Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company KuibyshevAzot
and its subsidiaries
for 2019

March 2020

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Contents	Page

Independent auditor's report	3
Appendices	
Consolidated statement of financial position	9
Consolidated statement of comprehensive income	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13

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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 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2019, 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 2019 and its consolidated financial performance and its consolidated cash flows for 2019 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 (including International Independence Standards) (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 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 considered 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.

Key audit matter	How the matter was addressed in the audit
Valuation of options: judgement and the use of estimates and assumptions	
Valuation of options was a key area of judgement for management due to the complexity and subjectivity of valuation techniques. Due to the significance of fair values of options with respect to the consolidated financial statements and the related estimation uncertainty, this area was one of the key audit matters. Information regarding valuation of options is disclosed in Notes 14 and 33.7 to the consolidated financial statements.	Our procedures included the assessment of key controls over the identification, measurement and management of valuation risk, as well as evaluating the methodologies and input parameters used by the Group in determining fair values. For the Group's fair value models, we involved our own valuation specialists to assess the appropriateness of the models and inputs. We further compared observable inputs against independent sources and externally available market data. Additionally, we considered whether the fair value determination was appropriately and adequately disclosed.

Other information included in the 2019 Annual Report of PJSC KuibyshevAzot

Other information consists of the information included in the 2019 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 2019 Annual Report of PJSC KuibyshevAzot is expected be provided to us after the date of our 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.

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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 9 to 12, 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

17 March 2020

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-regulatory organization of auditors Association “Sodruzhestvo” (SRO AAS).
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

KuibyshevAzot Group

Consolidated statement of financial position

as at 31 December 2019

(in million of Russian rubles unless otherwise stated)

	Note	As at 31 December 2019	As at 31 December 2018	Supplementary information USD million (Note 2.3) As at 31 December 2019	Supplementary information USD million (Note 2.3) As at 31 December 2018
Assets					
Current assets					
Cash and cash equivalents	8	891	3,869	14	56
Trade and other receivables	9	4,167	5,154	67	74
Inventories	10	7,896	8,001	128	115
Current income tax receivable		59	1	1	-
Financial assets	15	1,635	1,158	27	17
Total current assets		**14,648**	**18,183**	**237**	**262**
Non-current assets					
Property, plant and equipment	11	31,967	31,001	516	446
Intangible assets	12	3,554	4,044	57	58
Right-of-use assets	13	360	-	6	-
Prepayments for property, plant and equipment and intangible assets		2,151	2,057	35	30
Investments in associates and joint ventures	14	12,166	5,176	196	74
Financial assets	15	658	2,079	11	30
Total non-current assets		**50,856**	**44,357**	**821**	**638**
Total assets		**65,504**	**62,540**	**1,058**	**900**
Liabilities					
Current liabilities					
Trade payables		1,904	3,495	31	50
Income tax payable		15	179	-	2
Other than income taxes payable	18	257	248	4	4
Short-term loans and borrowings	16	4,164	2,872	67	41
Lease liabilities	13	204	-	4	-
Advances received		1,661	1,581	27	23
Other current liabilities	17	880	870	14	13
Total current liabilities		**9,085**	**9,245**	**147**	**133**
Non-current liabilities					
Long-term loans and borrowings	16	20,363	20,342	329	293
Deferred tax liabilities	29	1,316	1,303	21	19
Lease liabilities	13	169	-	3	-
Retirement benefit obligations	19	502	409	8	6
Derivative financial instruments	14	2,074	-	33	-
Other non-current liabilities	17	136	61	2	1
Total non-current liabilities		**24,560**	**22,115**	**396**	**319**
Total liabilities		**33,645**	**31,360**	**543**	**452**
Equity					
Equity and reserves attributable to equity holders of the Company					
Share capital	20	634	634	10	9
Additional share capital		919	919	15	13
Treasury shares	20	(3,897)	(3,785)	(63)	(54)
Foreign currency translation reserve		494	697	8	10
Retained earnings		33,552	32,317	542	465
		31,702	**30,782**	**512**	**443**
Non-controlling interests		157	398	3	5
Total equity		**31,859**	**31,180**	**515**	**448**
Total liabilities and equity		**65,504**	**62,540**	**1,058**	**900**

Approved for issue and signed on behalf of Board of Directors on
17 March 2020

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 2019

(in million of Russian rubles unless otherwise stated)

	Note	Year ended 31 December 2019	Year ended 31 December 2018	Supplementary information USD million (Note 2.3) Year ended 31 December 2019	Supplementary information USD million (Note 2.3) Year ended 31 December 2018
Revenue	21	57,441	63,837	887	1,018
Cost of sales	22	(44,165)	(45,113)	(682)	(720)
Gross profit		**13,276**	**18,724**	**205**	**298**
Distribution costs	23	(6,729)	(6,516)	(104)	(104)
General and administrative expenses	24	(2,990)	(2,615)	(46)	(42)
Other operating income	25	1,617	2,084	25	33
Other operating expenses	26	(493)	(545)	(8)	(9)
Operating profit		**4,681**	**11,132**	**72**	**176**
Loss on disposal of subsidiaries	14	(2,234)	-	(35)	
Finance income	27	980	290	15	5
Finance costs	28	(1,754)	(2,675)	(27)	(42)
Share of profit of associates and joint ventures	14	1,595	562	25	9
Profit before tax		**3,268**	**9,309**	**50**	**148**
Income tax expense	29	(738)	(1,823)	(11)	(29)
Profit for the year		**2,530**	**7,486**	**39**	**119**
Other comprehensive income/(loss)					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods					
Foreign currency translation reserve		(203)	220	(3)	3
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(203)**	**220**	**(3)**	**3**
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:					
Re-measurement of income/(losses) on defined benefit plan		(67)	52	(1)	1
Income tax effect	29	14	(10)	-	-
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**(53)**	**42**	**(1)**	**1**
Other comprehensive income/(loss) for the year, net of tax		**(256)**	**262**	**(4)**	**4**
Total comprehensive income/(loss) for the year, net of tax		**2,274**	**7,748**	**35**	**123**
Profit attributable to:					
Equity holders of the Company	30	2,537	7,414	39	118
Non-controlling interests		(7)	72	-	1
		2,530	**7,486**	**39**	**119**
Total comprehensive income attributable to:					
Equity holders of the Company		2,281	7,676	35	122
Non-controlling interests		(7)	72	-	1
		2,274	**7,748**	**35**	**123**
Earnings per share, basic/diluted (in Russian rubles and USD per share):					
- for profit attributable to the equity holders of the Company	30	**14.22**	**39.97**	**0.22**	**0.64**

