Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company KuibyshevAzot
and its subsidiaries
for 2018

March 2019

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Independent auditor's report

To the Shareholders and the Board of Directors of
Public Joint-Stock Company KuibyshevAzot

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How the matter was addressed in the audit
Revenue recognition	
Revenue is the Group's key performance measure, which gives rise to a risk that revenue may be misstated in order to achieve performance targets. In this regard, revenue recognition was one of the key audit matters. Information regarding revenue is disclosed in Note 21 to the consolidated financial statements.	We reviewed the Group's accounting policies for recognition of revenue from sale of goods, including analysing of the Group's assessment of transition to IFRS 15 *Revenue from Contracts with Customers*. We analyzed indicators of the control transfer to customers. On a sample basis, we compared the date of control transfer with the date of revenue recognition. We performed analytical procedures in respect of revenue that included, among others, the analysis of monthly or quarterly sales to detect unusual fluctuations (by type of goods and services, by geographical areas) and reconciliation with comparative information for prior periods and the anticipated results of the Group.
Covenants on loans and borrowings	
In accordance with terms of agreements for loans and borrowings the Group should maintain and comply with certain financial and non-financial covenants. Analysing compliance with covenants was one of the matters of most significance in our audit because covenants breach may have a significant impact on the going concern assumption used in the preparation of the consolidated financial statements and on the classification of liabilities in the consolidated statement of financial position. Information regarding breach of covenants on loans and borrowings is disclosed in Note 16 to the consolidated financial statements.	We inspected the terms of agreements for loans and borrowings including covenant ratios and event of default definitions. We assessed management's calculations of the covenant ratios. We checked mathematical accuracy of covenant calculations and reconciled data used in the calculations with data in the consolidated financial statements and relevant accounting data. We compared the classification of loans and borrowings as current or non-current liabilities with the results of analysis of compliance with covenants on relevant loans and borrowings.

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Other information included in the 2018 Annual Report of PJSC KuibyshevAzot

Other information consists of the information included in the 2018 Annual Report of PJSC KuibyshevAzot, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The 2018 Annual Report of PJSC KuibyshevAzot is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Audit Committee of PJSC KuibyshevAzot for the consolidated financial statements

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

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

The Audit Committee of PJSC KuibyshevAzot is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of PJSC KuibyshevAzot 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 the Audit Committee of PJSC KuibyshevAzot 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 the Audit Committee of PJSC KuibyshevAzot, 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.

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Report on supplementary information

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements of Public Joint Stock Company KuibyshevAzot and its subsidiaries taken as a whole. The information on the translation of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows into US dollars accompanying the consolidated financial statements, which has been disclosed as supplementary financial information on pages 8 to 11, is presented for purposes of additional analysis and is not within the scope of IFRS. Such supplementary financial information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, has been properly prepared, in all material respects, in accordance with the basis described in Note 2.3 to the consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is E.E. Zlokazova.

E.E. Zlokazova
Partner
Ernst & Young LLC

18 March 2019

Details of the audited entity

Name: Public Joint-Stock Company KuibyshevAzot
Record made in the State Register of Legal Entities on 17 January 2003, State Registration Number 1036300992793.
Address: Russia 445007, Togliatti, ul. Novozavodskaya, 6.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

KuibyshevAzot Group

Consolidated statement of financial position

as at 31 December 2018

(In millions of Russian rubles unless otherwise stated)

		As at 31 December		Supplementary information USD million (Note 2.3) As at 31 December	
	Note	**2018**	**2017**	**2018**	**2017**
Assets					
Current assets					
Cash and cash equivalents	8	3,869	1,381	56	24
Trade and other receivables	9	5,154	5,866	74	102
Inventories	10	8,001	7,820	115	136
Current income tax receivable		1	61	-	1
Financial assets	15	1,158	1,199	17	21
Total current assets		**18,183**	**16,327**	**262**	**284**
Non-current assets					
Property, plant and equipment	11	31,001	28,620	446	497
Intangible assets	12	4,044	4,496	58	78
Prepayments for property, plant and equipment and intangible assets		2,057	339	30	6
Investments in associates and joint ventures	14	5,176	5,338	74	92
Financial assets	15	2,079	3,073	30	53
Total non-current assets		**44,357**	**41,866**	**638**	**726**
Total assets		**62,540**	**58,193**	**900**	**1,010**
Liabilities					
Current liabilities					
Trade payables		3,495	3,919	50	68
Income tax liability		179	17	2	-
Other than income taxes payable	18	248	241	4	4
Short-term loans and borrowings	16	2,872	10,411	41	181
Advances received		1,581	1,650	23	28
Other current liabilities	17	870	898	13	16
Total current liabilities		**9,245**	**17,136**	**133**	**297**
Non-current liabilities					
Long-term loans and borrowings	16	20,342	12,773	293	222
Deferred tax liabilities	29	1,303	1,181	19	21
Retirement benefit obligations	19	409	424	6	7
Other non-current liabilities		61	1,108	1	19
Total non-current liabilities		**22,115**	**15,486**	**319**	**269**
Total liabilities		**31,360**	**32,622**	**452**	**566**
Equity					
Equity and reserves attributable to equity holders of the Company					
Share capital	20	634	634	9	11
Additional share capital		919	919	13	16
Treasury shares	20	(3,785)	(2,225)	(54)	(38)
Foreign currency translation reserve		697	477	10	8
Retained earnings		32,317	25,594	465	444
		30,782	**25,399**	**443**	**441**
Non-controlling interests		398	172	5	3
Total equity		**31,180**	**25,571**	**448**	**444**
Total liabilities and equity		**62,540**	**58,193**	**900**	**1,010**

Approved for issue and signed on behalf of Board of Directors on
18 March 2019

A.V. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant

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

KuibyshevAzot Group

Consolidated statement of comprehensive income

for the year ended 31 December 2018

(In millions of Russian rubles unless otherwise stated)

	Note	Year ended 31 December 2018	Year ended 31 December 2017	Supplementary information USD million (Note 2.3) Year ended 31 December 2018	Supplementary information USD million (Note 2.3) Year ended 31 December 2017
Sales	21	63,837	47,766	1,018	819
Cost of sales	22	(45,113)	(37,043)	(720)	(635)
Gross profit		**18,724**	**10,723**	**298**	**184**
Distribution costs	23	(6,516)	(5,066)	(104)	(87)
General and administrative expenses	24	(2,615)	(2,455)	(42)	(42)
Other operating income	25	2,084	1,233	33	21
Other operating expenses	26	(545)	(854)	(9)	(14)
Operating profit		**11,132**	**3,581**	**176**	**62**
Finance income	27	290	1,069	5	18
Finance costs	28	(2,675)	(1,535)	(42)	(26)
Share of profit of associates and joint ventures	14	562	121	9	2
Profit before tax		**9,309**	**3,236**	**148**	**56**
Income tax expense	29	(1,823)	(702)	(29)	(12)
Profit for the year		**7,486**	**2,534**	**119**	**44**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Foreign currency translation reserve		220	7	3	-
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**220**	**7**	**3**	**-**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods					
Re-measurement of income/(losses) on defined benefit plan		52	5	1	-
Income tax effect	29	(10)	(1)	-	-
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**42**	**4**	**1**	**-**
Other comprehensive income/(loss) for the year, net of tax		**262**	**11**	**4**	**-**
Total comprehensive income/(loss) for the year, net of tax		**7,748**	**2,545**	**123**	**44**
Profit attributable to:					
Equity holders of the Company	30	7,414	2,573	118	45
Non-controlling interests		72	(39)	1	(1)
		7,486	**2,534**	**119**	**44**
Total comprehensive income attributable to:					
Equity holders of the Company		7,676	2,584	122	45
Non-controlling interests		72	(39)	1	(1)
		7,748	**2,545**	**123**	**44**
Earnings per share, basic/diluted (in Russian rubles and USD per share):					
- for profit attributable to the equity holders of the Company	30	**39.97**	**13.67**	**0.64**	**0.23**

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

Consolidated statement of changes in equity

for the year ended 31 December 2018

(In millions of Russian rubles unless otherwise stated)

	Equity attributable to equity holders of the Company							
	Share capital	**Additional share capital**	**Treasury shares (Note 20)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2016	**634**	**919**	**(2,225)**	**470**	**23,582**	**23,380**	**244**	**23,624**
Profit for the year	-	-	-	-	2,573	2,573	(39)	2,534
Other comprehensive income	-	-	-	7	4	11	-	11
Total comprehensive income for 2017	**-**	**-**	**-**	**7**	**2,577**	**2,584**	**(39)**	**2,545**
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(33)	(33)
Dividends declared (Note 20)	-	-	-	-	(565)	(565)	-	(565)
Balance as at 31 December 2017	**634**	**919**	**(2,225)**	**477**	**25,594**	**25,399**	**172**	**25,571**
Profit for the year	-	-	-	-	7,414	7,414	72	7,486
Other comprehensive income	-	-	-	220	42	262	-	262
Total comprehensive income for 2018	**-**	**-**	**-**	**220**	**7,456**	**7,676**	**72**	**7,748**
Purchase of treasury shares (Note 20)	-	-	(1,560)	-	-	(1,560)	-	(1,560)
Non-controlling interests arisen as a result of an investment increase	-	-	-	-	-	-	191	191
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(37)	(37)
Dividends declared (Note 20)	-	-	-	-	(733)	(733)	-	(733)
Balance as at 31 December 2018	**634**	**919**	**(3,785)**	**697**	**32,317**	**30,782**	**398**	**31,180**

