sales and selling, general and administrative expenses.

Note 29. Trade and Other Payables

	31 December 2019	31 December 2018
Trade payables	5,772	6,160
Other payables	87	200
Current lease liabilities	48	6
Total	**5,907**	**6,366**

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

Note 29. Trade and Other Payables (continued)

The table below summarises the maturity profile of the Group's trade and other payables based on contractual undiscounted payments:

	31 December 2019	31 December 2018
Within three months	5,760	6,328
From three months to one year	147	38
Total accounts payable	**5,907**	**6,366**

Note 30. Advances Received and Accrued Liabilities

	31 December 2019	31 December 2018
Advances from customers	3,958	3,720
Accruals for short-term employee benefits	1,968	1,788
Short-term employee benefit obligations	130	478
Total	**6,056**	**5,986**

Note 31. Other Taxes Payable

	31 December 2019	31 December 2018
Value-added tax	591	281
Property tax	287	320
Insurance contributions	286	265
Land tax	126	124
Other	32	113
Total	**1,322**	**1,103**

Note 32. Related Party Transactions

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

Below is information about balances to be settled and transactions with related parties during the year. “Other related parties” primarily include entities under common control:

	Revenue	Purchase of materials and services	Purchases of property, plant and equipment	(Recover)/ accrual of allowance for expected credit losses	Other expenses/ (income)
2019					
PAO Nizhnekamskneftekhim					
- shareholders	4	7	-	-	-
- associates	488	25	-	(444)	535
- other related parties	10,129	75,424	128	-	(50)
Subsidiaries					
- shareholders	1	-	-	-	-
- other related parties	516	214	-	-	-
Total	**11,138**	**75,670**	**128**	**(444)**	**485**

Note 32. Related Party Transactions (continued)

	Revenue	Purchase of materials and services	Purchases of property, plant and equipment	(Recover)/ accrual of allowance for expected credit losses	Other expenses/ (income)
2018					
PAO Nizhnekamskneftekhim			-	-	-
- shareholders	2	206	-	-	-
- associates	1,107	25	-	224	195
- other related parties	8,759	82,727	630	-	(28)
Subsidiaries					
- other related parties	421	211	-	-	-
Total	**10,289**	**83,169**	**630**	**224**	**167**

	Loans issued	Trade and other receivables and advances paid	Allowance for expected credit losses	Trade and other payables and advances received
At 31 December 2019				
PAO Nizhnekamskneftekhim				
- shareholders	-	12	-	4
- associates	278	110	(387)	3
- other related parties	-	181	-	1,671
Subsidiaries				
- other related parties	-	34	-	1
Total	**278**	**337**	**(387)**	**1,679**
At 31 December 2018				
PAO Nizhnekamskneftekhim				
- shareholders	-	52	-	4
- associates	388	595	(831)	5
- other related parties	-	11,711	-	1,186
Subsidiaries				
- other related parties	-	30	-	1
Total	**388**	**12,388**	**(831)**	**1,196**

Related party transactions were performed on an arm's length basis. The category "Purchase of materials and services" mainly reflects purchases from related parties of the main and auxiliary raw materials, electricity and heat.

At 31 December 2019 and 31 December 2018, the Group has commitments to its related parties on future purchases and supply. As the prices and volumes are not fixed in the above agreements, these commitments are not subject to monetary estimation.

Transactions with Russian government entities and state companies

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

The following transactions account for major part of the Group's transactions with these entities in 2019 and 2018:

	2019	**2018**
Purchase of materials and services	19,267	24,894
Revenue	12,260	14,158
Other expenses, net	208	565
Purchase of property, plant and equipment and other non-current assets	158	230
Interest income on bank deposits	-	105

Note 32. Related Party Transactions (continued)

Transactions with Russian government entities and state companies (continued)

Balances on the above transactions are as follows:

	31 December 2019	31 December 2018
Trade and other receivables and advances paid	927	1,021
Cash and cash equivalents	5	29
Trade and other payables	198	301
Advances received	513	148
Loans and borrowings received	-	151

Transactions with the Republic of Tatarstan and Russian Federation also include tax settlements disclosed in Notes 13, 22 and 31.

Directors' compensation

The remuneration paid to key management personnel for the year ended 31 December 2019 in the form of salaries and other employee benefits (including insurance contributions) amounted to RUB 228 million (for 2018: RUB 207 million).