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

KuibyshevAzot Group

Consolidated statement of changes in equity

for the year ended 31 December 2019

(in million 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 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**
Profit for the year	-	-	-	-	2,537	2,537	(7)	2,530
Other comprehensive income	-	-	-	(203)	(53)	(256)	-	(256)
Total comprehensive income for 2019	**-**	**-**	**-**	**(203)**	**2,484**	**2,281**	**(7)**	**2,274**
Purchase of treasury shares (Note 20)	-	-	(112)	-	-	(112)	-	(112)
Non-controlling interests disposed of as a result of loss of control	-	-	-	-	-	-	(195)	(195)
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(39)	(39)
Dividends declared (Note 20)	-	-	-	-	(1,249)	(1,249)	-	(1,249)
Balance as at 31 December 2019	**634**	**919**	**(3,897)**	**494**	**33,552**	**31,702**	**157**	**31,859**

	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 2018	**9**	**13**	**(54)**	**10**	**465**	**443**	**5**	**448**
Balance as at 31 December 2019	**10**	**15**	**(63)**	**8**	**542**	**512**	**3**	**515**

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 2019

(in million of Russian rubles unless otherwise stated)

	Note	Year ended 31 December 2019	Year ended 31 December 2018	Supplementary information USD million (Note 2.3) Year ended 31 December 2019	Supplementary information USD million (Note 2.3) Year ended 31 December 2018
Cash flows from operating activities:					
Profit before tax		3,268	9,309	50	148
Adjustments for:					
Amortisation of property, plant and equipment, intangible assets and right-of-use assets	11, 12, 13	3,414	2,887	53	46
Loss on disposal of property, plant and equipment	26	80	87	1	1
Retirement benefit obligations	19	26	37	-	1
Impairment of accounts receivable	21	17	26	-	-
Loss on disposal of subsidiaries	14	2,234	-	35	-
Gain on a bargain purchase		-	(44)	-	(1)
Share of profit of associates and joint ventures	14	(1,595)	(562)	(24)	(9)
Finance income	27	(298)	(290)	(5)	(5)
Finance costs	28	1,754	1,445	27	23
Net foreign exchange effect on non-operating balances	27, 28	(681)	1,230	(10)	20
Operating cash flows before working capital changes		**8,219**	**14,125**	**127**	**224**
Decrease in trade receivables and prepayments		18	841	-	14
Decrease/(increase) in inventories		102	(183)	2	(3)
(Decrease) in trade and other payables		(3,395)	(68)	(52)	(1)
Increase in other taxes payable		9	7	-	-
Cash flows from operating activities		**4,953**	**14,722**	**77**	**234**
Income tax paid		(948)	(1,471)	(15)	(23)
Interest received		303	156	5	2
Interest paid		(1,763)	(1,841)	(27)	(29)
Net cash generated from operating activities		**2,545**	**11,566**	**40**	**184**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(3,776)	(5,191)	(58)	(83)
Proceeds from sale of property, plant and equipment		1	186	-	3
Purchase of intangible assets		(93)	(1,359)	(2)	(22)
Disposal of non-current financial assets		-	28	-	-
Purchase of non-current financial assets		(641)	(85)	(10)	(1)
Disposal of current financial assets		1,156	1,172	18	19
Purchase of current financial assets		(604)	(174)	(9)	(3)
Acquisition of a subsidiary		(116)	(292)	(2)	(5)
Cash outflows from investing activities of disposed subsidiaries		(7,997)	-	(124)	-
Net cash used in investing activities		**(12,070)**	**(5,715)**	**(187)**	**(92)**
Cash flows from financing activities:					
Proceeds from short-term loans and borrowings		3,414	367	53	6
Proceeds from long-term loans and borrowings		8,874	10,895	137	174
Repayment of loans and borrowings		(7,774)	(12,593)	(120)	(201)
Payment of lease liabilities	13	(220)	-	(3)	-
Sale of interest in a subsidiary	14	1,235	-	19	-
Treasury shares purchased	20	(112)	(1,560)	(2)	(25)
Increase in share capital of a subsidiary through a contribution of a non-controlling shareholder		1,709	191	26	3
Dividends received from associates	14	529	294	8	5
Dividends paid to non-controlling interests		(39)	(37)	(1)	(1)
Dividends paid to equity holders of the parent	20	(1,069)	(920)	(16)	(15)
Net cash (used in)/generated from financing activities		**6,547**	**(3,363)**	**101**	**(54)**
Net increase/(decrease) in cash and cash equivalents		**(2,978)**	**2,488**	**(46)**	**38**
Net foreign exchange difference				4	(6)
Cash and cash equivalents at the beginning of the year	8	3,869	1,381	56	24
Cash and cash equivalents at the end of the year	**8**	**891**	**3,869**	**14**	**56**

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

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 2019 a blocking shareholding of 27% of total share capital of the Company (31 December 2018: 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. 21% of total share capital of the Company (31 December 2018: 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 2019. 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)

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.

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.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

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.

(d) Fair value measurement

The Group measures financial instruments such as derivatives, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

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").

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 million
Average for the year ended 31 December 2018	62.7078
31 December 2018	69.4706
Average for the year ended 31 December 2019	64.7362
31 December 2019	61.9057

2 Basis of preparation and significant accounting policies (continued)

2.3 Foreign currency transaction (continued)

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.

2.6 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 purchased goods and services for export sales of commodities can be reimbursed at the moment when export is confirmed by tax authorities, for export sales of non-commodities – in accordance with the standard procedure.

2 Basis of preparation and significant accounting policies (continued)

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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.

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)

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.

2 Basis of preparation and significant accounting policies (continued)

2.8 Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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 the recipient obtains control) or when no future economic benefits are expected from its use or disposal. 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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2 Basis of preparation and significant accounting policies (continued)

2.10 Leases (continued)

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Number of years
Land and buildings	2 to 42
Constructions	2 to 36
Motor vehicles	1 to 2
Other equipment	2 to 4

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are shown in a separate line in the statement of financial position.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2 Basis of preparation and significant accounting policies (continued)

2.11 Intangible assets

All of the Group's intangible assets have finite 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 period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. 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.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income.

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, loans and borrowings, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:
- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

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. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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.

2 Basis of preparation and significant accounting policies (continued)

2.12 Financial liabilities (continued)

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.

2.13 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 (tax loss)
- 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
- 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

2 Basis of preparation and significant accounting policies (continued)

2.13 Income tax (continued)

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.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

2.15 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 oupon 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.

2 Basis of preparation and significant accounting policies (continued)

2.16 Revenue recognition (continued)

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 (contractual obligations)
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.

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
- 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 Basis of preparation and significant accounting policies (continued)

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:

Determining the lease term of contracts with renewal and termination options – Group as lessee The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of plant and machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on production if a replacement is not readily available. The renewal options for leases of motor vehicles were not included as part of the lease term because the Group has a policy of leasing motor vehicles for not more than five years and, hence, not exercising any renewal options.