	Equity attributable to equity holders of the Company							
Supplementary information USD million (Note 2.3)	**Share capital**	**Additional share capital**	**Treasury shares (Note 20)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2017	**11**	**16**	**(38)**	**8**	**444**	**441**	**3**	**444**
Balance as at 31 December 2018	**9**	**13**	**(54)**	**10**	**465**	**443**	**5**	**448**

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

KuibyshevAzot Group

Consolidated statement of cash flows

for the year ended 31 December 2018

(In millions of Russian rubles unless otherwise stated)

	Note	Year ended 31 December 2018	Year ended 31 December 2017	Supplementary information USD million 2.3) Year ended 31 December 2018	Supplementary information USD million 2.3) Year ended 31 December 2017
Cash flows from operating activities:					
Profit before tax		9,309	3,236	148	56
Adjustments for:					
Depreciation of property, plant and equipment and intangible assets	11, 12	2,887	2,690	46	45
Loss on disposal of property, plant and equipment	26	87	-	1	-
Retirement benefit obligations	19	37	51	1	1
Impairment of accounts receivable	24	26	17	-	-
Gain on a bargain purchase	13	(44)	-	(1)	-
Share of profit of associates and joint ventures	14	(562)	(121)	(9)	(2)
Finance income	27	(290)	(255)	(5)	(4)
Finance costs	28	1,445	1,535	23	26
Net foreign exchange effect on non-operating balances	27, 28	1,230	(767)	20	(13)
Operating cash flows before working capital changes		**14,125**	**6,386**	**224**	**109**
(Decrease)/increase in trade receivables and advances		841	(554)	14	(9)
(Decrease) in inventories		(183)	(245)	(3)	(4)
(Increase)/decrease in trade and other payables		(68)	1,787	(1)	30
Decrease in other taxes payable		7	92	-	2
Cash flows from operating activities		**14,722**	**7,466**	**234**	**128**
Income tax paid		(1,471)	(567)	(23)	(10)
Interest received		156	71	2	1
Interest paid		(1,841)	(1,950)	(29)	(33)
Net cash generated from operating activities		**11,566**	**5,020**	**184**	**86**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(5,191)	(3,574)	(83)	(61)
Proceeds from sale of property, plant and equipment		186	41	3	1
Purchase of intangible assets		(1,359)	(1,084)	(22)	(19)
Disposal of non-current financial assets		28	114	-	2
Purchase of non-current financial assets		(85)	(535)	(1)	(9)
Disposal of current financial assets		1,172	962	19	16
Purchase of current financial assets		(174)	(6)	(3)	-
Acquisition of a subsidiary, net of cash acquired	13	(292)	-	(5)	-
Net cash used in investing activities		**(5,715)**	**(4,082)**	**(92)**	**(70)**
Cash flows from financing activities:					
Proceeds from short-term loans and borrowings		367	2,152	6	37
Proceeds from long-term loans and borrowings		10,895	5,291	174	91
Repayment of loans and borrowings		(12,593)	(7,991)	(201)	(137)
Purchase of treasury shares	20	(1,560)	-	(25)	-
Increase in share capital of a subsidiary through a contribution of a non-controlling shareholder		191	-	3	-
Dividends received from associates	14	294	135	5	2
Dividends paid to non-controlling interests		(37)	(33)	(1)	(1)
Dividends paid to equity holders of the parent	20	(920)	(375)	(15)	(6)
Net cash (used in)/generated from financing activities		**(3,363)**	**(821)**	**(54)**	**(14)**
Net increase/(decrease) in cash and cash equivalents		**2,488**	**117**	**38**	**2**
Net foreign exchange difference				(6)	1
Cash and cash equivalents at the beginning of the year	8	1,381	1,264	24	21
Cash and cash equivalents at the end of the year	**8**	**3,869**	**1,381**	**56**	**24**

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

(In millions of Russian rubles unless otherwise stated)

1 The Group and its operations

Public Joint Stock Company "KuibyshevAzot" ("the Company" or "KuibyshevAzot") and its subsidiaries' ("the Group") principal activities include the manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. The Group's manufacturing facilities are primarily based in the Samarskaya oblast of Russian Federation. Part of the Company's shares is publicly traded on Moscow Exchange MICEX-RTS.

KuibyshevAzot was incorporated as a closed joint stock company in the Russian Federation on 24 December 1992. During privatisation in 1992 management of the Company and its employees received shares in accordance with the Law on Privatisation of State and Municipal organisations #1531-1 dated 3 July 1992. During 2006 the Company changed its legal form from "Closed Joint Stock Company" to "Open Joint Stock Company" based on the decision made on the annual shareholders meeting held on 21 April 2006.

In accordance with requirements of Federal Law N 99-FZ dated 5 May 2014 "On amending Chapter 4 of Part 1 of the Russian Civil Code and on declaring several Russian legislative provisions to be no longer in force" effective since 1 September 2014, the Company amended its articles of association and brought them into compliance with provisions of Chapter 4 in the Russian Civil Code. The Company accordingly changed its legal form from Joint-Stock Company (JSC) to Public Joint-Stock Company (PJSC). The articles of association were amended upon decision of the General Shareholders Meeting on 5 August 2016 and registered in the State Register of Legal Entities on 25 November 2016, State Registration Number 7166313658757.

As at 31 December 2018 a blocking shareholding of 27% of total share capital of the Company (31 December 2017: 27%) is held by a limited liability company Kuibyshevazot Plus, which was established in 2005 by the Company's management who contributed their shares in the Company into share capital of Kuibyshevazot Plus. 25% of total share capital of the Company (31 December 2017: 21%) is held by subsidiaries of the Group, as disclosed in Note 20. The remaining part of share capital of the Company is distributed among a number of individuals and legal entities. Therefore, the Company does not have an ultimate controlling party.

The registered office of KuibyshevAzot is ul. Novozavodskaya, 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") to ensure compliance with Federal Law of 27 July 2010 No. 208-FZ "Consolidated financial statements". Most of the Group companies maintain their accounting records in Russian Rouble ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (Note 32). These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest million except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, except as stated in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4 New standards, interpretations and amendments).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(a) Business combination and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquired subsidiary are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(b) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associates and joint ventures is accounted for using the equity method.

Under the equity method, the investment in the associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. When there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax of the associate or joint venture.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(b) Investments in associates and joint ventures (continued)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the 'share of profit of associates and joint ventures' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(c) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3 Foreign currency transaction

Functional and presentation currency

Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian rubles ("RUB").

(In millions of Russian rubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.3 Foreign currency transaction (continued)

Supplementary information

In addition to presenting these consolidated financial statements in Russian rubles, supplementary information in US dollars (USD) has been prepared for the convenience of users of these consolidated financial statements. The method used to determine the supplementary information is as follows:

(i) all items in the consolidated statement of financial position, including all components of equity, are translated at the closing rate for each consolidated statement of financial position presented.

(ii) income and expenses have been translated using the average rate of exchange for each year presented.

The Company has converted the financial information into USD by translating all items in the consolidated statement of financial position, including all components of equity, using the closing rate. Such conversion is not in accordance with IFRS as translation differences resulting from translating opening net assets using the prior year closing rate has not been presented separately within OCI.

The relevant exchange rates of the RUB to USD 1 as quoted by the Central Bank of the Russian Federation (CBR) were as follows:

	RUB/USD
Average for the year ended 31 December 2017	58.3529
31 December 2017	57.6002
Average for the year ended 31 December 2018	62.7078
31 December 2018	69.4706

The translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in USD the translated values of these assets and liabilities.

Transactions and balances

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBR at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies

The assets and liabilities of foreign subsidiaries of the Company are translated into RUB at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

2.4 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments like bank promissory notes with original maturities of three months or less.

2.5 Accounts receivable

A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables are non-interest bearing and are generally on 60-90 days terms. Refer to accounting policies of financial assets in section 2.8 Financial assets.

2 Basis of preparation and significant accounting policies (continued)

2.6 Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis by deducting VAT on purchases, which have been occurred at the reporting date, from the VAT payable.

Value added tax payable
VAT is payable upon invoicing and delivery of goods, performing works or rendered services, as well as upon collection of prepayments from customers.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable
The Group applies accrual method for VAT recognition. VAT on purchases, even not settled at the reporting date, is deducted from the amount of VAT payable.

VAT on construction in progress is recorded as VAT receivable and can be claimed at the end of each quarter.

VAT on purchases related to commodity export sales can be reimbursed at the moment when export is confirmed by tax authorities and that related to non-commodity export sales can be reimbursed according to common practices.