Note 33. Segment Information

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

- Business activities of companies;
- Product nature.

The first operating segment “Production and sales of petrochemicals” contains the results of the parent company PAO Nizhnekamskneftekhim and income from associates (Note 16). This segment derives its revenue primarily from the manufacture and sale of petrochemical products.

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

Other principal subsidiaries (Note 34) that did not fall under the above listed operating segments are included in “All other segments”.

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

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

Note 33. Segment Information (continued)

The Group's financial performance by operating segments for the year ended 31 December 2019:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue				
External sales	170,314	5,915	2,797	179,026
Inter-segmental sales	3,774	4	5,848	9,626
Total revenue	**174,088**	**5,919**	**8,645**	**188,652**
Result				
Gross profit	44,524	191	1,854	46,569
Profit from sales	27,733	55	667	28,455
Foreign exchange gain, net	1,572	(13)	-	1,559
Interest income	1,101	27	9	1,137
Interest expense	-	(72)	(12)	(84)
Dividend income	263	-	-	263
Income tax charge	(5,341)	(2)	(102)	(5,445)
Net profit	23,708	7	526	24,241
Other information				
Depreciation	**(6,471)**	**-**	**(321)**	**(6,792)**

The Group's financial performance by operating segments for the year ended 31 December 2018:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue				
External sales	184,472	5,951	3,552	193,975
Inter-segmental sales	4,428	-	4,597	9,025
Total revenue	**188,900**	**5,951**	**8,149**	**203,000**
Result				
Gross profit	46,468	404	1,540	48,412
Profit from sales	30,022	253	330	30,605
Foreign exchange gain, net	1,156	(10)	-	1,146
Interest income	639	37	22	698
Interest expense	-	(65)	(9)	(74)
Dividend income	226	-	-	226
Income tax charge	(5,960)	(45)	(56)	(6,061)
Net profit	24,252	180	158	24,590
Other information				
Depreciation	**(5,359)**	**-**	**(302)**	**(5,661)**

Reportable segment revenues for the year ended 31 December 2019 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	**174,088**	**5,919**	**8,645**	**188,652**
Intercompany transactions	(3,774)	(4)	(5,848)	(9,626)
Other adjustments	(36)	-	-	(36)
Revenue, IFRS	**170,278**	**5,915**	**2,797**	**178,990**

Note 33. Segment Information (continued)

Reportable segment revenues for the year ended 31 December 2018 are reconciled to the Group's consolidated revenue as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Revenue	**188,900**	**5,951**	**8,149**	**203,000**
Intercompany transactions	(4,428)	-	(4,597)	(9,025)
Other adjustments	(116)	-	-	(116)
Revenue, IFRS	**184,356**	**5,951**	**3,552**	**193,859**

Revenue from the provision of services, including transportation services, is recognised during the period when such services are provided to the customer and recorded in the segment "Production and Sales of Petrochemicals", in line "External Sales".

Reportable segment capital expenditure for the period ended 31 December 2019 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	**33,995**	**-**	**70**	**34,065**
Reclassification of advances paid for assets under construction	33,936	-	2	33,938
Reclassification of construction materials to construction in progress	1,202	-	2	1,204
Reclassification of insurance premiums and fees for loans raising	(6,193)	-	-	(6,193)
Other adjustments	(337)	-	(67)	(404)
Capital expenditure, IFRS	**62,603**	**-**	**7**	**62,610**

Other adjustments are related to timing differences in the dates of recognition of certain assets in RSA and IFRS (Notes 13).

Reportable segment capital expenditure for the period ended 31 December 2018 is reconciled to the Group's consolidated capital expenditure as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Capital expenditure, segments	**31,971**	**-**	**69**	**32,040**
Reclassification of advances paid for assets under construction	14,759	-	-	14,759
Reclassification of construction materials to construction in progress	1,474	-	3	1,477
Reclassification of insurance premiums and fees for loans raising	(5,058)	-	-	(5,058)
Other adjustments	122	-	(62)	60
Capital expenditure, IFRS	**43,268**	**-**	**10**	**43,278**

Reportable segment operating profit for the year ended 31 December 2019 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Profit from sales	**27,733**	**55**	**667**	**28,455**
Reclassification of other income/ (expenses)	(750)	(4)	(72)	(826)
Differences in RSA and IFRS depreciation	531	-	54	585
Differences in RSA and IFRS provisions	134	-	(12)	122
Other adjustments	(442)	4	(5)	(443)
Operating profit, IFRS	**27,206**	**55**	**632**	**27,893**

Note 33. Segment Information (continued)

Reclassification of other income and expenses represents reconciliation between expenses reported as "Other expenses" in RSA financial statements and IFRS consolidated operating profit.

