

**Public Joint Stock  
Company “Chelyabinsk  
Pipe Plant”**

Consolidated Financial Statements  
For the Year Ended 31 December 2019 and  
Independent Auditor’s Report

# PJSC “CHELYABINSK PIPE PLANT”

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# PJSC "CHELYABINSK PIPE PLANT"



## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company") and its subsidiaries (the "Group") at 31 December 2019, and the consolidated results of its operations, cash flows and changes in equity for 2019, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 20 February 2020:



**Boris Kovalenkov**  
Chief Executive Officer



**Valeriy Borisov**  
Chief Financial Officer

20 February 2020

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of PJSC "Chelyabinsk Pipe Plant" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

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

### Key Audit Matters

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

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**Why the matter was determined to be a key audit matter****How the matter was addressed in the audit**

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**Test for non-current assets impairment**

Assets of cash generating units ("CGUs") with allocated goodwill of 6,989 million Roubles as of 31 December 2019 are tested for impairment annually. Also, at the end of each reporting period, the Group assesses whether there is evidence of impairment of assets in CGUs, which do not include goodwill, and, if any, makes an estimate of the recoverable amount of the assets. Carrying amount of fixed assets in such CGUs amounted to 32,322 million Roubles as of 31 December 2019.

Estimation of the value-in-use for both individual assets and CGUs requires a number of significant judgments and estimates including EBITDA margin, discount rate and growth rate. Also, taking into account the significance of the goodwill amount, impairment of goodwill related to the TPS division recognized in the reporting period, sensitivity of value-in-use to key assumptions, we identified impairment of non-current assets impairment as a key audit matter.

Refer to Note 16 to the consolidated financial statements.

During the audit we:

- Obtained an understanding of key controls over the assessment of non-current assets impairment indicators and test for goodwill impairment;
- Considered indications that may indicate possible impairment of individual assets and cash-generating units;
- Checked accuracy of allocation of carrying amount of goodwill to cash-generating units;
- Compared the data used in impairment models with approved budgets and forecasts;
- Assessed reasonableness of the assumptions used in management's forecasts based on actual results, market data and trends;
- Performed sensitivity analysis for key assumptions in the ranges of their possible change; and
- Analyzed completeness and accuracy of disclosures and their compliance with the requirements of IAS 36 "Impairment of assets".

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**Related parties transactions**

In the normal course of business, the Group has a significant number of transactions with related parties.

In the reporting period, such transactions, in particular, include:

- Issuance of short-term and long-term loans;
- Acquisition of current and non-current assets;
- Leases;
- Payments of long-term advances;
- Contributions to equity.

We consider this issue as a key, since the identification of related parties and analysis of transactions requires the use of professional judgment and staying alert throughout the audit, while the disclosure of related party transactions in the consolidated financial statements may affect the decisions of the users of financial statements.

Refer to Note 26 to the consolidated financial statements.

During the audit we:

- Obtained an understanding of Group's process for management's identification of related parties;
- Analyzed the agreements and documents for transactions taken place with related parties, and also management's conclusions that transactions carried out on arm's length terms;
- Analyzed terms of other transactions for existence of indicators that counterparties are related parties;
- Analyzed completeness and accuracy of disclosures for balances and transactions with related parties for their compliance with requirements of IAS 24 "Related party disclosures".

## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual report for 2019 (the "Annual report") and the Issuer's report for the first quarter of 2020 (the "Issuer's report"), but does not include the consolidated financial statements and our auditor's report thereon. The Annual report and the Issuer's report are expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report and the Issuer's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Svetsov Andrey Viktorovich,  
Partner



20 February 2020

The Company: PJSC "Chelyabinsk Pipe Plant"

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

Primary State Registration Number: 1027402694186.

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

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

Audit Firm: AO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444.

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

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

**PJSC "CHELYABINSK PIPE PLANT"**



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*(millions of Russian Roubles, unless otherwise stated)*

	Notes	<u>2019</u>	<u>2018</u>
Revenue	7	192,278	178,840
Cost of sales	8	<u>(138,087)</u>	<u>(134,554)</u>
<b>Gross profit</b>		<b>54,191</b>	<b>44,286</b>
Distribution costs	9	(12,835)	(9,357)
General and administrative expenses	10	(15,626)	(13,308)
Loss on disposal of property, plant and equipment and intangible assets		(63)	(7)
Impairment of assets	11	<u>(3,124)</u>	<u>(1,488)</u>
<b>Operating profit</b>		<b>22,543</b>	<b>20,126</b>
Finance income	12	374	417
Finance costs	12	(9,495)	(9,425)
Foreign exchange gain/(loss), net		181	(366)
Share of gain of associates		6	4
Dividend income		<u>-</u>	<u>9</u>
<b>Profit before income tax</b>		<b>13,609</b>	<b>10,765</b>
Income tax	13	<u>(3,654)</u>	<u>(3,039)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>9,955</u></b>	<b><u>7,726</u></b>
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Change in fair value of financial assets measured at fair value through other comprehensive income		268	(466)
Actuarial (losses)/gains on retirement benefits		(28)	25
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange rate (loss)/income on translating of foreign operations		<u>(454)</u>	<u>515</u>
<b>Other comprehensive (loss)/income for the year, net of income tax</b>		<b><u>(214)</u></b>	<b><u>74</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u><u>9,741</u></u></b>	<b><u><u>7,800</u></u></b>
<b>Profit/(loss) for the year attributable to:</b>			
Owners of the Company		9,942	7,821
Non-controlling interests		<u>13</u>	<u>(95)</u>
		<b><u>9,955</u></b>	<b><u>7,726</u></b>
<b>Total comprehensive income/(loss) for the year attributable to:</b>			
Owners of the Company		9,728	7,847
Non-controlling interests		<u>13</u>	<u>(47)</u>
		<b><u><u>9,741</u></u></b>	<b><u><u>7,800</u></u></b>
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	25	32.52	25.77