2.7 Inventories

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

2.8 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group continues to measure them at amortised cost under IFRS 9. Trade receivables do not contain a significant financing component and are therefore measured at the transaction price determined under IFRS 15.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2 Basis of preparation and significant accounting policies (continued)

2.8 Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, loans issued and other current and non-current financial assets.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:
- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

For trade receivables, as they are short-term and do not contain a significant financing component, the Group applies a simplified approach in calculating lifetime expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix ('ageing analysis') to measure expected credit losses.

For all other financial assets measured at amortised cost (cash and deposits at banks, loans receivable), the Group applies a general approach of measuring the ECLs, which represents calculation of impairment on both 12-month ECLs (losses expected for the next 12 months after the reporting date) and as lifetime ECLs (losses expected during the remaining useful life of the financial instrument).

2 Basis of preparation and significant accounting policies (continued)

2.9 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, as follows:

	Number of years
Buildings	40 to 50
Plant and equipment	10 to 20
Other (office equipment and motor vehicles)	5 to 10

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. The residual value of property, plant and equipment is annually assessed by management.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life.

Assets under construction and land owned by the Group are not depreciated.

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

An item of property, plant and equipment is derecognised upon disposal (i.e. at the date its recipient obtains control). Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

2.10 Leases

A lease is classified at the inception date as a finance lease or an operating lease. The Group leases certain equipment. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in loans and borrowings. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

2 Basis of preparation and significant accounting policies (continued)

2.11 Intangible assets

All of the Group's intangible assets have definite useful lives and primarily include license and capitalised computer software. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets are amortised using the straight-line method over their useful lives. The amortisation expense on intangible assets is recognised in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

2.12 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
This category includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the consolidated statement of comprehensive income. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

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

2 Basis of preparation and significant accounting policies (continued)

2.13 Income tax

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and a joint venture, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

2.14 Share capital and treasury shares

Ordinary and non-cumulative non-redeemable preference shares are classified as equity.

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income tax, is deducted from equity as treasury shares until they are sold or reissued. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are recorded at weighted average cost.

2 Basis of preparation and significant accounting policies (continued)

2.15 Dividend distribution

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

2.16 Revenue recognition

The Group's principal activities include manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Sale of chemical products
Revenue from sale of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products is recognised at the point in time when control of the asset is transferred to the customer, generally upon delivery to the first carrier, or upon delivery to the end-user.

Variable consideration
Certain contracts provide a customer with a right to return the goods or receive a discount. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances and discounts. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contact inception and updated thereafter. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

Rendering of services
The Group recognised revenue from rendering of services in the reporting period in which they were rendered. Services are recognised gradually over the term of the contract.

Advances received from customers (contract liabilities)
The Group receives only short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

2.17 Employee benefits

Social costs

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group incurs employee costs related to the provision of short-term non-monetary benefits such as health services and recreation facilities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of comprehensive income.

2 Basis of preparation and significant accounting policies (continued)

2.17 Employee benefits (continued)

Pension costs

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

The Group operates an unfunded defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The pension obligation is measured as the present value of the discounted estimated future pension payments. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the reporting date on high quality bonds. The currency and term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligations.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales' in the consolidated statement of comprehensive income (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

2.19 Earnings per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

2.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3 Critical accounting estimates and judgements in applying accounting policies

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

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

Estimated impairment of property, plant and equipment. The Group assesses annually whether any indicators of impairment of the property, plant and equipment exist, in accordance with the accounting policy stated in Note 2.9. If there are indicators of impairment, the Group determines recoverable amounts of cash generating units, based on value-in-use calculations. These calculations require the use of estimates.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.2.

Retirement benefit obligations. Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 19.

4 New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has reviewed its sales contracts and concluded that the trigger event for revenue recognition will remain unchanged. Control of the asset is transferred to the customer, generally upon delivery to the first carrier, or upon delivery to the end-user.

These principles are in line with IFRS 15 and no modification was therefore made for the transition.

(In millions of Russian rubles unless otherwise stated)

4 New and amended standards and interpretations (continued)

Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances and discounts. The transition to IFRS 15 did not lead the Group to modify its previous practices.

The Group did not identify any significant financing component at the transition date, but applies the principle of recognising these effects in the financial statements as soon as they become significant.

Information required by IFRS 15 is provided in Note 21 below.

Adoption of IFRS 15 did not have an impact on the Group's consolidated financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* supersedes IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

Classification and measurement of financial assets

IFRS 9 introduces the following major changes in classification and measurement of financial assets, which are applicable to the Group:

- All equity investments in the scope of IFRS 9 (i.e. other than investments in associates and joint ventures) must be measured at fair value
- Investments in debt instruments (bonds, promissory notes, loans etc.) should be classified based on two criteria: "solely payment of principal and interest" (SPPI) and business model.

The Group analysed these changes and concluded that they would have no impact on its consolidated financial statements.

The following table represents the original measurement categories under IAS 39 versus the new measurement categories under IFRS 9 for each class of the financial assets as at 1 January 2018:

	Former measurement method under IAS 39	New measurement method under IFRS 9	Former amount under IAS 39 equal to amount under IFRS 9
Trade and other receivables	Amortised cost	Amortised cost	5,866
Cash and cash equivalents	Amortised cost	Amortised cost	1,381
Financial assets	Amortised cost	Amortised cost	4,272
Total financial assets			**11,519**

Impairment of financial assets

IFRS 9 introduces significant changes in the way impairment of financial assets is calculated. While under IAS 39 a company was only required to create a provision in the case of a "incurred loss event", IFRS 9 requires providing for ECLs even if no "loss event" has yet occurred.

IFRS 9 establishes a general approach for measuring impairment and a simplified approach for certain financial assets. A general approach distinguishes between losses expected during the next 12 months (12m ECL) and losses expected during the remaining life of the instrument (lifetime ECL). Initially, an allowance in the amount of 12m ECL will be created, and in cases where credit risk has increased significantly since initial recognition, the allowance will need to be equal to the lifetime ECL. For instruments with remaining maturity of less than 12 months these two figures will be the same.

4 New and amended standards and interpretations (continued)

A simplified approach allows an estimate only of the lifetime ECL. The simplified approach is applicable only to short-term trade receivables. For all other financial assets (cash and deposits in banks, loans receivable etc.) the general approach must be applied.

The Group performed detailed analysis and has not determined significant effects from moving from an incurred loss model under IAS 39 to an expected loss model as required by IFRS 9. As a result of this analysis, the Group concluded that IFRS 9 did not have an impact on the Group's consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments are not relevant to the Group.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

(In millions of Russian rubles unless otherwise stated)

4 New and amended standards and interpretations (continued)

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not apply to the Group.

5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standards not yet effective for the financial statements for the year ended 31 December 2018	Effective for annual periods beginning on or after
• IFRS 16 *Leases*	1 January 2019
• IFRS 17 *Insurance Contracts*	1 January 2021
• IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
• Amendments to IFRS 9: *Prepayment Features with Negative Compensation*	1 January 2019
• Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	the effective date of these amendments has been deferred indefinitely
• Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*	1 January 2019
• Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*	1 January 2019
• Annual Improvements 2015-2017 Cycle (issued in December 2017)	1 January 2019
• IFRS 3 *Business Combinations*	1 January 2019
• IFRS 11 *Joint Arrangements*	1 January 2019
• IAS 12 *Income Taxes*	1 January 2019
• IAS 23 *Borrowing Costs*	1 January 2019

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's financial statements.

5 Standards issued but not yet effective (continued)

IAS 16 *Leases*

The Group will apply the standard from 1 January 2019 and plans to do so using the modified retrospective method.

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (the assets with value below 5000€, e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group has identified its leases that come under the scope of IFRS 16, and has examined the impacts of new standard application. Real estate leases make up the Group's main lease commitments. The Group does not expect application of this standard to have any significant effect on operating income. An additional financial liability under the leases will be currently estimated in the range between RUB 100 and RUB 200.

The cash flows presented in the consolidated statement of cash flows will be modified in accordance with the recommendations of the standard: the rent charges previously recognised in operating cash flow will be cancelled and the repayment of the rental debts will be presented in financing cash flow.

6 Operating segment information

For management purposes, the Group is organised into business units based on their products lines, and has the following reportable operating segments:

(1) Production and sale of caprolactam and derivatives;

(2) Production and sale of ammonia and nitrogen fertilisers.

Unallocated activities includes activities of the Company that do not relate to chemical production and subsidiaries' activities. Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on management accounts, which in a number of respects, as explained in the table below, differs from the consolidated financial statements.

(In millions of Russian rubles unless otherwise stated)

6 Operating segment information (continued)

Transactions between the business segments are mainly done on ordinary commercial terms and conditions.

The following tables present revenue, profit, assets and liabilities information regarding the Group's operating segments:

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated / elimination		Total	
Year ended 31 December	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Sales	35,758	28,532	21,846	15,341	6,233	3,893	63,837	47,766
Segment operating profit for the period	3,645	906	6,297	3,139	1,678	137	11,620	4,182
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							(395)	(530)
Provision for retirement benefit obligations							(37)	(51)
Other							(56)	(20)
IFRS operating profit for the period							**11,132**	**3,581**

Revenue from one customer amounted to RUB 6,092 (2017: RUB 4,053), arising from sales in the caprolactam and derivatives segment.