Reportable segment operating profit for the year ended 31 December 2018 is reconciled to the Group's consolidated operating profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Profit from sales	**30,022**	**253**	**330**	**30,605**
Reclassification of other income/ (expenses)	(569)	(16)	(226)	(811)
Differences in RSA and IFRS depreciation	497	-	63	560
Differences in RSA and IFRS provisions	(14)	-	-	(14)
Other adjustments	(661)	16	(50)	(695)
Operating profit, IFRS	**29,275**	**253**	**117**	**29,645**

Operating segment net profit for the year ended 31 December 2019 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	**23,708**	**7**	**526**	**24,241**
Reversal of RSA deferred tax	743	-	(41)	702
Differences in RSA and IFRS depreciation	531	-	54	585
Differences in RSA and IFRS provisions	134	-	(12)	122
Other adjustments	(1,546)	(3)	(83)	(1,632)
Net profit, IFRS	**23,570**	**4**	**444**	**24,018**

Operating segment net profit for the year ended 31 December 2018 is reconciled to the Group's consolidated net profit as follows:

	Production and sales of petrochemicals	Petrochemicals trading	All other segments	Total
Net profit	**24,252**	**180**	**158**	**24,590**
Reversal of RSA deferred tax	508	-	(4)	504
Differences in RSA and IFRS depreciation	497	-	63	560
Differences in RSA and IFRS provisions	(176)	-	25	(151)
Other adjustments	(692)	(79)	(43)	(814)
Net profit, IFRS	**24,389**	**101**	**199**	**24,689**

Note 34. Principal Subsidiaries

Subsidiary	Nature of business	Percentage of voting interest held 31 December 2019	31 December 2018
OOO Trest TSNKhRS	General equipment repairs and construction	100.0%	100.0%
OOO RMZ-NKNK	Repairs and maintenance	100.0%	100.0%
OOO UOP Neftehim	Food supplies and catering	100.0%	100.0%
AO Polymatiz	Production of non-woven textile materials	100.0%	100.0%
OOO UETP-NKNK	Transportation of gas and derivative products via pipelines	100.0%	100.0%
OOO UAT-NKNK	Road freight transport activity	100.0%	100.0%
OOO Neftekhimik Hockey Club	Other sports activities	100.0%	100.0%
OOO Kataliz-Prom	Petrochemicals production	100.0%	100.0%
NAO Transkama	Other auxiliary transportation activities	100.0%	-
AO SOV-NKNK	Water purification	67.3%	67.3%
OY Nizhex Scandinavia Ltd	Petrochemicals trading	56.3%	56.3%

In April 2019, the extraordinary general meeting of OOO Trest TSNKhRS's participants made the decision to acquire 100% of shares in the charter capital of NAO Transkama for the total of RUB 335 million.

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

Note 35. Fair Value of Financial Instruments

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement.

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

Financial instruments carried at fair value. Equity securities are recorded in the consolidated statement of financial position at the fair value through profit or loss and included in level 3 of the fair value hierarchy (Note 17).

Financial assets recognised at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. The carrying amount of loans issued approximates their fair values and belongs to level 2 of the fair value hierarchy, and trade and other receivables belong to level 3 of the fair value hierarchy (Notes 17 and 21).

Liabilities carried at amortised cost. The carrying value of trade payables approximates their fair values and belongs to level 2 of the fair value hierarchy (Note 29). The fair value of loans and borrowings received (Note 26) is included in level 2 of fair value hierarchy.

Note 36. Commitments

Investment commitments

Contractual commitments for future acquisition of property, plant and equipment amounted to RUB 51,386 million at 31 December 2019 (31 December 2018: RUB 92,080 million). The Group is planning to finance its capital commitments using its own funds and borrowings.