# PJSC "CHELYABINSK PIPE PLANT"



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

(millions of Russian Roubles, unless otherwise stated)

	Notes	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	47,627	47,628
Advances for capital construction and intangible assets		1,170	834
Right-of-use assets	15	2,674	-
Intangible assets		2,608	2,642
Goodwill	16	6,989	8,332
Investments in associates and joint ventures		-	111
Other financial assets	17	3,629	3,294
Loans receivable		375	565
Deferred tax assets	13	1,619	949
Trade and other receivables	19	268	144
Other non-current assets		169	110
<b>Total non-current assets</b>		<b>67,128</b>	<b>64,609</b>
<b>Current assets</b>			
Inventory	18	25,158	25,716
Trade and other receivables	19	33,622	27,999
Current income tax prepayment		255	948
Loans receivable		825	1,248
Cash and cash equivalents	20	21,112	21,554
<b>Total current assets</b>		<b>80,972</b>	<b>77,465</b>
<b>TOTAL ASSETS</b>		<b>148,100</b>	<b>142,074</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	21	1,616	2,498
Legal reserve		46	71
Translation reserve		1,623	2,077
Treasury shares	21	-	(19,309)
Actuarial gains reserve		307	335
Retained earnings		2,060	17,952
<b>Equity attributable to owners of the Company</b>		<b>5,652</b>	<b>3,624</b>
Non-controlling interests		96	187
<b>Total equity</b>		<b>5,748</b>	<b>3,811</b>
<b>Non-current liabilities</b>			
Borrowings	22	65,393	72,275
Accounts payable and accrued expenses	23	606	60
Deferred revenue		241	280
Retirement benefit obligations		254	216
Deferred tax liabilities	13	1,307	1,333
<b>Total non-current liabilities</b>		<b>67,801</b>	<b>74,164</b>
<b>Current liabilities</b>			
Borrowings	22	22,779	17,700
Accounts payable and accrued expenses	23	43,734	36,322
Advances from customers		3,646	6,955
Income tax payable		170	48
Other taxes payable	24	4,222	3,074
<b>Total current liabilities</b>		<b>74,551</b>	<b>64,099</b>
<b>Total liabilities</b>		<b>142,352</b>	<b>138,263</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>148,100</b>	<b>142,074</b>

# PJSC "CHELYABINSK PIPE PLANT"

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

(millions of Russian Roubles, unless otherwise stated)



	Notes	2019	2018
<b>Operating activities</b>			
Profit before income tax		13,609	10,765
Adjustments for:			
Depreciation and amortisation	8, 9, 10	7,948	6,893
Changes in pension and payroll accruals		173	(57)
Changes in allowance for inventory	8	(31)	148
Impairment of assets	11	3,124	1,488
Loss on disposals of property, plant and equipment and intangible assets		63	7
Share of gain of associates		(6)	(4)
Finance income	12	(374)	(417)
Finance costs	12	9,495	9,425
Foreign exchange (gain)/loss, net		(181)	372
Dividend income		-	(9)
Other non-cash movements		(62)	39
<b>Operating cash flows before working capital changes</b>		<b>33,758</b>	<b>28,650</b>
Movements in working capital			
(Increase)/decrease in accounts receivable and prepayments		(5,986)	7,610
Decrease in inventories		772	4,683
Increase/(decrease) in trade and other payables		1,658	(12,239)
<b>Cash generated from operations</b>		<b>30,202</b>	<b>28,704</b>
Income tax paid		(2,912)	(4,346)
Interest paid		(9,092)	(9,117)
Interest received		483	308
<b>Net cash generated from operating activities</b>		<b>18,681</b>	<b>15,549</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(7,007)	(4,425)
Purchase of intangible assets		(551)	(1,067)
Purchase of other non-current assets		(9)	(11)
Proceeds from sale of property, plant and equipment		339	19
Contribution to the associates and other companies		(2,624)	(40)
Dividends received		4	15
Proceeds from loans repaid		1,183	361
Loans given		(623)	(821)
<b>Net cash used in investing activities</b>		<b>(9,288)</b>	<b>(5,969)</b>
<b>Financing activities</b>			
Proceeds from borrowings		61,784	44,525
Repayment of borrowings		(64,259)	(42,684)
Payment of lease obligations		(985)	(141)
Dividends payment		(4,680)	(3,709)
Return of the government grant		(64)	-
Return of advance received for sale of treasury share		-	(1,190)
Cash paid to acquire non-controlling interest		(86)	(5,504)
<b>Net cash used in financing activities</b>		<b>(8,290)</b>	<b>(8,703)</b>
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		(1,545)	1,583
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(442)</b>	<b>2,460</b>
Cash and cash equivalents at the beginning of the year	20	21,554	19,094
<b>Cash and cash equivalents at the end of the year</b>	20	<b>21,112</b>	<b>21,554</b>