Determining of control. Management uses judgements to determine whether there is control, joint control or significant influence on entities and how different investments in entities are recognised in the Group's consolidated financial statements, taking into account voting rights and contractual arrangements with the other owners.

In 2017 the Group and an independent party established Volgafert company for the purpose of constructing and operating the urea production complex for the Group's own needs. The Group owns 68% of the voting shares of the company. In 2019, as a result of a contractual agreement with the partner, all major operational decisions are made solely unanimously. On the basis of the agreement terms, the Group concluded that voting rights in Volgafert were not the main factor in determining the controlling party. Thus, starting from November 2019 Volgafert is accounted for in the Group's consolidated financial statements as a joint venture using equity method.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

In 2017 the Group established Volgatechnool company for the purpose of constructing and operating the sulphuric acid and oleum production complex for the Group's own needs. In 2019 the Group signed a contract to sell a 49% share in Volgatekhnool. As at 31 December 2019 the Group owns 51% of the voting shares of the company. As a result of contractual agreements with the partner, all major operational decisions are made solely unanimously. On the basis of the agreement terms, the Group concluded that voting rights in Volgatechnool were not the main factor in determining the controlling party. Thus, starting from December 2019 Volgatechnool is accounted for in the Group's consolidated financial statements as a joint venture using equity method.

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. As at 31 December 2019 the Group identified no indicators of impairment of property, plant and equipment.

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. See Note 19 for further disclosures.

Fair value measurement of financial instruments. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 33.7 for further disclosures.

Leases — Estimating the incremental borrowing rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4 New and amended standards and interpretations

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, 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.

4 New and amended standards and interpretations (continued)

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Refer to Note 2.10 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

– *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

– *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

4 New and amended standards and interpretations (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	RUB million
Operating lease commitments as at 31 December 2018	**635**
Weighted average incremental borrowing rate as at 1 January 2019	9.35%
Discounted operating lease commitments as at 1 January 2019	**390**
Less:	
Commitments relating to short-term leases	(90)
Commitments relating to leases of low-value assets	(11)
Add:	
Payments in optional extension periods not recognised as at 31 December 2018	223
Lease liabilities as at 1 January 2019	**512**

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

4 New and amended standards and interpretations (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*. These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associates and joint ventures.

Annual Improvements 2015-2017 Cycle

- IFRS 3 *Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- IFRS 11 *Joint Arrangements*

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

- IAS 12 *Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

4 New and amended standards and interpretations (continued)

- IAS 23 *Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of 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.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

(in million of Russian rubles unless otherwise stated)

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.

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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	29,997	35,758	20,611	21,846	6,833	6,233	57,441	63,837
Segment operating profit for the period	1,610	3,645	3,223	6,297	233	1,678	5,066	11,620
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							(273)	(395)
Provision for retirement benefit obligations							(26)	(37)
Other							(86)	(56)
IFRS operating profit for the period							**4,681**	**11,132**

Revenue from the segment 'Sale of caprolactam and its derivatives' comprises revenue received from one customer in the amount of RUB 5,216 (2018: RUB 6,092).

Difference in depreciation of property, plant and equipment relates to different values 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Segment assets	30,221	28,519	7,322	5,232	26,837	28,248	64,380	61,999
IFRS adjustments:								
Right-of-use assets							360	-
Difference in depreciation of property, plant and equipment							1,116	807
Impairment of the Group's assets							(405)	(216)
Other							53	(50)
IFRS total assets							**65,504**	**62,540**

(in million of Russian rubles unless otherwise stated)

6 Operating segment information (continued)

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ elimination		Total	
As at 31 December	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Segment liabilities	676	1,953	1,415	1,469	28,928	27,848	31,019	31,270
IFRS adjustments:								
Lease liability							373	-
Retirement benefit obligations							502	409
Deferred tax							(483)	(324)
Financial guarantee							160	-
Derivative financial instruments							2,074	-
Other							-	5
IFRS total liabilities							**33,645**	**31,360**

Unallocated amounts relate mainly to borrowings of RUB 24,527 (31 December 2018: RUB 23,214) and liabilities of non-core subsidiaries.

Geographic information

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

	2019	2018
Russia	29,250	28,216
Asia	14,292	18,810
Europe	7,075	10,867
Other	6,824	5,944
	57,441	**63,837**

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.

During 2019 and 2018, the Group entered into transactions with the related parties, namely: 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 2019 and 2018, or had significant balances outstanding at 31 December 2019 and 2018 is detailed below.

The income and expenses items with related parties for the years 2019 and 2018 were as follows:

Sales of goods and services

	2019	2018
Sales of finished goods and other sales	5,282	5,669
Sale of electric power	1,027	768
Rental services	56	56
Interest income on loans issued to related parties	85	136
Total	**6,450**	**6,629**

(in million of Russian rubles unless otherwise stated)

7 Balances and transactions with related parties (continued)

Purchase of goods and services

	2019	2018
Purchase of goods	10,239	9,930
Total	**10,239**	**9,930**

At 31 December 2019 and 2018, the outstanding balances with related parties were as follows:

	2019	2018
Receivables from related parties	522	480
Payables to related parties	693	906
Borrowings issued to related parties	1,232	2,684
Promissory notes issued to related parties	573	-
Borrowings received from related parties	470	350

As at 31 December 2019 borrowings issued to related parties relate to a euro-denominated borrowing in the amount of RUB 1,207 issued to Linde Azot Togliatti at the interest rate of 4% (31 December 2018: RUB 2,684, interest rate of 4%) and an interest-free borrowing in the amount of RUB 25 issued to Volgatechnool.

As at 31 December 2019 promissory notes issued to related parties relate to interest-free promissory notes in the amount of RUB 573 issued to Volgatechnool.

As at 31 December 2019 borrowings from related parties include an interest-free borrowing in the amount of RUB 470 obtained from Praxair Azot Togliatti (31 December 2018: RUB 350).

Key management compensation

The remuneration of key management personnel amounted to RUB 122 and RUB 99 in 2019 and 2018, 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 21 (2018: RUB 18). Dividends paid to key management personnel amounted to RUB 167 (2018: RUB 144).

8 Cash and cash equivalents

	2019	2018
Short-term deposits	368	2,399
Foreign currency denominated balances with banks	263	762
Ruble-denominated cash on hand and balances with banks	260	708
	891	**3,869**

Cash deposits of RUB 368 (31 December 2018: RUB 2,399) bear interest of 3.2% - 5.4% p.a. (2018: 1% - 7.2%).

Balances with banks bear interest of 5.3% - 7%.