Note 36. Commitments (continued)

Lease

The Group leases land plots owned by the state, the lease payments for which depend on the land tax rate and cadastral value of the land. The lease agreements can be renewed upon their expiration. The Group accounts for the lease payments under these contracts as operating expenses when incurred. The above lease agreements do not result in any significant obligations for the Group apart from lease payments.

As at 31 December 2019, future (undiscounted) cash outflows in the amount of RUB 363 million that are expected to be paid by the Group over the lease term were not included in the lease liability because they included variable lease payments under land leases that depend on the cadastral value. In 2019, the Group terminated land lease agreements which has the total amount of future (undiscounted) cash outflows amounted to RUB 1,384 million as at 31 December 2018.

The Group's future minimum lease expenses under non-cancellable operating leases as at 31 December 2018 were as follows:

	31 December 2018
Within one year	146
One to five years	409
Due thereafter	1,458
Total	**2,013**

Social commitments

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

Letters of credit

At 31 December 2019, the Group has unsecured uncovered letters of credit for RUB 46 million (31 December 2018: RUB 70 million).

Note 37. Contingent Liabilities

Legal proceedings

In 2017, the Company was involved in legal proceedings with the Russian Central Bank and from 2018 - with the insolvency administrators of PAO Tatfondbank and OOO Novaya Neftekhmia to invalidate the agreements entered into by the Company with third parties in 2016 on debt assignment under loan agreements with PAO Tatfondbank for the total amount of RUB 4,000 million and to enforce implications of invalidated transactions. At the issue date of the consolidated financial statements, effective judicial acts have confirmed that the Company acted in good faith and that the claims against the Company of the Central Bank of Russia and the insolvency administrators of PAO Tatfondbank and OOO Novaya Neftekhmia were rejected. At the issue date of the consolidated financial statements the Company assesses the risk of unfavourable outcome as below possible.

Tax contingencies in the Russian Federation

Russian tax legislation, which was effective or enacted at the end of the reporting period, is subject to varying interpretations when applied to individual business transactions or activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made. Under certain circumstances, reviews may cover longer periods. To ensure compliance with the tax legislation management of the Company implemented internal control system, including controls over prices.

Note 37. Contingent Liabilities (continued)

Tax contingencies in the Russian Federation (continued)

While management currently estimates that the tax positions and interpretations of legislation that it has taken can be sustained, there is a risk that outflow of the Company's resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the Company's financial position and/or results of operation. Management believes that entities of the Company have no reason to determine and recognise contingent tax liabilities in their financial statements.

The Company management will vigorously defend the Company's positions that were applied in determining taxes recognised in these statutory financial statements if these are challenged by the tax authorities.

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. Transfer pricing legislation provides for the possibility of imposing additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm’s length. The management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated.

Environmental matters

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

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

Contingent Liabilities

The Group's management do not rule out that some transactions performed in the reporting or prior periods may be challenged in future that may lead to changes in the results of its operations. In accordance with para 92 IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, detailed information about such transactions is not disclosed in the financial statements.

Note 38. Financial Risk and Capital Management

Capital Management

The Group manages its capital structure to achieve the optimum structure of equity and debt capital in order to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders. On a regular basis the Group’s management reviews financial indicators related to return on equity, long-term financial sustainability and financial leverage based on profit and credit portfolio information received from the Group’s companies.

When necessary, the Group’s companies prepare a forecast balance sheet. This practice allows for control of the fulfilment of requirements to debt and equity ratio. In particular, this procedure is a rule for those companies of the Group that are subject to capital structure requirements imposed by covenants under loan agreements.

The Group’s overall strategy for managing capital remains unchanged from 2018.

Note 38. Financial Risk and Capital Management (continued)

Capital Management (continued)

The capital structure of the Group consists of borrowings, which include non-current and current loans and borrowings disclosed in Note 26, less cash and cash equivalents disclosed in Note 24, and equity attributable to the shareholders of the parent company as disclosed in the consolidated statement of financial position. The debt to equity ratio at the year-end was as follows:

	31 December 2019	31 December 2018
Borrowings	50,086	33,585
Cash and cash equivalents	(34,461)	(30,986)
Net debt	**15,625**	**2,599**
Equity attributable to shareholders of the parent company	**145,108**	**157,965**
Net debt to equity attributable to shareholders of the parent company ratio	**10.77%**	**1.65%**

The Group's companies are in strict compliance with the capital requirements established by the legislation of the Russian Federation:

- The minimum required charter capital for a public company is RUB 100,000. The minimum required charter capital for a non-public company is RUB 10,000.
- If the value of the company's net assets remains lower than its share capital at the end of the reporting year following the second reporting year or each consecutive reporting year, subsequent to which the company's net assets value fell below its charter capital, then the company shall, no later than six months after the end of the corresponding reporting year, be required to take one of the following decisions:
  - reduce its share capital to the amount that would not exceed its net assets;
  - liquidate the company.