# PJSC "CHELYABINSK PIPE PLANT"



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(millions of Russian Roubles, unless otherwise stated)

	Equity attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Legal reserve	Translation reserve	Treasury shares	Actuarial gains reserve	Retained earnings			Total
<b>Balance at 1 January 2018</b>	<b>2,498</b>	<b>71</b>	<b>1,610</b>	<b>(19,608)</b>	<b>310</b>	<b>15,278</b>	<b>159</b>	<b>4,787</b>	<b>4,946</b>
Profit/(loss) for the year	-	-	-	-	-	7,821	7,821	(95)	7,726
Other comprehensive income/(loss)	-	-	467	-	25	(466)	26	48	74
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>-</b>	<b>467</b>	<b>-</b>	<b>25</b>	<b>7,355</b>	<b>7,847</b>	<b>(47)</b>	<b>7,800</b>
Dividends (Note 21)	-	-	-	-	-	(3,756)	(3,756)	-	(3,756)
Acquisition of non-controlling interest	-	-	-	-	-	(53)	(53)	(5,451)	(5,504)
Contribution to non-controlling interests	-	-	-	-	-	(898)	(898)	898	-
Disposal of treasury shares (Note 21)	-	-	-	299	-	26	325	-	325
<b>Balance at 31 December 2018</b>	<b>2,498</b>	<b>71</b>	<b>2,077</b>	<b>(19,309)</b>	<b>335</b>	<b>17,952</b>	<b>3,624</b>	<b>187</b>	<b>3,811</b>
Profit for the year	-	-	-	-	-	9,942	9,942	13	9,955
Other comprehensive (loss)/income	-	-	(454)	-	(28)	268	(214)	-	(214)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(454)</b>	<b>-</b>	<b>(28)</b>	<b>10,210</b>	<b>9,728</b>	<b>13</b>	<b>9,741</b>
Dividends (Note 21)	-	-	-	-	-	(7,704)	(7,704)	(6)	(7,710)
Acquisition of non-controlling interest	-	-	-	-	-	12	12	(98)	(86)
Acquisition of treasury shares (Note 21)	-	-	-	(2)	-	-	(2)	-	(2)
Share capital reduction and cancellation of treasury shares (Note 21)	(882)	(25)	-	19,311	-	(18,410)	(6)	-	(6)
<b>Balance at 31 December 2019</b>	<b>1,616</b>	<b>46</b>	<b>1,623</b>	<b>-</b>	<b>307</b>	<b>2,060</b>	<b>5,652</b>	<b>96</b>	<b>5,748</b>

## **1. GENERAL INFORMATION**

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

At 31 December 2019, Mr. A.I. Komarov is the ultimate controlling party of the Group and the immediate shareholder of the Company, who owns 77.2638% of the Company's issued share capital.

The Group has four reportable segments, namely steel pipe production ("SPP"), oilfield services ("OFS"), trunk pipeline systems ("TPS") and scrap procurement ("Scrap" or "Meta"). For more detailed description of activity of each segment refer to Note 6. The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group is one of the largest pipe producers in Russia holding significant domestic market share in welded large diameter pipes, oilfield tubular and stainless seamless pipes.

## **2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of compliance**

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

### **Financial condition and going concern**

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

### **Basis of consolidation**

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

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

If the Company obtains (loses) control over its subsidiaries during the reporting period, income and expenses of subsidiaries are included (excluded) in (from) the consolidated statement of comprehensive income from the effective date of obtaining (losing) of control as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

### **Goodwill**

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

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

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

#### **Recognition of revenue from contracts with customers**

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The transfer of the control occurs when the ownership of the asset is passed, under consideration that the transaction price allocated to the asset is fixed, measurable and the accounts receivable are chargeable from clients.

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer by using the most likely amount assessment.

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

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

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

#### **Property, plant and equipment**

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

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

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

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

The separated Component is classified to the same group as the repaired item of property, plant and equipment. The costs spent on the replacement of the Components and the costs of the Component itself are recognized as fixed assets and are depreciated over their useful life.

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At each reporting date, the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss 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.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or valuation less estimated residual value over their estimated useful lives.