Foreign currency denominated balances with banks consist of the following:

Currency	**2019**	**2018**
US dollars	122	353
Euros	75	280
Yuans	60	126
Serbian dinars	6	3
	263	**762**

(in million of Russian rubles unless otherwise stated)

9 Trade and other receivables

	2019	2018
Trade receivables	2,114	2,779
Provision for expected credit losses	(54)	(43)
	2,060	**2,736**
Other receivables	112	359
Provision for expected credit losses	(3)	-
	109	**359**
Advances paid (contract assets)	1,032	930
	1,032	**930**
VAT recoverable	966	1,129
	4,167	**5,154**

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

Currency	**2019**	**2018**
US dollars	408	1,005
Euros	247	594
Yuans	501	419
Serbian dinars	10	2
	1,166	**2,020**

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

Set out below is the movement in the provision for expected credit losses of trade and other receivables:

	2019	2018
Opening balance	43	68
Charge for the year	17	26
Utilised	(3)	(51)
Closing balance	**57**	**43**

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
2019	1,260	794	115	**2,169**
2018	2,176	890	29	**3,095**

10 Inventories

	2019	2018
Raw materials	2,845	3,280
Work in progress	1,408	1,450
Finished goods	3,643	3,271
	7,896	**8,001**

During 2019 RUB 173 (2018: RUB 70) was recognised in the cost of sales as an expense for slow-moving inventories and write-down to net realisable value.

(in million 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 2018	10,556	35,988	1,024	5,817	53,385
Acquisition of a subsidiary	-	-	-	3,847	3,847
Additions	-	-	-	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**
Additions	-	-	-	8,324	8,324
Disposal of subsidiaries	-	-	-	(4,452)	(4,452)
Disposals	(41)	(263)	(24)	-	(328)
Transfers from construction in progress	325	1,035	188	(1,548)	-
Foreign exchange differences	(47)	(145)	(5)	-	(197)
Balance as at 31 December 2019	**11,817**	**38,966**	**1,320**	**9,223**	**61,326**
Accumulated amortization					
Balance as at 1 January 2018	(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)**
Depreciation charge for 2019	(379)	(2,117)	(204)	-	(2,700)
Disposals	32	202	13	-	247
Foreign exchange differences	14	55	3	-	72
Balance as at 31 December 2019	**(4,955)**	**(23,395)**	**(1,009)**	**-**	**(29,359)**
Net book value					
Balance as at 31 December 2018	**6,958**	**16,804**	**340**	**6,899**	**31,001**
Balance as at 31 December 2019	**6,862**	**15,571**	**311**	**9,223**	**31,967**

At 31 December 2019 property, plant and equipment carried at RUB 8,793 (31 December 2018: RUB 8,505) have been pledged as collateral for bank loans and other borrowings (Note 16).

At 31 December 2019 the cost of the land on which the Group's principle production facilities are located, amounted to RUB 266 (31 December 2018: RUB 286).

Borrowing costs capitalised amounted to RUB 198 (2018: RUB 375). A capitalisation rate of 6% (2018: 7%) was used, representing the borrowing costs of the loans used to finance the investment projects.

As at 31 December 2019 and 2018, the gross book value of fully depreciated property, plant and equipment was RUB 15,872 and RUB 15,280, respectively.

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

	2019	2018
Cost of capitalized finance leases	119	119
Accumulated amortization	(119)	(119)
Net book value	**-**	**-**

(in million of Russian rubles unless otherwise stated)

12 Intangible assets

	Right to use licenses	Development costs	Other intangible assets	Total
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)**
Cost				
As at 31 December 2018	5,018	60	10	5,088
Additions	14	20	-	34
Disposals	-	(2)	-	(2)
As at 31 December 2019	**5,032**	**78**	**10**	**5,120**
Accumulated amortisation and impairment				
As at 31 December 2018	(1,032)	(4)	(8)	(1,044)
Depreciation charge	(510)	(11)	(1)	(522)
Disposals	-	-	-	-
Impairment	-	-	-	-
As at 31 December 2019	**(1,542)**	**(15)**	**(9)**	**(1,566)**
Net book value				
As at 31 December 2018	**3,986**	**56**	**2**	**4,044**
As at 31 December 2019	**3,490**	**63**	**1**	**3,554**

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 2019 net book value of the license was RUB 3,483 (31 December 2018: RUB 3,973) and the remaining useful life was 85 months.

Other intangible assets comprise capitalised software with net book value of RUB 1 (31 December 2018: RUB 2). 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 2019 their net book value amounted to RUB 63 (31 December 2018: RUB 56).

(in million of Russian rubles unless otherwise stated)

13 Leases

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings	**Constructions**	**Motor vehicles**	**Other**	**Total**
As at 31 December 2018	**89**	**86**	**325**	**12**	**512**
Additions	14	-	26	-	40
Depreciation expense	(13)	(5)	(171)	(3)	(192)
As at 31 December 2019	**90**	**81**	**180**	**9**	**360**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019
As at 1 January	**512**
Additions	40
Accretion of interest	41
Payments	(220)
As at 31 December	**373**
Current	**204**
Non-current	**169**

The maturity analysis of lease liabilities are disclosed in Note 33.5.

The following are the amounts recognised in the consolidated statement of financial position:

	2019
Depreciation expense of right-of-use assets	192
Interest expense on lease liabilities	41
Total amount recognised in the consolidated statement of comprehensive income	**233**

The Group had total cash outflows for leases of RUB 220 in 2019.

14 Investments in associates and joint ventures

	Praxair Azot Togliatti	Other associates	JV Linde Azot Togliatti	Volgafert	Volgatechnool	Other joint ventures	Total
As at 1 January 2019	**1,962**	**286**	**2,863**	**-**	**-**	**65**	**5,176**
Additions	-	-	-	4,605	1,312	7	5,924
Share of profit	384	144	1,054	-	-	13	1,595
Disposals	-	-	-	-	-	-	-
Dividends received	(396)	(125)	-	-	-	(8)	(529)
As at 31 December 2019	**1,950**	**305**	**3,917**	**4,605**	**1,312**	**77**	**12,166**

(in million of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

	Praxair Azot Togliatti	Other associates	JV Linde Azot Togliatti	JV Granifert	Other joint ventures	Total
As at 1 January 2018	**1,853**	**243**	**2,802**	**382**	**58**	**5,338**
Additions	-	50	-	-	-	50
Share of profit	357	60	61	70	14	562
Disposals	-	(28)	-	(452)	-	(480)
Dividends received	(248)	(39)	-	-	(7)	(294)
As at 31 December 2018	**1,962**	**286**	**2,863**	**-**	**65**	**5,176**

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:

	2019	2018
Assets:		
Non-current assets	2,794	2,828
Current assets, including cash and cash equivalents of RUB 188 (2018: RUB 146)	1,338	1,292
Liabilities:		
Non-current liabilities, including deferred tax liabilities RUB 62 (2018 : RUB 35)	(62)	(35)
Current liabilities	(170)	(161)
Net assets	**3,900**	**3,924**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**1,950**	**1,962**
Summarised statement of profit or loss		
Revenue	2,347	2,110
Cost of sales	(1,453)	(1,286)
Other income/(expenses)	(10)	9
Finance income	27	-
Income tax expense	(143)	(119)
Profit after tax	**768**	**714**
Total comprehensive income	**768**	**714**
Share of profit of the associate	**384**	**357**

As at 31 December 2019 the associate had capital commitments for the purchase of property, plant and equipment in the amount of RUB 9 and had no contingent liabilities (31 December 2018: the associate had 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 million 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:

	2019	2018
Assets:		
Non-current assets	13,591	15,560
Current assets, including cash and cash equivalents of RUB 292 (2018 : RUB 388)	1,510	1,425
Liabilities:		
Non-current liabilities, including deferred tax liabilities of RUB 168 (2018: RUB 191) and euro-denominated long-term borrowings of RUB 4,354 (2018: RUB 7,990)	(4,522)	(8,182)
Current liabilities, including euro-denominated short-term borrowings of RUB 2,382 (2018: RUB 2,619)	(2,745)	(3,077)
Net assets	**7,834**	**5,726**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**3,917**	**2,863**
Summarised statement of profit or loss		
Revenue from sales	6,449	6,455
Cost of sales including amortisation of RUB 1,771 (2018: RUB 1,766)	(4,817)	(4,538)
Other income/(expenses)	1,298	(1,423)
Finance (costs)	(300)	(433)
Income tax benefit/(expense)	(522)	61
Profit after tax	**2,108**	**122**
Total comprehensive income	**2,108**	**122**
Share of profit of the joint venture	**1,054**	**61**

As at 31 December 2019 the joint venture had neither contingent liabilities nor capital commitments for the purchase of property, plant and equipment from third parties (31 December 2018: neither contingent liabilities nor capital commitments for the purchase of property, plant and equipment from third parties).

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

At the end of 2019, the Group lost control of **Volgatechnool** subsidiary as it admitted an independent party as a new shareholder with the share amounting to RUB 1,235, entered into an agreement on the exercise of participants' rights and issued option agreements. The Group recognised the loss of control over the subsidiary in the amount of RUB 348 in the consolidated statement of comprehensive income.

In 2019 the Group concluded a call option and a put option to acquire a share in the joint venture, and the Group may use the option starting from July 2022. As at 31 December 2019 the Group assessed probability of the options and recognised in its derivative financial liabilities a put option liability of RUB 188, which gives the independent party a right to sell its 49% share in Volgatechnool until 2039.

Volgatechnool was established to produce sulphuric acid and oleum for the Group's own needs. Production is planned to start in 2022. Volgatechnool is located in Togliatti, the Samarskaya oblast of the Russian Federation.

(in million of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

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

	2019
Assets:	
Non-current assets	4,632
Current assets, including cash and cash equivalents of RUB 188	738
Liabilities:	
Non-current liabilities, including long-term borrowings, of RUB 2,704	(2,704)
Current liabilities	(93)
Net assets	**2,573**
Proportion of the Group's ownership	51%
Carrying amount of the investment	**1,312**

As at 31 December 2019 the joint venture had no contingent liabilities and had RUB 2,189 of capital commitments for the purchase of property, plant and equipment from third parties.

As at 31 December 2019 collateral issued by the Group for the joint venture in the form of pledged share in the joint venture and securities as collateral for the loans received amounted to RUB 1,535.

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

At the end of 2019, the Group lost control of **Volgafert** subsidiary as it had made several amendments to the agreement on the exercise of participants' rights and issued option agreements. The Group recognised the loss of control over the subsidiary in the amount of RUB 1,886 in the consolidated statement of comprehensive income.

In 2019 the Group concluded a call option and a put option to acquire a share in the joint venture, and the Group may use the option starting from 2025. As at 31 December 2019 the Group assessed probability of the options and recognised in its derivative financial liabilities a put option liability of RUB 1,886, which gives the independent party a right to sell its 32% share in Volgafert until 2069.

Volgafert was established to produce urea for the Group's own needs. Production is planned to start in 2022. Volgafert is located in Togliatti, the Samarskaya oblast of the Russian Federation.

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

	2019
Assets:	
Non-current assets	8,764
Current assets, including cash and cash equivalents of RUB 955	1,507
Liabilities:	
Non-current liabilities, including deferred tax liabilities of RUB 1 and euro-denominated long-term borrowings of RUB 3,481	(3,482)
Current liabilities	(17)
Net assets	**6,772**
Proportion of the Group's ownership	68%
Carrying amount of the investment	**4,605**

As at 31 December 2019 the joint venture had no contingent liabilities and had RUB 6,935 of capital commitments for the purchase of property, plant and equipment from third parties.

(in million of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

As at 31 December 2019 collateral issued by the Group for the joint venture in the form of pledged share in the joint venture as collateral for loans received amounted to RUB 4,054.

Volgafert 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:

	2019	**2018**
Assets:		
Non-current assets	106	118
Current assets	464	374
Liabilities:		
Non-current liabilities	(86)	(75)
Current liabilities	(179)	(131)
Net assets	**305**	**286**
Investments in associates	**305**	**286**
Revenue	2,218	2,053
Expenses	(2,074)	(1,993)
Profit after tax	**144**	**60**
Total comprehensive income	**144**	**60**

The Group holds other joint ventures that are cumulatively immaterial.

15 Financial assets

Current financial assets include:

	2019	**2018**
Short-term portion of a loan issued to a joint venture (euro-denominated): 4% (2018: 4%)	946	1,046
Short-term portion of housing loans allowed to employees: 0% - 15% (2018: 0% - 15%)	83	84
Promissory notes issued to a joint venture: 0%	573	-
Other	33	28
	1,635	**1,158**

Non-current financial assets include:

	2019	**2018**
Long-term portion of a loan issued to a joint venture (euro-denominated): 4% (2018: 4%)	261	1,638
Long-term housing loans allowed to employees: 0% - 15% (2018: 0% - 15%)	359	386
Borrowings issued to a joint venture: 0%	25	-
Other	13	55
	658	**2,079**

Long-term loans to employees have different maturity dates up to the year 2039 (2018: up to 2038).