The share capital of the Group's companies is in line with the regulatory criteria established by the Russian Law.

Under the terms of signed loan agreements the Group shall comply with certain terms and restrictions, including requirements to meet certain financial ratios. In 2019 and 2018, the Group's companies complied with all externally imposed capital requirements and other financial indicators. These are set out in the loan agreements of the Group's companies based on which they are required to maintain a ratio of net debt to EBITDA at a level prescribed by the agreements.

Major categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings (Note 26), finance leases (Notes 27 and 29), and trade and other payables (Notes 27, 29). The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables (Note 21), investments in securities and other financial assets (Note 17) and cash and cash equivalents (Note 24).

	Notes	31 December 2019	31 December 2018
Financial assets			
Financial assets at amortised cost			
Cash and cash equivalents	24	34,461	30,986
Trade and other receivables	21	5,306	6,937
Loans issued	17	510	501
Notes receivable	17	130	-
Deposits	17	-	15,000
Total assets at amortised cost		**40,407**	**53,424**
Financial assets measured at fair value through profit or loss			
Equity securities	17	1,765	1,178
Total financial assets		**42,172**	**54,602**
Financial liabilities at amortised cost			
Loans and borrowings	26	50,086	33,585
Trade and other payables	27, 29	6,042	6,360
Lease liabilities	27, 29	137	7
Dividends payable		84	17
Total financial liabilities		**56,349**	**39,969**

Note 38. Financial Risk and Capital Management (continued)

Key financial risk factors and risk management system

The Group's activities expose it to the following financial risks: market risk (including interest risk and currency risk), credit risk, liquidity risk and operational risk.

Monitoring and assessment of potential risks is performed by Group's companies management and at the parent company's level based on the management information regularly received from the Group's companies which contains both planned and actual data. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group's interest rate risk arises from current and non-current borrowings at floating interest rates.

Interest rate risk management is performed by diversification of credit portfolio by lenders and interest rate types.

The table below details the Group's sensitivity to increase or decrease of the floating rate by 100 basis points, which is used when reporting interest rate risk internally to the Group's key management and represents management's assessment of the reasonably possible change in interest rates. The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

	Profit after taxation and equity	
	31 December 2019	**31 December 2018**
EURIBOR	273	144
Total	**273**	**144**

If interest rates at 31 December 2019 had been 100 basis points (2018: 100 basis points) lower, with all other variables held constant, profit after tax for the year and equity would have been RUB 273 million (2018: RUB 144 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates at 31 December 2019 had been 100 basis points (2018: 100 basis points) higher, with all other variables held constant, profit after tax for the year and equity would have been RUB 273 million (2018: RUB 144 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group performs transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group does not use any derivative financial instruments to manage its currency risk. The Group mitigates its currency risk exposure through the diversification of sales between external and domestic markets and diversified rouble and foreign currency borrowings, based on foreign exchange rate movements.

Note 38. Financial Risk and Capital Management (continued)

Currency risk (continued)

The carrying amount of financial assets and liabilities of the Group denominated in foreign currency at the reporting date was as follows:

	31 December 2019	31 December 2018
Assets		
Trade and other receivables	**3,130**	**4,125**
- US Dollar	2,134	2,746
- Euros	996	1,379
Cash	**10,283**	**13,841**
- US Dollar	8,749	10,089
- Euros	1,534	3,752
Total assets	**13,413**	**17,966**
Liabilities		
Loans and borrowings received	**34,987**	**18,390**
- US Dollar	150	330
- Euros	34,837	18,060
Trade and other payables	**915**	**1,733**
- US Dollar	271	785
- Euros	644	948
Total liabilities	**35,902**	**20,123**
Total net position	**(22,489)**	**(2,157)**
- US Dollars	**10,462**	**11,720**
- Euros	**(32,951)**	**(13,877)**