**Financial instruments**

*Financial instruments classification*

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

- Measured at amortized cost. The assets of this category should meet the following conditions:
  - The financial asset is held within a business model which objective is to hold financial assets in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.The Group classified cash and cash equivalents, trade and other receivables, bank deposits and loans receivable as financial assets measured at amortised cost.
- Measured at fair value through other comprehensive income. This category includes financial assets which meet the following conditions:
  - The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.The Group classifies investments (other than in the Company or its subsidiaries) into this category if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling.
- Measured at fair value through profit or loss. Any financial assets that do not meet conditions for categories mentioned above are measured at fair value through profit or loss.

*Key principals to recognition and measurement*

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

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

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

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

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

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

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

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

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

*Derecognition of financial assets*

The Group derecognises a financial asset when and only when:

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

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

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



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

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

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

Previously recognised components of other comprehensive income relating to the financial asset transferred, excluding equity instruments that are not held for trading, are charged to gain/loss in the period. If, as a result of a transfer, a new financial asset is obtained or a new financial liability is assumed, the Group recognises the new financial asset, financial liability at fair value.

Previously recognised components of other comprehensive income relating to equity instruments that are not held for trading transferred are not charged to gain/loss in the period. Cumulative comprehensive income/loss is subsequently transferred from other comprehensive income to retained earnings.

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

*Impairment*

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

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

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

At the end of the reporting period the Group assesses the level of credit risks (default risk).

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Internal/external corporate credit rating;
- Company's credit losses;
- Historical credit loss experience;
- Forward-looking factors specific to the debtors;
- Forward-looking factors specific to the economic environment;
- Loss allowance at an amount equal to lifetime expected credit losses for financial instrument.

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



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

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

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

*Trade and other receivables*

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

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

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

*Loans receivable*

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

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

*Liabilities carried at amortised cost*

When a financial liability is recognised initially, it is measured at its fair value. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted using the effective interest rate method. Refer to Note 28 for the estimated fair values of borrowings.

*Borrowings*

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

*Trade and other payables*

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

*Equity instruments – share capital*

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

### **Advances paid**

Advances paid are carried at cost less allowance for impairment. An advance is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year from reporting date, or when the advance relates to an asset which itself will be classified as non-current upon initial recognition

### **Income tax**

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

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

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

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

### **Inventories**

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

### **Value added tax**

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

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

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**Provisions**

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

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

**Foreign currency translation**

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

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

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

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Exchange rates at the year-end (Russian roubles)</b>		
1 U.S. Dollar	61.9057	69.4706
1 Euro	69.3406	79.4605
1 Czech Koruna	2.7222	3.0883
	<u>2019</u>	<u>2018</u>
<b>Average exchange rates for the year (Russian roubles)</b>		
1 U.S. Dollar	64.7436	62.7078
1 Euro	72.5018	73.9546
1 Czech Koruna	2.8240	2.8794



### **3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

#### **Impairment of goodwill**

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

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

Goodwill was allocated to the following CGUs: Scrap, OFS and TPS. All CGUs were tested for impairment at 31 December 2019. Based on test results the excess of carrying value over recoverable amount of the TPS CGU in the amount of 981 was revealed and goodwill impairment was recognized for that amount (Note 16).

#### **Impairment of tangible assets**

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU. Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

At 31 December 2019, a number of property, plant and equipment and capital works-in-progress are shown net of an impairment provision in amount of 1,469 (31 December 2018: 1,274) as disclosed in Note 14.

#### **Deferred taxes**

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

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

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on estimates, the Group recognised at 31 December 2019 a deferred tax asset in the amount of 1,291 (31 December 2018: 694) in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits (Note 13).

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**Related party transactions**

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

**Accounts receivable**

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

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

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

At 31 December 2019, expected credit losses amounted to 2,937 (31 December 2018: 3,881) as disclosed in Note 19.

Estimating expected credit losses, the management reviews current overall economic conditions, ageing of the accounts receivable balances and other data:

- Internal/external corporate credit rating;
- Company`s credit losses;
- Historical credit loss experience;
- Forward-looking factors specific to the debtors;
- Forward-looking factors specific to the economic environment;
- Loss allowance at an amount equal to lifetime expected credit losses for financial instrument.

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

**Inventory obsolescence**

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, among other things, arm's length transactions in the period around the reporting date. At 31 December 2019, the allowance for inventory obsolescence amounted to 1,026 (31 December 2018: 1,165) as disclosed in Note 18.

**Useful life of property, plant and equipment**

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

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

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

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

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

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

**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

- IFRS 16 "Leases";
- Amendments to IAS 28 and IAS 10 - Long-term Interests in Associates and Joint Ventures;
- Amendments to IFRS 3 - Definition of a Business;
- Amendments to IAS 1 and IAS 8 - Definition of Material;
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform;
- Improvements to IAS 1 - Classification of Liabilities as Current or Non-Current;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2019 had no material effect on the consolidated financial statements of the Group, except for effect of application of IFRS 16 "Leases". The effect of the new standard is described below.

**IFRS 16 "Leases"**

In 2019, the Group adopted IFRS 16 "Leases" ("IFRS 16"). The standard requires lessees to recognize assets and liabilities of the lease contracts in the statement of financial position. The standard also includes a new definition of a lease and requirements for its presentation in financial reporting, and new requirements for leaseback transaction.