Difference in depreciation of property, plant and equipment relates to different value of property, plant and equipment in management accounts and in IFRS consolidated financial statements.

Unallocated amount relates mainly to activities of non-core subsidiaries.

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated / elimination		Total	
As at 31 December	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Segment assets	28,519	27,497	5,232	5,763	28,248	24,868	61,999	58,128
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							807	428
Impairment of the Group's assets							(216)	(245)
Other							(50)	(118)
IFRS total assets							**62,540**	**58,193**

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ elimination		Total	
As at 31 December	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Segment liabilities	1,953	3,487	1,469	1,984	27,848	27,111	31,270	32,582
IFRS adjustments:								
Retirement benefit obligations							409	424
Deferred tax							(324)	(347)
Other							5	(37)
IFRS total liabilities							**31,360**	**32,622**

Unallocated amounts relate mainly to borrowings of RUB 23,214 (31 December 2017: RUB 23,184) and liabilities of non-core subsidiaries.

(In millions of Russian rubles unless otherwise stated)

6 Operating segment information (continued)

Geographic information

Sales are allocated based on the region in which the customer is located:

	2018	2017
Russia	28,216	21,049
Asia	18,810	13,710
Europe	10,867	6,483
Other	5,944	6,524
	63,837	**47,766**

Assets of the Group are mainly located in the Russian Federation.

7 Balances and transactions with related parties

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

Related parties may enter into transactions that would not be conducted between unrelated parties. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

In 2018 and 2017 the Group entered into transactions mainly with related parties being associates and joint ventures. The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the years ended 31 December 2018 and 2017, or had significant balances outstanding at 31 December 2018 and 2017 is detailed below.

The income and expenses items with related parties for the years 2018 and 2017 were as follows:

Sales of goods and services

	2018	2017
Sales of finished goods and other sales	5,669	4,103
Sale of electric power	768	722
Rental services	56	42
Interest income on loans issued to related parties	136	132
Total	**6,629**	**4,999**

Purchase of goods and services

	2018	2017
Purchase of goods	9,930	7,314
Total	**9,930**	**7,314**

At 31 December 2018 and 2017, the outstanding balances with related parties were as follows:

	2018	2017
Receivables from related parties	480	517
Payables to related parties	906	1,360
Borrowings issued	2,684	3,789
Lease payable	-	1
Borrowings from related parties	350	300

(In millions of Russian rubles unless otherwise stated)

7 Balances and transactions with related parties (continued)

As at 31 December 2018 borrowings issued to related parties relate to a euro-denominated borrowing in the amount of RUB 2,684 issued to Linde Azot Togliatti at the interest rate of 4% (31 December 2017: RUB 3,766, interest rate of 4%).

As at 31 December 2018 borrowings from related parties include an interest-free borrowing amounting to RUB 350 obtained from Praxair Azot Togliatti (31 December 2017: RUB 300).

Key management compensation

The remuneration of 20 key management personnel amounted to RUB 99 and RUB 90 in 2018 and 2017, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel remuneration amounted of RUB 18 (2017: RUB 17). Dividends paid to key management personnel amounted to RUB 144 (2017: RUB 59).

8 Cash and cash equivalents

	2018	2017
Short-term deposits	2,399	563
Foreign currency denominated balances with banks	762	377
RUB-denominated cash on hand and balances with banks	708	441
	3,869	**1,381**

Cash deposits of RUB 2,399 (31 December 2017: RUB 563) bear interest of 1% - 7.2% (2017: 4.79% - 7.3%).

Balances with bank are not interest-bearing.

Foreign currency denominated balances with banks consist of the following:

Currency	2018	2017
US dollars	353	209
Euros	280	98
Yuans	126	52
Serbian Dinars	3	18
	762	**377**

9 Trade and other receivables

	2018	2017
Trade receivables	2,779	2,319
Less: impairment	(43)	(68)
	2,736	**2,251**
Other receivables	359	652
	359	**652**
Advances issued (contract assets)	930	996
	930	**996**
VAT recoverable	1,129	1,967
	5,154	**5,866**

(In millions of Russian rubles unless otherwise stated)

9 Trade and other receivables (continued)

Foreign currency denominated balances of net trade receivables consist of the following:

Currency	**2018**	**2017**
US dollars	1,005	541
Euros	594	481
Yuans	419	369
Serbian dinars	2	40
	2,020	**1,431**

Trade receivables are non-interest bearing and are generally on 60-90 days terms.

Movements in the provision for impairment of receivables were as follows:

	2018	**2017**
Opening balance	68	51
Charge for the year	26	17
Utilised	(51)	-
Closing balance	**43**	**68**

There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers, internationally dispersed. The aging analysis of trade and other receivables is as follows:

	Below 30 days	**31-180 days**	**Above 181 days**	**Total**
2018	2,176	890	29	**3,095**
2017	2,137	727	39	**2,903**

10 Inventories

	2018	**2017**
Raw materials	3,280	2,893
Work in progress	1,450	1,511
Finished goods	3,271	3,416
	8,001	**7,820**

During 2018 RUB 70 (2017: RUB 6) was recognised in the cost of sales as an expense for slow-moving inventories and write-down to net realisable value.

(In millions of Russian rubles unless otherwise stated)

11 Property, plant and equipment

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance as at 1 January 2017	9,424	32,507	908	6,756	49,595
Additions	-	-	-	4,036	4,036
Disposals	(7)	(283)	(1)	-	(291)
Transfers from construction in progress	1,126	3,736	113	(4,975)	-
Foreign exchange differences	13	28	4	-	45
Balance as at 31 December 2017	**10,556**	**35,988**	**1,024**	**5,817**	**53,385**
Additions	-	-	-	3,847	3,847
Acquisition of a subsidiary (Note 13)	-	-	-	1,046	1,046
Disposals	(78)	(362)	(55)	-	(495)
Transfers from construction in progress	1,053	2,613	188	(3,854)	-
Foreign exchange differences	49	100	4	43	196
Balance as at 31 December 2018	**11,580**	**38,339**	**1,161**	**6,899**	**57,979**
Accumulated amortization					
Balance as at 1 January 2017	(3,925)	(18,355)	(514)	-	(22,794)
Depreciation charge for 2017	(345)	(1,717)	(160)	-	(2,222)
Disposals	7	257	1	-	265
Foreign exchange differences	(1)	(8)	(5)	-	(14)
Balance as at 31 December 2017	**(4,264)**	**(19,823)**	**(678)**	**-**	**(24,765)**
Depreciation charge for 2018	(352)	(1,851)	(166)	-	(2,369)
Disposals	6	190	26	-	222
Foreign exchange differences	(12)	(51)	(3)	-	(66)
Balance as at 31 December 2018	**(4,622)**	**(21,535)**	**(821)**	**-**	**(26,978)**
Net book value					
Balance as at 31 December 2017	**6,292**	**16,165**	**346**	**5,817**	**28,620**
Balance as at 31 December 2018	**6,958**	**16,804**	**340**	**6,899**	**31,001**

At 31 December 2018 property, plant and equipment carried at RUB 8,505 (31 December 2017: RUB 8,355) have been pledged as collateral for bank loans and other borrowings (Note 16).

At 31 December 2018 the cost of the land on which the Group's principle production facilities are located, amounted to RUB 286 (31 December 2017: RUB 197).

Borrowing costs capitalised amounted to RUB 375 (2017: RUB 459). A capitalisation rate of 7% (2017: 9%) was used, representing the borrowing costs of the loans used to finance the investment projects.

As at 31 December 2018 and 2017, the gross book value of fully depreciated property, plant and equipment was RUB 15,280 and RUB 13,894, respectively.

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	2018	2017
Cost of capitalized finance leases	119	119
Accumulated amortization	(119)	(119)
Net book value	**-**	**-**

(In millions of Russian rubles unless otherwise stated)

12 Intangible assets

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
As at 31 December 2016	94	8	10	112
Additions	4,907	6	-	4,913
Disposals	-	(3)	-	(3)
As at 31 December 2017	**5,001**	**11**	**10**	**5,022**
Accumulated amortisation and impairment				
As at 31 December 2016	(53)	-	(4)	(57)
Depreciation charge	(465)	(1)	(3)	(469)
Disposals	-	-	-	-
Impairment	-	-	-	-
As at 31 December 2017	**(518)**	**(1)**	**(7)**	**(526)**
Cost				
As at 31 December 2017	5,001	11	10	5,022
Additions	17	58	-	75
Disposals	-	(9)	-	(9)
As at 31 December 2018	**5,018**	**60**	**10**	**5,088**
Accumulated amortisation and impairment				
As at 31 December 2017	(518)	(1)	(7)	(526)
Depreciation charge	(514)	(3)	(1)	(518)
Disposals	-	-	-	-
Impairment	-	-	-	-
As at 31 December 2018	**(1,032)**	**(4)**	**(8)**	**(1,044)**
Net book value				
As at 31 December 2017	**4,483**	**10**	**3**	**4,496**
As at 31 December 2018	**3,986**	**56**	**2**	**4,044**

In 2010 the Group signed a license agreement with DSM FIBRE INTERMEDIATES B.V. (subsequently renamed to FIBRANT B.V.) and received a non-exclusive license for energy-efficient production of cyclohexanone (EPC). The EPC uses modern patented technology from FIBRANT B.V. (the Netherlands), which allows increasing the capacity of caprolactam production from 190 to 210 thousand tons and up to 260 thousand tons per year in the long term. As at 31 December 2018 net book value of the license was RUB 3,973 (31 December 2017: RUB 4,463) and the remaining useful life was 97 months.