Had the US Dollar and Euro strengthened or weakened by 20% at 31 December 2019 (31 December 2018: 20%) against the Russian rouble, with all other variables held constant, profit/loss after tax as at the year-end would have been lower/higher by the following:

Changes in exchange rate:	**Profit/loss (after taxation) and equity**	
	2019	**2018**
USD	1,674	1,875
Euros	(5,272)	(2,220)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to the credit risk in relation to its operating activities (primarily, trade receivables) and financing activities, including deposits with banks and financial institutions, foreign currency transactions and other financial instruments. Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the ECL allowance already recorded. The Group is not economically dependent on a limited number of customers because of the existence of a liquid market.

The management believes that the Group has no significant concentrations of credit risk.

For the purpose of measurement of expected credit losses ("ECL"), borrowings, accounts receivable and similar assets the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Additional information on how the Group uses forecast information in the ECL model is presented below.

The Group applies two approaches allowed by IFRS 9 to assessment of its ECL; i) general model is applied for loans, notes, deposits, cash on settlement accounts, other cash and cash equivalents, long-term deposits, all other receivables and long-term trade receivables; ii) simplified model is applied for short-term trade receivables.

Note 38. Financial Risk and Capital Management (continued)

Credit risk (continued)

The general approach is based on a three-stage model for ECL measurement.

Stage 1 – For financial assets with low credit risk since initial recognition, and the credit risk of which has not increased significantly since initial recognition, i.e. less than 30 days past due, the allowance for credit losses is set up based on 12-month expected credit losses.

Stage 2 – Credit risk has increased significantly since initial recognition, i.e. the financial asset is past due for 30 to 90 days, the credit rating has decreased by 2 levels against the previous reporting date, there is debt or counterparty restructuring, etc., the asset is not yet credit impaired, but the allowance for credit losses is set up based on lifetime expected credit losses.

Stage 3 – The financial asset is credit impaired, i.e. it is past due for more than 90 days, it has a default level of long-term credit rating, there are ongoing legal disputes, counterparties are in crisis, then the allowance for credit losses is set up based on financial instrument's lifetime expected credit losses. The consequence of an asset being in Stage 3 is that the Group ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

The general model has three options for assessing expected credit losses depending on the impairment stage: (i) internal rating system; (ii) external rating system (Standard & Poor's (S&P), Fitch, Moody's); (iii) professional judgement. Risk assessment using the option of the internal rating system takes into account counterparty reliability depending on the delay periods, SPARK indices, payment history and other indications (legal proceedings, change of management, beneficiaries, type of financial stability). The internal rating is not applied to individuals. When external ratings are used to determine the credit risk, the Group uses statistical data on defaults and recoveries published by any of international agencies: Standard & Poor's (S&P), Fitch, Moody's. For cash on settlement accounts, the Group assesses counterparties using ratings assigned to them by international or national agencies. When neither of the rating systems allows assessing credit risks without additional analysis, then professional judgement is applied.

The simplified model is used to determine at each reporting date whether it is necessary to recognise impairment of trade receivables. The model involves using the matrix of allowances for assessing expected credit losses. The rates of allowances are determined as the ratio of outstanding trade receivables at the default stage to uncollected revenue depending on the number of days of days overdue for groups of customer segments by geographic region.

Expected credit losses (ECL) are calculated by multiplying the probability of default (PD), exposure at default (EAD) and loss given default (LGD). For the Group, LGD is deemed 100%. The probability of default (PD) is calculated using the methodology developed by the Group (described above).

Calculations of loss allowances for expected credit losses for all financial assets reflect the probability weighted outcomes, time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions and forecasts of future conditions.

At the reporting date, the maximum exposure to credit risk by classes of financial assets is the carrying amount of each class of financial assets.