*Accounting policy principles*

The Group recognizes right-of-use assets and corresponding lease liabilities for all lease agreements, according to which the Group has the right to control the use of identifiable assets for a certain period of time in exchange for consideration, except for short-term contracts (the lease term does not exceed 12 months) and contracts with identifiable low-value assets. The Group identifies lease components within the contract as a lease separately from non-lease components of the contract. If non-lease components of the contract are not subject to a reliable estimate or their value is insignificant, the components of the contract are taken into account together.

The initial recognition of the lease liability is measured at the present value of the lease payments that were not paid at the commencement date, using the lessee's incremental borrowing rate. Lease payments include:

- Fixed payments under the contract;
- Variable lease payments that depend on the index or rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase option if the lessee is reasonably certain to exercise that option;
- Payments for early termination of the lease, if there is reasonable certainty that the contract will be terminated before the end of the lease term.



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Variable lease payments that are not fixed are not taken into account when estimating lease liabilities and are recognized as the expenses in the period (for example, if the lease payment depends on revenue).

Lease liabilities are reassessed when future lease payments change as a result of change of index/rate, change of the amounts payable by the lessee under guaranteed residual value, exercise or non-exercise of purchase options, or extension/termination of lease contract. Change of the lease liability is recognized as an adjustment to the value of the right-of-use asset or as an expense if the value of the asset is reduced to zero.

The initial valuation of the right-of-use asset includes:

- The amount of the initial measurement of the lease liability;
- Any initial direct costs incurred by the lessee;
- An estimate of costs to be incurred by lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset.

Right-of-use assets are depreciated on a straight-line basis. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In assessment of the lease term, the Group takes into account the following factors:

- Contractual terms and conditions for the optional periods compared with market rates;
- Costs relating to the termination of the lease;
- Intended use of identifiable assets;
- The importance of that underlying asset to the Group's operations.

The Group applies IAS 36 "Impairment of assets" to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

*IFRS 16 first adoption*

The Group applied the modified retrospective method with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group recognised:

- Lease liabilities for those leases previously classified as operating leases applying IAS 17 "Leases" ("IAS 17"). The lease liabilities were calculated based on the present value of the remaining lease payments, discounted using the incremental borrowing rates at the date of initial application;
- Right-of-use assets for those leases previously classified as operating 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.

The Group used the following practical expedients permitted by the standard when applying IFRS 16 for the first time:

- Usage of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Usage of hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- Exclusion of lease contracts maturing within 12 months of the date of initial application.

As a result of the application of IFRS 16, the Group has recognised lease liabilities and right-of-use assets in the amount of 2,493 in the consolidated statement of financial position. On initial application the balance relating to leased equipment previously included in property, plant and equipment was reclassified to "Right-of-use assets" in the consolidated statement of financial position. The corresponding lease obligations were included in "Borrowings" in the consolidated statement of financial position.

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The Group applied the following borrowing rates to discount its lease liabilities under the contracts:

- For liabilities denominated in Russian roubles – from 9.21% to 10.40%;
- For liabilities denominated in U.S. Dollar – from 5.05% to 6.27%.

The groups of right-of-use assets are depreciated over the following periods:

	<b>Depreciation period, years</b>
Plant and equipment	1-16
Buildings	1-5
Land	5-47
Infrastructure	1-8
Other	1-10

The effects of IFRS 16 first adoption on the Group's consolidated statement of financial position are presented below:

	<b>1 January 2019</b>
<b>Assets</b>	
Property, plant and equipment	(96)
Right-of-use assets	2,493
Advances for capital construction and intangible assets	(18)
Trade and other receivables	(33)
	<b>2,346</b>
<b>Liabilities</b>	
Non-current borrowings	1,544
Current borrowings	802
	<b>2,346</b>

The adoption of new standard had an effect on consolidated statement of comprehensive income for the year ended 31 December 2019. The Group recognised 1,069 of depreciation charges and 218 of interest expense from these leases.

The adoption of new standard had an effect on consolidated statement of cash flows for the year ended 31 December 2019. Cash flows from leases classified earlier as operating leases according to IAS 17 were included into cash flows from operating activities. On the implementation of IFRS 16 cash flows from operating leases in the amount of 870 were included into the cash flows from financing activities, except for the interest paid in the amount of 218, which was included in operating cash flows.

**New and revised IFRSs in issue but not yet effective**

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

- IFRS 17 "Insurance Contracts"<sup>1</sup>;
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"<sup>2</sup>;
- Amendments to applying IFRS 9 "Financial instruments with IFRS 4 Insurance Contracts"<sup>2</sup>.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

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



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5. SUBSIDIARIES

Principal subsidiaries included into consolidated financial statements of the Company and the Company's effective ownership interest of principal subsidiaries are as follows:

Subsidiary	Country of incorporation	Activities	Operating segment	31 December 2019	31 December 2018
JSC Pervouralsk Pipe Plant	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House	Russia	Pipe distribution	SPP	100.00%	100.00%
Chelpipe Finance DAC <sup>1</sup>	Ireland	Special purpose vehicle	-	-	-
LLC Meta	Russia	Scrap procurement	Scrap	100.00%	100.00%
LLC Meta-Invest	Russia	Rent of property	Scrap	100.00%	100.00%
JSC Pipeline Bends	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s.	Czech Republic	Manufacturing and distribution of pipeline valves	TPS	100.00%	100.00%
LLC ETERNO	Russia	Manufacturing and distribution of pressed and welded components of pipelines	TPS	100.00%	100.00%
OOO ALNAS	Russia	Manufacturing and distribution of pumps	OFS	100.00%	100.00%
PJSC Izhneftemash <sup>2</sup>	Russia	Manufacturing and distribution of pumps	OFS	94.35%	88.38%
OOO RIMERA-Service	Russia	Oilfield services	OFS	100.00%	100.00%

<sup>1</sup> A company organized and existing as a private limited company under the laws of Ireland. The Group does not have any equity in Chelpipe Finance DAC. It was established in July 2019 for the purpose of raising capital through the issuance of debt securities on the Irish Stock Exchange followed by transferring the proceeds through a loan facility to the Group (Note 22).

<sup>2</sup> Adjusted for preferred shares that belong to non-controlling interests.

In 2019, the Group acquired the non-controlling interest of PJSC Izhneftemash from a third party for a total amount of 86.

6. SEGMENT REPORTING

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

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

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

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



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

The segment information presented is based on the information reviewed by the CODM, which differs from the IFRS figures. In these consolidated statements reconciliations are provided for the differences between this information and the information included in the consolidated statements. Key differences are comprised of interdivisional consolidation adjustments made in the IFRS accounting and adjustments made from the date of preparation of information for analysis by management to the date of signing of the IFRS statements.

Segment revenue reviewed by CODM and disclosed in this note may differ from revenue streams disclosed in Note 7 as some companies in specific operating segment could have minor sale transactions of non-core products, which are included in different line in Note 7.

# PJSC "CHELYABINSK PIPE PLANT"

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Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2019 is as follows:

	Segment information as reviewed by CODM				Adjustments	Total
	Steel pipe production	Oilfield services	Trunk pipeline systems	Scrap procurement		
Revenue from external customers	166,150	13,566	5,340	7,222	-	192,278
Inter-segment revenue	4,190	1,289	2,604	20,005	(28,088)	-
Cost of sales	(121,997)	(11,448)	(6,230)	(26,427)	28,015	(138,087)
Distribution costs	(11,652)	(332)	(567)	(360)	76	(12,835)
General and administrative expenses	(12,332)	(1,751)	(881)	(660)	(2)	(15,626)
(Impairment)/reversal of impairment of assets	(2,353)	281	(996)	(55)	(1)	(3,124)
Share of gain of associates	-	6	-	-	-	6
Add back:						
Impairment of property, plant and equipment and intangible assets	247	6	-	-	-	253
(Reversal of impairment)/impairment of advances for capital construction and intangible assets	(41)	1	-	(1)	-	(41)
Impairment/(reversal of impairment) of loans receivable	63	(108)	-	34	-	(11)
Impairment/(reversal of impairment) of interest receivable	8	(215)	-	10	-	(197)
Impairment of goodwill	-	-	981	-	-	981
Social and charity expenses	275	6	2	-	-	283
Depreciation and amortisation	4,444	2,079	642	783	-	7,948
<b>Adjusted EBITDA</b>	<b>27,002</b>	<b>3,380</b>	<b>895</b>	<b>551</b>	<b>-</b>	<b>31,828</b>
Depreciation and amortisation	(4,444)	(2,079)	(642)	(783)	-	(7,948)
Impairment of property, plant and equipment	(237)	(6)	-	-	-	(243)
Impairment of intangible assets	(10)	-	-	-	-	(10)
Reversal of impairment/(impairment) of advances for capital construction and intangible assets	41	(1)	-	1	-	41
(Impairment)/reversal of impairment of loans receivable	(63)	108	-	(34)	-	11
(Impairment)/reversal of impairment of interest receivable	(8)	215	-	(10)	-	197
Impairment of goodwill	-	-	(981)	-	-	(981)
Social and charity expenses	(275)	(6)	(2)	-	-	(283)
Finance income	310	23	56	33	(48)	374
Finance costs	(9,118)	(235)	(21)	(169)	48	(9,495)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	24	(59)	(36)	8	-	(63)
Foreign exchange gain/(loss), net	184	1	(3)	(1)	-	181
Income tax	(3,861)	223	(68)	52	-	(3,654)
<b>Profit/(loss) for the year</b>	<b>9,545</b>	<b>1,564</b>	<b>(802)</b>	<b>(352)</b>	<b>-</b>	<b>9,955</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Segment information as reviewed by CODM				Adjustments	Total
	Steel pipe production	Oilfield services	Trunk pipeline systems	Scrap procurement		
Revenue from external customers	151,169	12,344	3,063	12,221	43	178,840
Inter-segment revenue	2,975	1,114	3,485	18,549	(26,123)	-
Cost of sales	(115,959)	(10,590)	(5,263)	(29,469)	26,727	(134,554)
Distribution costs	(7,835)	(297)	(307)	(449)	(469)	(9,357)
General and administrative expenses	(10,282)	(1,718)	(595)	(609)	(104)	(13,308)
(Impairment)/reversal of impairment of assets	(1,127)	(232)	19	(148)	-	(1,488)
Share of gain of associates	-	4	-	-	-	4
Dividend income	9	-	-	-	-	9
Add back:						
Impairment of property, plant and equipment and intangible assets	713	15	-	-	-	728
Impairment of advances for capital construction and intangible assets	25	-	-	-	-	25
Impairment/(reversal of impairment) of loans receivable and interest receivable	30	172	(1)	11	-	212
Social and charity expenses	217	1	1	-	-	219
Depreciation and amortisation	4,152	1,922	674	145	-	6,893
<b>Adjusted EBITDA</b>	<b>24,087</b>	<b>2,735</b>	<b>1,076</b>	<b>251</b>	<b>74</b>	<b>28,223</b>
Depreciation and amortisation	(4,152)	(1,922)	(674)	(145)	-	(6,893)
Impairment of property, plant and equipment and intangible assets	(713)	(15)	-	-	-	(728)
Impairment of advances for capital construction and intangible assets	(25)	-	-	-	-	(25)
(Impairment)/reversal of impairment of loans receivable and interest receivable	(30)	(172)	1	(11)	-	(212)
Social and charity expenses	(217)	(1)	(1)	-	-	(219)
Finance income	430	29	47	34	(123)	417
Finance costs	(9,202)	(245)	(20)	(38)	80	(9,425)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(86)	73	(1)	7	-	(7)
Foreign exchange (loss)/gain, net	(330)	(41)	4	1	-	(366)
Income tax	(2,533)	(178)	(202)	(116)	(10)	(3,039)
<b>Profit/(loss) for the year</b>	<b>7,229</b>	<b>263</b>	<b>230</b>	<b>(17)</b>	<b>21</b>	<b>7,726</b>