(in million of Russian rubles unless otherwise stated)

16 Loans and borrowings

Short-term loans and borrowings

	Interest rate	Currency	2019	2018
Current portion of long-term loans and borrowings				
International Finance Corporation	LIBOR 6+4.125%	US dollars	546	712
Russian Foundation for Technological Development	5%	Rubles	150	50
Sberbank	EURIBOR 6 +1.3%-1.35%	Euros	145	145
Rosbank	EURIBOR 6+0.85%-1.4%	Euros	79	98
Ak Bars Bank	8%	Rubles	-	729
Raiffeisenbank	EURIBOR 6+1.6%	Euros	-	23
Other			5	6
Total current portion of long-term loans and borrowings			**925**	**1,763**
Short-term loans and borrowings				
Gazprombank	8.2%-8.35%	Rubles	1,459	-
International Finance Corporation	12%	Rubles	640	666
Ak Bars Bank	7.7%	Rubles	491	-
Praxair Azot Togliatti	0%	Rubles	470	350
Societe Generale (China) Limited	4.43%	US dollars	126	-
Other			41	40
Total short-term loans and borrowings			**3,227**	**1,056**
Interest on loans and borrowings			12	53
			4,164	**2,872**

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

	2019	2018
Borrowing denominated in:		
- Russian rubles	3,258	1,872
- US dollars	678	733
- euros	228	267
	4,164	**2,872**

Long-term loans and borrowings

	Interest rate	Maturity date	Currency	2019	2018
Sberbank	8.54% - 8.58%	2022-2026	Rubles	9,087	7,026
Gazprombank	7.6% - 8.35%	2021-2028	Rubles	3,283	5,046
Rosbank	5% - 5.76%	2022-2024	US dollars	2,576	2,529
Raiffeisenbank	2.1%-3.22%	2021-2024	Euros	1,942	-
International Finance Corporation	LIBOR 6+4.125%	2021-2023	US dollars	1,639	2,452
Banca Intesa	1.9%-2.82%	2021-2024	Euros	654	153
Gazprombank	5.95%	2021-2028	US dollars	433	486
Rosbank	EURIBOR 6+0.55%-1.4%	2021-2022	Euros	418	569
Gazprombank	3%	2024-2028	Euros	244	280
Russian Foundation for Technological Development	5%	2021	Rubles	75	225
Sberbank	EURIBOR 3, EURIBOR 6+1.25% - 2.2%	2020-2022	Euros	-	828
Ak Bars Bank	8%	2020	Rubles	-	729
Other				12	19
				20,363	**20,342**

(in million of Russian rubles unless otherwise stated)

16 Loans and borrowings (continued)

The maturity of long-term borrowings is as follows:

	2019	2018
Current	925	1,763
1 to 2 years	3,542	3,306
2 to 3 years	3,871	4,366
3 to 5 years	8,942	8,744
Over 5 years	4,008	3,926
	21,288	**22,105**
Less: Current portion	(925)	(1,763)
	20,363	**20,342**

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

	2019	2018
Borrowing denominated in:		
- Russian rubles	12,458	13,044
- US dollars	4 648	5,468
- euros	3 257	1,830
	20,363	**20,342**

Total amount of collateral issued by the Group for long and short-term borrowings is RUB 8,793 (2018: RUB 8,505), which 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 2018	Changes in cash flows	Changes in currency rates	Other	31 December 2019
Short-term loans and borrowings	2,872	1,396	(485)	381	4,164
Long-term loans and borrowings	20,342	3,118	(550)	(2,547)	20,363
Total	**23,214**	**4,514**	**(1,035)**	**(2,166)**	**24,527**

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 liabilities

Other current liabilities

	2019	2018
Salaries payable	539	537
Dividends payable	193	13
Other	148	320
	880	**870**

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

As at 31 December 2019 other liabilities comprise a guarantee issued to a related party for its liabilities to financial institutions. The Group expects no liabilities to arise in relation to these payments. As at 31 December 2019 fair value of the guarantee calculated in accordance with IFRS 9 using the analysis of peers' credit ratings amounted to RUB 136 for the non-current portion and to RUB 24 for the current portion.

(in million of Russian rubles unless otherwise stated)

18 Other than income taxes payable

	2019	2018
Payments to the Pension Fund and other social taxes	95	98
Personal income tax	25	27
Property tax	32	13
Other taxes	105	110
	257	**248**

The Group had no tax liabilities past due at 31 December 2019 and 31 December 2018.

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 3 years, the last valuation was performed in December 2019.

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 2019	31 December 2018
Current service cost	15	13
Interest cost on benefit obligation	27	37
Net benefit expenses	**42**	**50**

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

	Post-employment pension
Defined benefit obligation at 01 January 2018	**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**
Current service cost	15
Interest expense	27
Contributions by employer	(16)
Actuarial gain recorded in other comprehensive income, including:	67
- changes in financial assumptions	24
- experience adjustment	43
Defined benefit obligation at 31 December 2019	**502**

(in million of Russian rubles unless otherwise stated)

19 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	31 December 2019	**31 December 2018**
Discount rate	6.7%	8.8%
Salary increase	10.1%	11.3%
Mortality rate (Russian statistics data for 2018)	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%

A quantitative sensitivity analysis for significant assumption as at 31 December 2019 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	(31)	35	50	(44)

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	20	(23)	4	(5)

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 2019	**31 December 2018**
Within the next 12 months (next annual reporting period)	65	56
Between 2 and 5 years	44	46
Between 5 and 10 years	277	259
Over 10 years	767	575
Total expected payments	**1,153**	**936**

The average duration of the defined benefit plan obligation at the end of the reporting period is 12 years (2018: 12 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 2018	**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)**
Ordinary shares purchased	-	-	-	-	-	**-**
Treasury shares purchased	-	-	(822)	(822)	-	(112)
Treasury shares disposed	-	-	-	-	-	-
As at 31 December 2019	**3,697**	**234,148**	**(60,170)**	**177,675**	**634**	**(3,897)**

The total number of authorised ordinary shares is 549,148 thousand shares (31 December 2018: 549,148 thousand) and preference shares is 138,897 thousand shares (31 December 2018: 138,897 thousand) with a nominal value of 1 ruble per share of both types.

Shares that were purchased before 31 December 2019 from shareholders and that were not cancelled are held as 'treasury shares'. At 31 December 2019 KuibyshevAzot, Togliattichiminvest, Kuibyshevazot-invest and Activinvest held 58,688 thousand ordinary and 1,482 thousand preference shares of the Company (31 December 2018: 57,866 thousand ordinary and 1,482 thousand preference shares).

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:

	2019	2018
Dividends payable at 1 January	**13**	**200**
Dividends declared during the year	1,249	733
Dividends paid during the year	(1,069)	(920)
Dividends payable at 31 December	**193**	**13**
Dividends per share declared during the year, rubles	**7**	**4**

In 2019 the Company declared 2 rubles of interim dividends for 2019 per share for both ordinary and preference shares and final dividends for 2018 of 5 rubles per share for both ordinary and preference shares (2018: 2 rubles of interim dividends, 2 ruble of final dividends for 2017).