Other intangible assets comprise capitalised software with net book value of RUB 2 (31 December 2017: RUB 3). Development costs are mainly represented by research to improve production processes, development of new methods for processing production waste, research on testing of finished goods characteristics and patents for new products. As at 31 December 2018 their net book value amounted to RUB 56 (31 December 2017: RUB 10).

13 Business combinations

In August 2018 the Group increased its share in the share capital of JV Granifert to 100% through acquisition of a 50% share belonging to the JV partner Trammo AG. Trammo AG paid RUB 408 in cash for the share acquisition. JV Granifert was established in 2015 to implement the investment project - the construction of granulated ammonium sulphate plant with a capacity of 140,000 tons per year.

(In millions of Russian rubles unless otherwise stated)

13 Business combinations (continued)

The fair values of the identifiable assets and liabilities of JV Granifert as at the date of acquisition were:

	Fair value recognised on acquisition
Assets:	
Property, plant and equipment	1,046
Accounts receivable	153
Inventories	2
Other assets	1
	1,202
Liabilities:	
Accounts payable	(297)
Other liabilities	(1)
	(298)
Total identifiable net assets at fair value	**904**
Gain on a bargain purchase	(44)
Purchase consideration transferred	**860**

From the date of acquisition, JV Granifert contributed RUB 601 of revenue and RUB 93 to profit before tax of the Group. If the combination had taken place at the beginning of 2018, the Group's revenue would have been RUB 1,445 and the profit before tax would have been RUB 237.

Purchase consideration transferred:

	2018
Cash consideration paid to Trammo AG for the 50% share acquired	408
Fair value of 50% of initial share at the acquisition date	452
	860

The consideration was partly paid in 2018 in the amount of RUB 292 and the remaining amount of RUB 116 was paid in February 2019.

14 Investments in associates and joint ventures

	2018						2017					
	Praxair Azot Togliatti	Other associates	Linde Azot Togliatti	JV Granifert	Other joint ventures	Total	Praxair Azot Togliatti	Other associates	Linde Azot Togliatti	JV Granifert	Other joint ventures	Total
As at 1 January	**1,853**	**243**	**2,802**	**382**	**58**	**5,338**	**1,775**	**235**	**2,931**	**-**	**55**	**4,996**
Additions	-	50	-	-	-	50	1	83	-	386	-	470
Share of profit/ (loss)	357	60	61	70	14	562	185	66	(129)	(4)	3	121
Disposals	-	(28)	-	(452)	-	(480)	-	(114)	-	-	-	(114)
Dividends received	(248)	(39)	-	-	(7)	(294)	(108)	(27)	-	-	-	(135)
As at 31 December	**1,962**	**286**	**2,863**	**-**	**65**	**5,176**	**1,853**	**243**	**2,802**	**382**	**58**	**5,338**

(In millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

Praxair Azot Togliatti was established for production of industrial gases for the Group's own purposes. Production started in 2016. Praxair Azot Togliatti is located in Togliatti, the Samarskaya oblast of the Russian Federation.

Summarised financial information of Praxair Azot Togliatti, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2018	2017
Assets:		
Non-current assets	2,828	3,145
Current assets, including cash and cash equivalents of RUB 146 (2017: RUB 5)	1,292	797
Liabilities:		
Non-current liabilities, including deferred tax liabilities RUB 35 (2017: RUB 11)	(35)	(11)
Current liabilities	(161)	(225)
Net assets	**3,924**	**3,706**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**1,962**	**1,853**
Summarised statement of profit or loss		
Sales	2,110	1,781
Cost of sales	(1,286)	(1,332)
Other income	9	2
Income tax expense	(119)	(81)
Profit/(loss) after tax	**714**	**370**
Total comprehensive income/(loss)	**714**	**370**
Share of profit/(loss) of the associate	**357**	**185**

As at 31 December 2018 the associate had neither capital commitments for the purchase of property, plant and equipment nor contingent liabilities (31 December 2017: neither capital commitments for the purchase of property, plant and equipment nor contingent liabilities).

Praxair Azot Togliatti cannot distribute its profits unless it obtains consent from the both shareholders.

In April 2013 the Company and Linde Group established a joint venture Linde Azot Togliatti. Linde Azot Togliatti is located in Togliatti, the Samarskaya oblast of the Russian Federation and was established for the production of ammonia and hydrogen for the Group's own use in production process. Linde Group and the Company have joint control of Linde Azot Togliatti. The Group's interest in Linde Azot Togliatti is accounted for using the equity method in the consolidated financial statements.

(In millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

Summarised financial information of Linde Azot Togliatti, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2018	2017
Assets:		
Non-current assets	15,560	17,359
Current assets, including cash and cash equivalents of RUB 388 (2017: RUB 2)	1,425	1,353
Liabilities:		
Non-current liabilities, including deferred tax liabilities of RUB 191 (2017: RUB 213) and euro-denominated long-term borrowings of RUB 7,990 (2017: RUB 9,492)	(8,182)	(9,705)
Current liabilities, including euro-denominated short-term borrowings of RUB 2,619 (2017: RUB 3,018)	(3,077)	(3,404)
Net assets	**5,726**	**5,603**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**2,863**	**2,802**
Summarised statement of profit or loss		
Sales	6,455	4,378
Cost of sales including amortisation of RUB 1,766 (2017: RUB 1,291)	(4,538)	(3,075)
Other expenses	(1,423)	(1,284)
Finance (costs)/income	(433)	(347)
Income tax benefit/(expense)	61	70
Profit/(loss) after tax	**122**	**(258)**
Total comprehensive income/(loss)	**122**	**(258)**
Share of profit/(loss) of the joint venture	**61**	**(129)**

As at 31 December 2018 the joint venture had no contingent liabilities or capital commitments for the purchase of property, plant and equipment from third parties (31 December 2017: the joint venture had no contingent liabilities and had capital commitments for the purchase of property, plant and equipment from third parties of RUB 63).

Linde Azot Togliatti cannot distribute its profits unless it obtains consent from the both shareholders of the joint venture.

The following amounts represent the Group's share in assets and liabilities, sales and financial results of other associates, which have been consolidated using the equity method:

	2018	2017
Assets:		
Non-current assets	118	171
Current assets	374	343
Liabilities:		
Non-current liabilities	(75)	(181)
Current liabilities	(131)	(90)
Net assets	**286**	**243**
Investments in associates	**286**	**243**
Revenue	2,053	1,436
Expenses	(1,993)	(1,370)
Profit after tax	**60**	**66**
Total comprehensive income	**60**	**66**

The Group holds other joint ventures that are cumulatively immaterial.

(In millions of Russian rubles unless otherwise stated)

15 Financial assets

Current financial assets include:

	2018	2017
Short-term portion of a loan issued to a joint venture (euro-denominated): 4% (2017: 4%)	1,046	1,075
Short-term portion of housing loans allowed to employees: 0% - 15% (2017: 0% - 15%)	84	78
Short-term deposits (euro-denominated): 1.3%	-	1
Other	28	45
	1,158	**1,199**

Non-current financial assets include:

	2018	2017
Long-term portion of a loan issued to a joint venture (euro-denominated): 4% (2017: 4%)	1,638	2,691
Long-term portion of housing loans allowed to employees: 0% - 15% (2017: 0% - 15%)	386	332
Loans issued to an associate: 9%	-	23
Other	55	27
	2,079	**3,073**

Long-term loans to employees have different maturity dates up to the year 2038 (2017: up to 2037).