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Segment information related to the Group's consolidated statement of financial position at 31 December 2019 is as follows:

	Segment information as reviewed by CODM					Total
	Steel pipe production	Oilfield services	Trunk pipeline systems	Scrap procurement	Adjustments	
Non-current assets	82,677	11,188	11,894	2,704	(41,335)	67,128
Current assets	71,465	5,935	6,852	2,386	(5,666)	80,972
<b>Total assets</b>	<b>154,142</b>	<b>17,123</b>	<b>18,746</b>	<b>5,090</b>	<b>(47,001)</b>	<b>148,100</b>
Non-current liabilities	65,245	1,880	178	492	6	67,801
Current liabilities	68,296	6,010	3,569	2,082	(5,406)	74,551
<b>Total liabilities</b>	<b>133,541</b>	<b>7,890</b>	<b>3,747</b>	<b>2,574</b>	<b>(5,400)</b>	<b>142,352</b>

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

	Segment information as reviewed by CODM					Total
	Steel pipe production	Oilfield services	Trunk pipeline systems	Scrap procurement	Adjustments	
Non-current assets	81,522	9,112	13,971	1,607	(41,603)	64,609
Current assets	67,662	5,859	5,623	3,150	(4,829)	77,465
<b>Total assets</b>	<b>149,184</b>	<b>14,971</b>	<b>19,594</b>	<b>4,757</b>	<b>(46,432)</b>	<b>142,074</b>
Non-current liabilities	72,511	1,484	228	19	(78)	74,164
Current liabilities	58,224	5,779	2,611	2,138	(4,653)	64,099
<b>Total liabilities</b>	<b>130,735</b>	<b>7,263</b>	<b>2,839</b>	<b>2,157</b>	<b>(4,731)</b>	<b>138,263</b>

**Group's revenue: geographical segments**

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

	2019	2018
Russian Federation	136,672	142,678
Foreign countries	23,028	22,993
Commonwealth of Independent States	32,578	13,169
<b>Total revenue</b>	<b>192,278</b>	<b>178,840</b>

**Group revenue: major customers**

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

	2019	2018
Customer 1	19,596	24,395
Customer 2	17,986	21,312
Customer 3	13,961	17,733
<b>Total</b>	<b>51,543</b>	<b>63,440</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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### 7. REVENUE

	<u>2019</u>	<u>2018</u>
Domestic sales of pipes	112,131	112,620
Domestic sales of oilfield services	12,520	11,580
Domestic sales of scrap	7,636	12,578
Domestic sales of pipeline valves	3,718	5,237
Domestic sales of other goods	667	663
Export of pipes	50,522	33,717
Export of pipeline valves	4,203	1,855
Export of oilfield services	845	489
Export of scrap	32	30
Export of other goods	4	71
<b>Total revenue</b>	<b><u>192,278</u></b>	<b><u>178,840</u></b>