(in million of Russian rubles unless otherwise stated)

21 Revenue from sales

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

	For the year ended 31 December 2019			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilisers**	**Other**	**Total**
Type of goods or service				
Caprolactam and derivatives	29,997	-	-	29,997
Ammonia and nitrogen fertilisers	-	20,611	-	20,611
Other	-	-	6,833	6,833
Total revenue from contracts with customers	**29,997**	**20,611**	**6,833**	**57,441**
Geographical markets				
Russia	9,106	13,672	6,472	29,250
Asia	14,292	-	-	14,292
Europe	4,471	2,553	51	7,075
Other	2,128	4,386	310	6,824
Total revenue from contracts with customers	**29,997**	**20,611**	**6,833**	**57,441**
Timing of revenue recognition				
Goods transferred at a point in time	29,997	20,611	5,134	55,742
Services transferred at a point in time	-	-	1,699	1,699
Total revenue from contracts with customers	**29,997**	**20,611**	**6,833**	**57,441**

	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**

For the year ended 31 December 2019 the Group recognised provision for expected credit losses on trade and other receivables, included under General and administrative expenses in the consolidated statement of comprehensive income, amounting to RUB 17 (year ended 31 December 2018: RUB 26).

(in million of Russian rubles unless otherwise stated)

22 Cost of sales

	2019	2018
Raw materials	32,465	33,041
Heat energy and electricity	4,507	4,379
Labour costs	3,735	3,676
Depreciation and amortisation	3,224	2,703
Other	746	1,157
Changes in finished goods and work in progress	(512)	157
	44,165	**45,113**

23 Distribution costs

	2019	2018
Transportation costs	5,472	5,165
Labour costs	464	476
Materials	263	252
Depreciation and amortisation	121	125
Other	409	498
	6,729	**6,516**

24 General and administrative expenses

	2019	2018
Labour costs	1,770	1,429
Third party services	358	450
Taxes other than income tax	180	223
Consultancy services	141	140
Depreciation and amortisation	69	59
Materials	69	52
Insurance	50	39
Other	353	223
	2,990	**2,615**

25 Other operating income

	2019	2018
Compensation received from the federal budget	1,448	1,553
Disposal of inventory	169	191
Foreign exchange gains on operating activities	-	291
Gain on a bargain purchase	-	44
Other	-	5
	1,617	**2,084**

26 Other operating expenses

	2019	2018
Social expenses	232	380
Foreign exchange loss on operating activities	121	-
Loss on disposal of property, plant and equipment	80	87
Expenses for elimination of damage caused by fire	-	10
Other	60	68
	493	**545**

(in million of Russian rubles unless otherwise stated)

27 Finance income

	2019	2018
Interest income	298	271
Foreign exchange gains on financing activities	681	-
Other	1	19
	980	**290**

28 Finance costs

	2019	2018
Interest expense	1,911	1,820
Less capitalised borrowing costs	(198)	(375)
Foreign exchange loss on financing activities	-	1,230
Other	41	-
	1,754	**2,675**

29 Income tax

	2019	2018
Current income tax expense	835	1,774
Adjustments for current income tax of prior years	(110)	(73)
Deferred tax (benefit)/expense relating to profit or loss	13	122
Income tax expense recognized in profit or loss	**738**	**1,823**
Deferred tax (benefit)/expense relating to items recognized in OCI	(14)	10
Income tax (benefit)/expense recognised in OCI	**(14)**	**10**
Income tax expense for the year	**724**	**1,833**

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

	2019	2018
Profit before tax	**3,268**	**9,309**
Theoretical tax charge at statutory rate of 20%	654	1,862
Effect of other income tax rates	11	7
Share of loss/(profit) of associates and joint ventures	(319)	(88)
Recalculation of current income tax of prior periods	(110)	(73)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Social expenses	63	119
Loss on disposal of subsidiaries	447	-
Other non-deductible expenses/(non-taxable income)	(22)	6
Income tax expense including effect of other comprehensive income/(loss)	**724**	**1,833**

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% (2018: 20%).

29 Income tax (continued)

	1 January 2018	Origination/ (reversal) of temporary difference	31 December 2018	Origination/ (reversal) of temporary difference	31 December 2019
Tax effects of temporary differences:					
Trade and other receivables	24	(9)	15	(2)	13
Other liabilities	138	29	167	16	183
Financial assets	27	(37)	(10)	40	30
Property, plant and equipment	(1,139)	(242)	(1,381)	(77)	(1,458)
Intangible assets	37	100	137	21	158
Inventories	(267)	43	(224)	(24)	(248)
Other	(1)	(6)	(7)	13	6
Net deferred tax liabilities, including:	**(1,181)**	**(122)**	**(1,303)**	**(13)**	**(1,316)**
Deferred tax assets	226		319		390
Deferred tax liabilities	(1,407)		(1,622)		(1,706)

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 7,676 (2018: RUB 6,234) 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.

	2019	2018
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)	(59,459)	(52,361)
Weighted average number of ordinary and preference shares outstanding (thousands)	178,386	185,484
Profit attributable to equity holders of the Company	**2,537**	**7,414**
Earnings per share (in rubles):		
-basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	**14.22**	**39.97**

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

31 Contingencies, commitments and operating risks

31.1 Commitments and guarantees

As at 31 December 2019 and 31 December 2018 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RUB 3,112 and RUB 2,845 respectively, designated for construction of new and modernisation of existing production facilities.

Fair value of the guarantee of its share of the joint venture's contingent liabilities, calculated in accordance with IFRS 9 using the analysis of peers' credit ratings is included in Other liabilities in the amount of RUB 160 (Note 17).

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.

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 2019, 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, a permanent representative office, as well as the approach to taxation of controlled foreign companies in the Russian Federation. In addition, from 2019, general VAT rate increased 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.

The legislation concerning preparation of the multinational enterprise group (MNE) documentation has been implemented in relation to financial years starting on or after 1 January 2017. The law requires preparation of the three-tier transfer pricing documentation (master file, local file, country-by-country report (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.

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 2019 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.

31 Contingencies, commitments and operating risks (continued)

31.2 Taxation (continued)

Starting from 1 January 2019, a threshold of RUB 60 million, applies for cross-border transactions to be classified as controlled for transfer pricing purposes. A threshold of RUB 60 million applies for cross-border transactions between unrelated parties concerning sale of commodities or in case a party to transactions is located in a low-tax jurisdiction. Also, starting from 1 January 2019, significant number of domestic transactions were excluded from the transfer pricing control. Related-party transactions remaining under transfer pricing control are those exceeding RUB 1 billion per year and meeting one of the following conditions: apply different tax rates on profits, 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. 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.