16 Loans and borrowings

Short-term loans and borrowings

	Interest rate	Currency	2018	2017
Current portion of long-term loans and borrowings				
Ak Bars Bank	8%	Rubles	729	-
International Finance Corporation	LIBOR 6+4.125% 4.76%	US dollars	712	5,653
Sberbank	EURIBOR 3, EURIBOR 6+1.25% - 2.2%	Euros	145	366
Rosbank	3%	Euros	98	125
Raiffeisenbank	EURIBOR 6+1.6%	Euros	23	40
Sberbank	9.9% - 11.75%	Rubles	-	792
Rosbank	9.5% - 10.8%	Rubles	-	462
Deutsche Bank AG	LIBOR 12+1.75%	Swiss francs	-	221
VTB bank	EURIBOR 6+1.6%	Euros	-	13
Other			56	23
Total current portion of long-term loans and borrowings			**1,763**	**7,695**
Short-term loans and borrowings				
International Finance Corporation	11.4% - 12%	Rubles	666	679
Praxair Azot Togliatti	0%	Rubles	350	300
VTB Factoring	9.7% - 10.5%	Rubles	-	1,634
Other			40	40
Total short-term loans and borrowings			**1,056**	**2,653**
Interest on loans and borrowings			53	63
			2,872	**10,411**

(In millions of Russian rubles unless otherwise stated)

16 Loans and borrowings (continued)

The Group's short-term borrowings are denominated in currencies as follows:

	2018	2017
Borrowing denominated in:		
- Russian rubles	1,872	3,946
- US dollars	733	5,671
- euros	267	570
- Swiss francs	-	224
	2,872	**10,411**

Long-term loans and borrowings

	Interest rate	Maturity date	Currency	2018	2017
Sberbank	9.00% - 9.97%	2021-2026	Rubles	7,026	7,051
Gazprombank	8.2% - 9.75%	2020-2027	Rubles	5,046	3,380
Rosbank	5% - 5.76%	2022-2023	US dollars	2,529	899
International Finance Corporation*	LIBOR 6+4.125%	2020-2023	US dollars	2,452	-
Sberbank	EURIBOR 3, EURIBOR 6+1,25% - 2,2%	2020-2022	Euros	828	98
Ak Bars Bank	8%	2020	Rubles	729	-
Rosbank	EURIBOR 6+1.55% - 2.4%	2020-2022	Euros	569	113
Gazprombank	5.95%	2024-2028	US dollars	486	-
Gazprombank	3%	2024-2028	Euros	280	-
Russian Foundation for Technological Development	5%	2020-2021	Rubles	225	300
Banca Intesa	2.82%	2021-2023	Euros	153	-
Raiffeisenbank	10%	2019	Rubles	-	576
Rosbank	9.5% - 10.8%	2019-2022	Rubles	-	191
VTB bank	10.45% - 11.2%	2021	Rubles	-	143
Raiffeisenbank	EURIBOR 6+1.5% - 1.6%	2019	Euros	-	20
Other				19	2
				20,342	**12,773**

*As at 31 December 2018 the Group is not in compliance with a covenant set by loan agreements with a bank with relation to permitted acquisitions. As at 31 December 2018 the Company had RUB 3,164 of bank loans with a breached covenant (31 December 2017: RUB 5,653), including a long-term debt of RUB 2,452 (31 December 2017: RUB 4,194).

As of 31 December 2018 the Company obtained permission for an acquisition made and waivers stating that the bank will not claim for accelerated repayment of loans in the amount of RUB 3,164 (31 December 2017: RUB 5,653) due to covenant violation including RUB 2,452 of non-current debt (31 December 2017: RUB 4,194).

The maturity of long-term borrowings is as follows:

	2018	2017
Current	1,763	3,501
1 to 2 years	3,306	3,884
2 to 3 years	4,366	2,508
3 to 5 years	8,744	6,878
Over 5 years	3,926	3,697
	22,105	**20,468**
Less: Current portion	(1,763)	(3,501)
Less loans with breached covenants	-	(4,194)
	20,342	**12,773**

(In millions of Russian rubles unless otherwise stated)

16 Loans and borrowings (continued)

The Group's long-term borrowings are denominated in currencies as follows:

	2018	2017
Borrowing denominated in:		
- Russian rubles	13,044	11,643
- US dollars	5,468	899
- euros	1,830	231
	20,342	**12,773**

Total amount of guarantee issued by the Group for long and short-term borrowings is RUB 8,505 (2017: RUB 8,355) and is represented by pledged equipment and real estate (Note 11).

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of interest rate exposures.

Changes in liabilities arising from financing activities are as follows:

	31 December 2017	Changes in cash flows	Changes in currency rates	Other	31 December 2018
Short-term loans and borrowings	10,411	(7,271)	167	(435)	2,872
Long-term loans and borrowings	12,773	5,940	1,204	425	20,342
Total	**23,184**	**(1,331)**	**1,371**	**(10)**	**23,214**

The 'Other' column includes the effect of reclassification of non-current portion of loans and borrowings to current due to the passage of time and the effect of accrued but not yet paid interest on loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

17 Other current liabilities

	2018	2017
Salaries payable	537	518
Dividends payable	13	200
Other	320	180
	870	**898**

Other current liabilities are non-interest bearing and have an average term of two months.

18 Other than income taxes payable

	2018	2017
Payments to the Pension Fund and other social taxes	98	96
Personal income tax	27	37
Property tax	13	51
Other taxes	110	57
	248	**241**

The Group had no tax liabilities past due at 31 December 2018 and 31 December 2017.

(In millions of Russian rubles unless otherwise stated)

19 Retirement benefit obligations

The Group provided post-retirement benefits in the form of monthly cash payments to their retirees via Vneshekonomfond non-state pension fund. The amount of post-retirement benefits in the form of monthly cash payments is dependent on one or more factors, such as age, years of service and compensation. The entitlement to benefits (cash payments) ceases in five years after retirement date. To date it has been an unfunded plan, with no assets specifically allocated to cover the plan liabilities. The plan's retirement age is in accordance with the pension reform carried out in Russia, which gradually increases the retirement age to 60 years for females and 65 years for males. The actuarial valuation is performed once in three years, the last valuation was performed in December 2016.

Since the pension liability is adjusted to consumer price index, the pension plan is exposed to Russian's inflation, interest rate risk and changes in the life expectancy for pensioners.

The following tables summarise the components of net benefit expense recognised in the consolidated statement of comprehensive income and amounts recognised in the consolidated statement of financial position for the respective plans.

Net benefit expense recognised in profit or loss:

	31 December 2018	31 December 2017
Current service cost	13	38
Interest cost on benefit obligation	37	28
Net benefit expenses	**50**	**66**

Changes in the present value of the defined pension benefit obligation are as follows:

	Post-employment pension
Defined benefit obligation at 1 January 2017	**378**
Current service cost	38
Interest expense	28
Contributions by employer	(15)
Actuarial gain recorded in other comprehensive income, including:	(5)
- changes in financial assumptions	31
- experience adjustment	(36)
Defined benefit obligation at 31 December 2017	**424**
Current service cost	13
Interest expense	37
Contributions by employer	(13)
Actuarial gain recorded in other comprehensive income, including:	(52)
- changes in financial assumptions	(2)
- experience adjustment	(50)
Defined benefit obligation at 31 December 2018	**409**

The principal actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Discount rate	8.8%	7.8%
Salary increase	11.3%	12.6%
Mortality rate (Russian statistics data for 2017)	80%	80%
Staff turnover up to the age 49 (males) and 44 (females)	5%	5%
Staff turnover from the age 49 (males) and 44 (females) up to the retirement	0%	0%

(In millions of Russian rubles unless otherwise stated)

19 Retirement benefit obligations (continued)

A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is as shown below:

Assumptions	Discount rate		Future salary increase	
Sensitivity level	**0.5% increase**	**0.5% decrease**	**0.5% increase**	**0.5% decrease**
Impact on defined benefit obligation	(23)	26	21	(20)

Assumptions	Life expectancy of male pensioners		Life expectancy of female pensioners	
Sensitivity level	**Increase by 1 year**	**Decrease by 1 year**	**Increase by 1 year**	**Decrease by 1 year**
Impact on defined benefit obligation	15	(17)	3	(4)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result for reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to the defined benefit plan obligation in future years:

	31 December 2018	31 December 2017
Within the next 12 months (next annual reporting period)	56	148
Between 2 and 5 years	46	132
Between 5 and 10 years	259	185
Over 10 years	575	788
Total expected payments	**936**	**1,253**

The average duration of the defined benefit plan obligation at the end of the reporting period is 12 years (2017: 11 years).

20 Share capital

	Number of issued shares (thousands)		Number of treasury shares	Total number of outstanding shares	Share capital	Treasury shares
	Preference	**Ordinary**	**(thousands)**	**(thousands)**	**(RUB million)**	
As at 1 January 2017	**3,697**	**234,148**	**(49,614)**	**188,231**	**634**	**(2,225)**
Ordinary shares purchased	-	-	-	-	-	-
Treasury shares purchased	-	-	-	-	-	-
Treasury shares disposed	-	-	-	-	-	-
As at 31 December 2017	**3,697**	**234,148**	**(49,614)**	**188,231**	**634**	**(2,225)**
Ordinary shares purchased	-	-	-	-	-	-
Treasury shares purchased	-	-	(9,734)	(9,734)	-	(1,560)
Treasury shares disposed	-	-	-	-	-	-
As at 31 December 2018	**3,697**	**234,148**	**(59,348)**	**178,497**	**634**	**(3,785)**

The total number of authorised ordinary shares is 549,148 thousand shares (31 December 2017: 549,148 thousand) and preference shares is 138,897 thousand shares (31 December 2017: 138,897 thousand) with a nominal value of 1 ruble per share of both types.

Shares that were purchased before 31 December 2018 from shareholders and that were not cancelled are held as ‘treasury shares’. At 31 December 2018 Togliattichiminvest, Kuibyshevazot-invest and Activinvest held 57,866 thousand ordinary and 1,482 thousand preference shares of the Company (31 December 2017: 48,132 thousand ordinary and 1,482 thousand preference shares).