The Group's exposure to credit risk for financial assets is shown below:

General model:

Days overdue	Current other receivables (EAD)	% of credit losses (PD)	Expected credit losses (ECL)
at 31 December 2019			
Current (not past due)	95	0.001%	-
0 to 29 days (inclusive)	-	3%	-
61 to 90 days (inclusive)	1	30%	-
More than 90 days	48	100%	48
Total	**144**		**48**
at 31 December 2018			
Current (not past due)	122	0.001%	-
0 to 29 days (inclusive)	35	3%	1
More than 90 days	67	100%	67
Total	**224**		**68**

Note 38. Financial Risk and Capital Management (continued)

Credit risk (continued)

Simplified model:

Days overdue	Current other receivables (EAD)	% of credit losses (PD)	Expected credit losses (ECL)
at 31 December 2019			
Current (not past due)	5,090	0.001%	-
1 to 29 days (inclusive)	55	5%	1
30 to 60 days (inclusive)	49	23%	8
61 to 90 days (inclusive)	38	42%	13
More than 90 days	211	100%	211
Total	**5,443**		**233**
at 31 December 2018			
Current (not past due)	6,682	0.001%	1
1 to 29 days (inclusive)	61	5%	3
30 to 60 days (inclusive)	34	23%	7
61 to 90 days (inclusive)	26	42%	11
More than 90 days	489	100%	489
Total	**7,292**		**511**

Credit risk is managed at the Group level. The following ratings have been assigned to Groups' financial assets:

- Rating A – history of business relations more than one year, no creditworthiness difficulties;
- Rating B – history of business relations more than one year, potential creditworthiness difficulties are anticipated;
- Rating C – others, credit worthiness difficulties are likely.

At 31 December 2019 and 31 December 2018, all financial assets other than cash and cash equivalents, and equity securities, mainly have rating A.

The analysis of credit quality of banks, where the Group has account balances, is presented below. The analysis is based on rating agencies data.

		31 December 2019		**31 December 2018**	
Rating	**Rating agency**	**Cash and cash equivalents**	**Financial Assets**	**Cash and cash equivalents**	**Financial Assets**
ruA-	Expert RA	34,411	-	30,626	15,000
A	Fitch	20	-	-	-
BB-	Fitch	18	-	94	-
Aa3	Moody's	7	-	236	-
Baa3	Moody's	5			
Ba2	Moody's	-	-	29	-
Other	Other	-	-	1	-
Total		**34,461**	**-**	**30,986**	**15,000**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its financial liabilities as they become due. Notes 26 and 29 analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the notes are the contractual undiscounted cash flows. The Group controls its liquidity position. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate resources available to meet its payment obligations.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents.

Note 38. Financial Risk and Capital Management (continued)

Operational risk (continued)

The Group maintains insurance cover for major production assets including insurance cover for damage related to explosion or environmental damage arising from accidents at the Group's property or related to the Group's operations. The Group does not have coverage for business interruption. Management believes that the existing level of insurance coverage addresses all major risks, which could have a material effect on the Group's operations and consolidated financial position.

To reduce adverse effect of the risks, the Group enters into agreements with insurance companies only meeting certain criteria, including certain requirements to reinsurance quality.

In accordance with statutory requirements the Group insures third party liability for potential claims that can result from accidents at the Group's production facilities.

Note 39. Events after the Reporting Date

On February 27, 2020, the Board of Directors decided to terminate the powers of the Company's General Director, Bikmurzin Azat Shaukatovich and to elect Safin Ayrat Foatovich to the position of the Company's General Director from February 28, 2020.

The Board of Directors of 5 March 2020 proposed paying dividends of RUB 16,600 million, based on the share price of RUB 9.07. This decision is subject to approval at the Annual General Shareholders' Meeting on 09 April 2020.

On 17 February 2020 the management of the Group decided on the voluntary liquidation of OOO Kataliz-Prom by joining to PAO Nizhnekamskneftekhim. According to management estimates, this event will not have a material effect on the consolidated financial statements.

The situation at 2019 year end, was that a limited number of cases of an COVID-19 (Coronavirus) had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum.

While this is still an evolving situation at the time of issuing these consolidated financial statements, it appears that the negative impact on global trade and on the Group may be more severe than originally expected. Certain currencies to which the Group is exposed have weakened, stock markets have declined, and it is expected that commodity and products prices will decrease. Management considers this outbreak to be a non-adjusting post balance sheet event.

Management is closely monitoring the situation and seeking ways to minimise the impact on the Group but the lack of growth in oil demand and decline in global oil prices would directly impact the income of the Group if prices do not recover within the near term.