For those domestic transactions which fall outside the transfer pricing control from 2019, there is still a possibility for the local tax authorities to audit those from the perspective of the unjustified tax benefit. When doing so, pricing policy in those domestic transactions may be examined using the transfer pricing methods.

The legislation concerning preparation of the multinational enterprise group (MNE) documentation applies to financial years starting on or after 1 January 2017. The law requires preparation of the three-tier transfer pricing documentation (master file, local file, country-by-country report (CbCR)) and a notification concerning participation in the MNE. These rules apply to the MNE with a consolidated revenue RUB 50 billion in 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 2019 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 RUB 649 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.

(in million of Russian rubles unless otherwise stated)

31 Contingencies, commitments and operating risks (continued)

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.

32 Principal subsidiaries

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

Name	Country of incorporation	Activity	2019 % ownership	2019 % voting	2018 % ownership	2018 % 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	Ammonium sulfate production	100%	100%	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.

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 the CBR. At 31 December 2019 approximately 45% of the Group’s borrowings are at a fixed rate of interest (31 December 2018: 57%).

(in million of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33. 3 Interest rate risk (continued)

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
2019			
LIBOR	High	0.35%	(8)
EURIBOR	High	0.15%	(1)
Key rate of the CBR	High	1.00%	(65)
LIBOR	Low	-0.35%	8
EURIBOR	Low	-0.15%	1
Key rate of the CBR	Low	-1.00%	65
2018			
LIBOR	High	0.50%	(15)
EURIBOR	High	0.20%	(3)
Key rate of the CBR	High	0.75%	(39)
LIBOR	Low	-0.15%	5
EURIBOR	Low	-0.01%	-
Key rate of the CBR	Low	-0.75%	39

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 49% of the Group's sales are denominated in currencies other than rubles - the functional currency of the Company, whilst almost 81% 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.

		Increase/decrease in basis points	Effect on profit before tax
2019			
Euros	High	13.00%	(345)
US dollars	High	13.00%	(639)
Chinese yuans	High	13.00%	69
Euros	Low	-11.00%	292
US dollars	Low	-11.00%	541
Chinese yuans	Low	-13.00%	(69)
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)

(in million of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of available credit facilities (31 December 2019: RUB 19,251; 31 December 2018: RUB 21,417) 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 2019 based on contractual undiscounted payments.

Year ended 31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans and borrowings	1,694	3,944	20,034	4,363	30,035
Lease liabilities	59	173	90	345	667
Trade and other payables	2,760	-	-	-	2,760
Financial guarantee	2	22	145	-	169
Derivative financial instruments	-	-	-	2,074	2,074
	4,515	**4,139**	**20,269**	**6,782**	**35,705**

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
Lease liabilities	-	-	-	-	-
Trade and other payables	4,365	-	-	-	4,365
Financial guarantee	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
	5,976	**2,797**	**20,194**	**4,427**	**33,394**

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 2019 and 2018.

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 2019 and 31 December 2018, 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.

(in million of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.7 Fair values (continued)

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.

The fair value of options to buy or sell stock is determined using a binomial model. The valuation requires management to make certain assumptions about the model inputs, including fair value of the underlying asset at the reporting date, credit risk/spread, dividends and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these non-listed equity investments.

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of fair value to the input**
Options to buy or sell stock of Volgatechnool	Binomial model	Volatility	2019: 38.12%	An increase (decrease) in the volatility by 7% will lead to an increase (decrease) in fair value by RUB 2
		Credit risk/spread	2019: 1.95%	An increase (decrease) in the credit risk/spread by 1% will lead to an increase (decrease) in fair value by RUB 5
		Return on dividends	2019: 12%	An increase (decrease) in the return on dividends by 2% will lead to an increase (decrease) in fair value by RUB 4
		Fair value of the underlying asset	2019: RUB 1,235	An increase (decrease) in the fair value of the underlying asset by RUB 200 will lead to an increase (decrease) in fair value by RUB 30

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of fair value to the input**
Options to buy or sell stock of Volgafert	Binomial model	Volatility	2019: 27%	An increase (decrease) in the volatility by 7% will lead to an increase (decrease) in fair value by RUB 18
		Credit risk/spread	2019: 2.41%	An increase (decrease) in the credit risk/spread by 1% will lead to an increase (decrease) in fair value by RUB 100
		Return on dividends	2019: 5%	An increase (decrease) in the return on dividends by 2% will lead to an increase (decrease) in fair value by RUB 35
		Fair value of the underlying asset	2019:RUB 2,114	An increase (decrease) in the fair value of the underlying asset by RUB 300 will lead to an increase (decrease) in fair value by RUB 274

(in million of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.7 Fair values (continued)

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)**		**Assets and liabilities at fair value (Level 3)**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
FINANCIAL ASSETS:						
Cash and cash equivalents	891	3,869	891	3,869	-	-
Financial assets - current	1,635	1,158	1,635	1,158	-	-
Financial assets – non-current	658	2,079	658	2,079	-	-
Trade receivables	2,060	2,736	2,060	2,736	-	-
FINANCIAL LIABILITIES:						
Short-term loans and borrowings	4,164	2,872	4,164	2,872	-	-
Long-term loans and borrowings	20,363	20,342	20,363	20,342	-	-
Derivative financial instruments	2,074	-	-	-	2,074	-
Financial guarantee	160	-	160	-	-	-
Trade payables	1,904	3,495	1,904	3,495	-	-

34 Events after the reporting period

Since January 2020, governments in the Russian Federation, China, Hong Kong, Germany and Serbia, where the Company and its subsidiaries are located, implemented preventive measures to curb the spread of coronavirus (COVID-19) in the countries by imposing quarantines and restrictions on movement of foreign nationals, as well as restrictions on transportation. On 11 March 2020 the World Health Organization (WHO) declared the outbreak of a new type of coronavirus COVID-19 a pandemic. One of the negative effects of the pandemic on the world economy was volatility of the oil, currency and stock markets, resulting in a significant (more than 15%) increase in the exchange rates of world currencies against the Russian ruble (as at 17 March 2020 the CBR rate was 74.1262 rubles per U.S. dollar and 82.7471 rubles per euro). The extent to which these circumstances impact the Group's results will depend on future developments of the pandemic, measures undertaken by world governments and the response of the world economy to these events. At present, this impact cannot be reliably estimated.

In January 2020 KuibyshevAzot and Russian Agricultural Bank signed a Master agreement on procedures of making credit transactions with a limit of RUB 4 billion for a period of up to 31 December 2020, for the purpose of financing its operating activities.