(In millions of Russian rubles unless otherwise stated)

20 Share capital (continued)

Preference shares are non-redeemable, non-cumulative and give the holders the right to participate in the general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The non-cumulative preference shares give holders the right to receive dividends per share of not less than 1% of their nominal value and, in case of liquidation of the Company, they give holders the right to receive liquidation value in the amount of their nominal value. If the Company fails to pay dividends, the preferred shareholders have the right to vote in the general shareholders' meeting, which ceases when dividends on preference shares are paid in full.

The Company cannot declare and pay dividends on ordinary shares if dividends on preference shares are not declared in full.

Dividends declared and paid during the year on ordinary and preference shares were as follows:

	2018	2017
Dividends payable at 1 January	**200**	**10**
Dividends declared during the year	733	565
Dividends paid during the year	(920)	(375)
Dividends payable at 31 December	**13**	**200**
Dividends per share declared during the year, rubles	**4**	**3**

In 2018 the Company declared 2 rubles of interim dividends for 2018 per share for both ordinary and preference shares and final dividends for 2017 of 2 rubles per share for both ordinary and preference shares (2017: 2 rubles of interim dividends, 1 ruble of final dividends for 2016).

21 Sales

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the year ended 31 December 2018			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilisers**	**Other**	**Total**
Type of goods or service				
Caprolactam and derivatives	35,758	-	-	35,758
Ammonia and nitrogen fertilisers	-	21,846	-	21,846
Other	-	-	6,233	6,233
Total revenue from contracts with customers	**35,758**	**21,846**	**6,233**	**63,837**
Geographical markets				
Russia	9,407	12,855	5,954	28,216
Asia	18,315	402	93	18,810
Europe	6,286	4,569	12	10,867
Other	1,750	4,020	174	5,944
Total revenue from contracts with customers	**35,758**	**21,846**	**6,233**	**63,837**
Timing of revenue recognition				
Goods transferred at a point in time	35,758	21,846	4,823	62,427
Services transferred at a point in time	-	-	1,410	1,410
Total revenue from contracts with customers	**35,758**	**21,846**	**6,233**	**63,837**

(In millions of Russian rubles unless otherwise stated)

21 Sales (continued)

	For the year ended 31 December 2017			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilisers**	**Other**	**Total**
Type of goods or service				
Caprolactam and derivatives	28,532	-	-	28,532
Ammonia and nitrogen fertilisers	-	15,341	-	15,341
Other	-	-	3,893	3,893
Total revenue from contracts with customers	**28,532**	**15,341**	**3,893**	**47,766**
Geographical markets				
Russia	7,200	11,580	2,269	21,049
Asia	13,610	100	-	13,710
Europe	5,013	1,307	163	6,483
Other	2,709	2,354	1,461	6,524
Total revenue from contracts with customers	**28,532**	**15,341**	**3,893**	**47,766**
Timing of revenue recognition				
Goods transferred at a point in time	28,532	15,341	3,565	47,438
Services transferred at a point in time	-	-	328	328
Total revenue from contracts with customers	**28,532**	**15,341**	**3,893**	**47,766**

For the year ended 31 December 2018 the Group recognised impairment losses on receivables arising from contracts with customers, included under General and administrative expenses in the consolidated statement of comprehensive income, amounting to RUB 26 (year ended 31 December 2017: impairment losses amounting to RUB 17).

22 Cost of sales

	2018	**2017**
Raw materials	33,041	26,842
Heat energy and electricity	4,379	3,958
Labour costs	3,676	3,601
Depreciation and amortisation	2,703	2,547
Other	1,157	830
Changes in finished goods and work in progress	157	(735)
	45,113	**37,043**

23 Distribution costs

	2018	**2017**
Transportation costs	5,165	3,853
Labour costs	476	481
Materials	252	216
Depreciation and amortisation	125	83
Other	498	433
	6,516	**5,066**

(In millions of Russian rubles unless otherwise stated)

24 General and administrative expenses

	2018	2017
Labour costs	1,429	1,372
Third party services	450	360
Taxes other than income tax	223	256
Consultancy services	140	87
Depreciation and amortisation	59	60
Materials	52	58
Insurance	39	72
Fines and penalties	38	10
Impairment of accounts receivable	26	17
Other	159	163
	2,615	**2,455**

25 Other operating income

	2018	2017
Compensation received from the federal budget	1,553	1,041
Foreign exchange gains on operating activities	291	10
Disposal of inventory	191	116
Gain on a bargain purchase	44	-
Other	5	66
	2,084	**1,233**

26 Other operating expenses

	2018	2017
Social expenses	380	453
Loss on disposal of property, plant and equipment	87	-
Expenses for elimination of damage caused by fire	10	318
Other	68	83
	545	**854**

27 Finance income

	2018	2017
Interest income	271	255
Foreign exchange gains on financing activities	-	767
Other	19	47
	290	**1,069**

28 Finance costs

	2018	2017
Interest expense	1,820	1,939
Less capitalised borrowing costs	(375)	(459)
Foreign exchange loss on financing activities	1,230	-
Other	-	55
	2,675	**1,535**

(In millions of Russian rubles unless otherwise stated)

29 Income tax

	2018	2017
Current income tax expense	1,701	562
Deferred tax benefit relating to profit or loss	122	140
Income tax expense recognized in profit or loss	**1,823**	**702**
Deferred tax (income)/expenses relating to items recognized in OCI	10	1
Income tax expense/(benefit) recognised in OCI	**10**	**1**
Income tax expense for the year	**1,833**	**703**

Income before tax for financial reporting purposes is reconciled to tax expense as follows:

	2018	2017
Profit before tax	**9,309**	**3,236**
Theoretical tax charge at statutory rate of 20%	1,862	647
Effect of other income tax rates	7	12
Share of losses of associates and joint ventures	(88)	(20)
Recalculation of current income tax of prior periods	(73)	(18)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Social expenses	119	64
Other non-deductible expenses	6	18
Income tax expense including effect of other comprehensive income/(loss)	**1,833**	**703**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2017: 20%).

	1 January 2017	Origination/ (reversal) of temporary difference	31 December 2017	Origination/ (reversal) of temporary difference	31 December 2018
Tax effects of temporary differences:					
Trade and other receivables	17	7	24	(9)	15
Finance lease and other liabilities	138	-	138	29	167
Financial assets	-	27	27	(37)	(10)
Property, plant and equipment	(967)	(172)	(1,139)	(242)	(1,381)
Intangible assets	-	37	37	100	137
Inventories	(236)	(31)	(267)	43	(224)
Other	7	(8)	(1)	(6)	(7)
Net deferred tax liabilities, including:	**(1,041)**	**(140)**	**(1,181)**	**(122)**	**(1,303)**
Deferred tax assets	162		226		319
Deferred tax liabilities	(1,203)		(1,407)		(1,622)

(In millions of Russian rubles unless otherwise stated)

29 Income tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred tax assets will be realised in different periods than deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 6,234 (2017: RUB 3,629) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

30 Earnings per share

The earnings per share were calculated by dividing profit or loss attributable to all equity holders by the weighted average number of all shares outstanding during the period, excluding shares purchased by the Group and held as treasury shares.

	2018	**2017**
Weighted average number of ordinary shares outstanding (thousands)	234,148	234,148
Weighted average number of preference shares outstanding (thousands)	3,697	3,697
Adjusted for weighted average number of treasury shares outstanding (thousands)	(52,361)	(49,614)
Weighted average number of ordinary and preference shares outstanding (thousands)	185,484	188,231
Profit attributable to equity holders of the Company	**7,414**	**2,573**
Earnings per share (in rubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	**39.97**	**13.67**

There are no dilution factors therefore basic earnings per share equal diluted earnings per share.

31 Contingencies, commitments and operating risks

31.1 Contractual commitments and guarantees

As at 31 December 2018 and 31 December 2017 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RUB 2,845 and RUB 145 respectively, designated for construction of new and modernisation of existing production facilities.

31.2 Taxation

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

31 Contingencies, commitments and operating risks (continued)

31.2 Taxation (continued)

In addition to the Russian Federation, the Group operates in a number of foreign jurisdictions. The Group includes companies established outside the Russian Federation that are subject to taxation at rates and in accordance with the laws of jurisdictions in which the companies of the Group are recognized as tax residents. Tax liabilities of foreign companies of the Group are determined on the basis that foreign companies of the Group are not tax residents of the Russian Federation, nor do they have a permanent representative office in the Russian Federation and are therefore not subject to income tax under Russian law, except for income tax deductions at the source (i.e. dividends, interest, capital gains, etc.).

In 2018, mechanisms were further implemented to counter the tax evasion using low tax jurisdictions and aggressive tax planning structures, and some parameters of the tax system of the Russian Federation were further customized. In particular, these changes included further development of the beneficial ownership concept, tax residence of legal entities at the place of actual activity, as well as the approach to taxation of controlled foreign companies in the Russian Federation. In addition, from 2019, general VAT rate increases to 20%, and foreign providers of electronic services are required to register with the Russian tax authorities to pay VAT.

The Russian tax authorities continue to actively cooperate with the tax authorities of foreign countries on exchanging tax information, which makes companies' operations on an international scale more transparent and requires detailed study in terms of confirming the business goal of the international group's entity as part of tax control procedures.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. It is therefore possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, the tax authorities may review earlier tax periods.

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

Russian transfer pricing legislation allows the tax authorities imposing additional tax liabilities and related fines if transfer prices/profitability in controlled transactions differ from the market level of prices/profitability. A list of controlled transactions, mainly, includes transactions between related parties.

Currently, the transfer pricing control and documentation requirements cover cross-border related party transactions (without any threshold), certain cross-border transactions between non-related parties with commodities and low-tax jurisdictions, as well as domestic related party transactions exceeding RUB 1 billion or even lower. Certain exemptions may apply for domestic transactions where, for example, both taxpayers are located in the same region of Russia, do not have losses, do not have representative offices in other regions, etc. These exemptions may not be relevant for all domestic transactions, though. In addition, the corresponding adjustments for domestic operations are eligible.

Starting from 2019 the threshold from which transfer pricing control will apply to cross-border controlled transactions will be set at RUB 60 million. Also domestic transactions in excess of the RUB 1 billion, will be controlled only if parties to a controlled transaction apply different profits tax rates, or at least one party to a controlled transaction applies special tax regime, or applies profits tax exemption, or is a party of the regional investment agreement and in the other specific instances.

31 Contingencies, commitments and operating risks (continued)

31.2 Taxation (continued)

The new legislation concerning preparation of the multinational enterprise group (MNE) documentation applies to financial years starting on or after 1 January 2017, with a voluntary country-by-country report (CbCR) filing for financial years starting in 2016. The new law requires preparation of the three-tier transfer pricing documentation (master file, local file, 1 CbCR) and a notification concerning participation in the MNE. These rules apply to the MNE with a consolidated revenue RUB 50 billion a preceding financial year if an ultimate parent entity (UPE) is in Russia, or with the applicable CbCR threshold as established by the home country of the UPE if outside Russia.

In 2018 the Group determined its tax liabilities arising from controlled transactions using actual transaction prices. Also, the Group fulfilled its obligations associated with filing of the relevant MNE documentation in a timely manner.

The federal tax authorities may audit prices/profitability in controlled transactions and if they disagree with the Group's prices in these transactions, assess additional tax liabilities, unless the Group is able to support the arm's length nature of its pricing in these transactions by way of the compliant transfer pricing documentation / local file.

31.3 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believe that there are no significant unrecorded liabilities for environmental damage.

31.4 Lawsuits

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

31.5 Contingencies

Contingencies that were determined by management at the reporting date as those that may be subject to different interpretations of legislation and regulations, and were not accrued in the consolidated financial statements, can range from RUB 0 to 539 for the Group. In respect of these contingencies there is also uncertainty over the term of their execution, as they depend on the occurrence (non-occurrence) of one or more future uncertain events not controlled by the Group.

31.6 Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The Ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The Group's management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

(In millions of Russian rubles unless otherwise stated)

32 Principal subsidiaries

The Group's principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

			2018		2017	
Name	**Country of incorporation**	**Activity**	**% ownership**	**% voting**	**% ownership**	**% voting**
Port Togliatti	Russian Federation	Transportation of goods	66%	79%	66%	79%
Togliattichiminvest	Russian Federation	Trading of construction materials	100%	100%	100%	100%
Kuibyshevazot-invest	Russian Federation	Investing	100%	100%	100%	100%
EPC Shanghai	China	Engineering plastics production	90%	90%	90%	90%
TC KUAZ Shanghai	China	Trading company	50%	50%	50%	50%
TC KUAZ Hong Kong	Hong Kong	Trading company	100%	100%	100%	100%
Activinvest	Russian Federation	Investing	100%	100%	100%	100%
Azotremstroi	Russian Federation	Capital construction	100%	100%	100%	100%
Kurskchimvolokno	Russian Federation	Production of synthetic fibre	100%	100%	100%	100%
Moskovskiye Volokna	Russian Federation	Rental services	100%	100%	100%	100%
Baltex	Russian Federation	Production of synthetic fabric	100%	100%	100%	100%
Srednevolzhskaya energosbytovaya kompaniya	Russian Federation	Sale of electric power	74%	74%	74%	74%
JV Granifert	Russian Federation	Production of ammonium sulphate	100%	100%	-	-

The Company has control over the Chinese subsidiary TC KUAZ Shanghai because it has the right to appoint a majority in the board of directors.

33 Financial risk management

The Group's principal financial liabilities comprise bank loans, and trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, loans issued, cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

33.1 Credit risk

Financial assets, which potentially subject the Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment already recorded.

(In millions of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.1 Credit risk (continued)

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial investments including loans issued, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, management monitors that cash is placed in financial institutions or invested in financial assets of entities, which are considered to have minimal risk of default.

33.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

33.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term and long-term loans and borrowings. The Group has no significant interest-bearing assets.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates linked to EURIBOR and LIBOR indices and key rate of CBR. As at 31 December 2018 approximately 57% of the Group's borrowings are at a fixed rate of interest (31 December 2017: 71%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate loans and borrowings).

		Increase/decrease in basis points	Effect on profit before tax
2018			
LIBOR	High	0.50%	(15)
EURIBOR	High	0.20%	(3)
Key rate of CBR	High	0.75%	(39)
LIBOR	Low	-0.15%	5
EURIBOR	Low	-0.01%	-
Key rate of CBR	Low	-0.75%	39
2017			
LIBOR	High	0.70%	(40)
EURIBOR	High	0.25%	(2)
LIBOR	Low	-0.08%	4
EURIBOR	Low	-0.01%	-

33.4 Foreign currency risk

The Group exports production to Asian, American and European countries and therefore, it is exposed to foreign currency risk. Foreign currency denominated assets (Notes 8 and 9) and liabilities (Note 16) give rise to foreign exchange exposure. Approximately 56% of the Group's sales are denominated in currencies other than rubles - the functional currency of the Company, whilst almost 76% of costs are denominated in rubles. Hence, the Group is exposed to the related foreign exchange risk primarily with respect to the US dollar. However, management believes that foreign currency risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar, euro and Chinese yuan exchange rate, with all other variables held constant, of the Group's profit before tax, due to changes in the fair value of monetary assets and liabilities. There is no impact on the Group's equity.

(In millions of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.4 Foreign currency risk (continued)

		Increase/decrease in basis points	Effect on profit before tax
2018			
Euros	High	14.00%	69
US dollars	High	14.00%	(611)
Chinese yuans	High	14.00%	68
Euros	Low	-14.00%	(69)
US dollars	Low	-14.00%	611
Chinese yuans	Low	-14.00%	(68)
2017			
Euros	High	12.50%	325
US dollars	High	11.00%	(640)
Chinese yuans	High	11.00%	43
Euros	Low	-12.50%	(325)
US dollars	Low	-11.00%	640
Chinese yuans	Low	-11.00%	(43)

33.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of available credit limit (31 December 2018: RUB 21,417; 31 December 2017: RUB 18,033) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

Year ended 31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans and borrowings	1,611	2,797	20,194	4,427	29,029
Loans with breached financial covenants*	-	-	-	-	-
Trade and other payables	4,365	-	-	-	4,365
Finance lease liability	-	-	-	-	-
	5,976	**2,797**	**20,194**	**4,427**	**33,394**

Year ended 31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans and borrowings	3,111	3,105	12,610	3,635	22,461
Loans with breached financial covenants*	-	1,515	4,219	667	6,401
Trade and other payables	4,817	-	-	-	4,817
Finance lease liability	-	-	-	-	-
	7,928	**4,620**	**16,829**	**4,302**	**33,679**

*Credit institutions have a right to request accelerated payment of loans with broken covenants. In that case, these loans may be reclassified into Less than three months category.

(In millions of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or sell treasury shares held by subsidiaries. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

33.7 Fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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, judgment is necessarily required to interpret market data to determine the estimated fair value. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

At 31 December 2018 and 2017, the fair value of financial instruments, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, approximates their carrying value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated financial statements:

	Carrying amount		**Assets and liabilities for which fair values are disclosed (Level 2)**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
FINANCIAL ASSETS:				
Cash and cash equivalents	3,869	1,381	3,869	1,381
Financial assets - current	1,158	1,199	1,158	1,199
Financial assets – non-current	2,079	3,073	2,079	3,073
Trade receivables	2,736	2,251	2,736	2,251
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	2,872	10,411	2,872	10,411
Long-term loans and borrowings	20,342	12,773	20,342	12,773
Trade payables	3,495	3,919	3,495	3,919

34 Events after the reporting period

In February 2019 PJSC KuibyshevAzot settled the payable balance outstanding to Trammo AG for the purchase of a 50% stake in JV Granifert in the amount of RUB 116.

In February 2019 an agreement was signed on a syndicated loan in the amount of RUB 4,725 between Volgatekhnool as a borrower, PJSC KuibyshevAzot as a sponsor, State Development Corporation VEB.RF as an arranger, State Development Corporation VEB.RF as a facility agent, Gazprombank as a security trustee, and State Development Corporation VEB.RF and Gazprombank as original lenders, for a period of 12 years for the purpose of financing investment projects of the Group.

In March 2019 PJSC KuibyshevAzot and Raiffeisenbank signed an agreement on opening a credit line with a limit of 15 million euros for a period of six years to finance the Company’s current and investing activities.