### 8. COST OF SALES

	<u>2019</u>	<u>2018</u>
Raw materials	85,950	78,253
Cost of goods for resale	14,558	15,605
Salaries and salary taxes	13,481	12,250
Production overheads and repairs	11,003	13,000
Energy and utilities	7,023	6,689
Depreciation and amortisation	6,609	5,966
Changes in balances of work in progress and finished goods	(506)	2,643
Changes in allowance for inventory obsolescence	(31)	148
<b>Total cost of sales</b>	<b><u>138,087</u></b>	<b><u>134,554</u></b>

### 9. DISTRIBUTION COSTS

	<u>2019</u>	<u>2018</u>
Transportation, surveyor and customs expenses	7,627	5,485
Commission	1,685	300
Salaries and salary taxes	1,629	1,479
Packing, storage and handling	1,089	965
Advertising and marketing expenses	337	661
Office expenditure	145	100
Depreciation and amortisation	94	59
Operating lease expenses	5	31
Insurance	3	94
Other	221	183
<b>Total distribution costs</b>	<b><u>12,835</u></b>	<b><u>9,357</u></b>

### 10. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2019</u>	<u>2018</u>
Salaries and salary taxes	8,142	6,870
Non-production overheads and repairs	3,401	2,943
Depreciation and amortisation	1,245	868
Consultancy, audit and legal services	964	814
Fines and penalties	906	359
Taxes other than income tax	523	833
Social and charity expenses	283	219
Insurance	46	36
Auxiliary materials	22	29
Other	94	337
<b>Total general and administrative expenses</b>	<b><u>15,626</u></b>	<b><u>13,308</u></b>

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**11. IMPAIRMENT OF ASSETS**

	<u>2019</u>	<u>2018</u>
Investments in associates and other companies	2,703	-
Goodwill (Note 16)	981	-
Property, plant and equipment and intangible assets	253	728
Trade and other receivables (Note 19)	(761)	707
Advances for capital construction and intangible assets	(41)	25
Loans receivable	(11)	28
<b>Total impairment of assets</b>	<b><u>3,124</u></b>	<b><u>1,488</u></b>

In 2019, the Group made a cash contribution of 2,303 to associate and at the same time recognized an impairment of the investment in this company as the management of the Group does not believe that investments are recoverable.

**12. FINANCE INCOME AND COSTS**

	<u>2019</u>	<u>2018</u>
Interest income on deposits and loans receivable	374	417
<b>Total finance income</b>	<b><u>374</u></b>	<b><u>417</u></b>
Interest cost on borrowings	9,253	9,380
Finance charges for lease liabilities	226	27
Interest cost on employee benefits liabilities	16	18
<b>Total finance costs</b>	<b><u>9,495</u></b>	<b><u>9,425</u></b>

**13. INCOME TAX**

Income tax comprises the following:

	<u>2019</u>	<u>2018</u>
Current tax	4,416	3,474
Deferred tax	(762)	(435)
<b>Total income tax</b>	<b><u>3,654</u></b>	<b><u>3,039</u></b>

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

	<u>2019</u>	<u>2018</u>
Profit before income tax	13,609	10,765
Theoretical income tax expense at statutory rate	2,722	2,153
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Impairment of investment in associates and other companies	541	-
- Goodwill impairment	196	-
- Non-deductible employee benefits	138	236
- Social costs	107	121
- Receivables and loans written-off during the year as uncollectible	(4)	103
- Other non-deductible expenses	567	401
- Unrecognised deferred tax assets	(613)	25
<b>Total income tax</b>	<b><u>3,654</u></b>	<b><u>3,039</u></b>

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

	1 January 2018	Credited/ (charged) to profit and loss	Credited to other comprehensive income	Effect of translating from functional to presentation currency	31 December 2018	Credited/ (charged) to profit and loss	Debited to other comprehensive income	Effect of translating from functional to presentation currency	31 December 2019
<b>Tax effects of deductible temporary differences:</b>									
Accounts payable and accruals	158	158	-	(2)	314	263	-	(2)	575
Accounts and loans receivable	402	91	-	5	498	(11)	-	(2)	485
Other deductible temporary differences	156	(35)	-	5	126	54	-	(5)	175
Inventories	(471)	94	-	3	(374)	480	-	-	106
Borrowings	(137)	19	-	1	(117)	504	-	(1)	386
Losses carried forward	708	(15)	-	1	694	596	-	1	1,291
Deferred revenue	53	(34)	-	-	19	(2)	-	-	17
<b>Total deductible temporary differences</b>	<b>869</b>	<b>278</b>	<b>-</b>	<b>13</b>	<b>1,160</b>	<b>1,884</b>	<b>-</b>	<b>(9)</b>	<b>3,035</b>
Set off of tax	(74)				(211)				(1,416)
<b>Deferred tax assets</b>	<b>795</b>				<b>949</b>				<b>1,619</b>
<b>Tax effects of taxable temporary differences:</b>									
Property, plant and equipment and intangible asset	(1,672)	166	-	(12)	(1,518)	(1,131)	-	9	(2,640)
Other financial assets	(133)	-	116	-	(17)	-	(66)	-	(83)
Other deductible temporary differences	-	(9)	-	-	(9)	9	-	-	-
<b>Total taxable temporary differences</b>	<b>(1,805)</b>	<b>157</b>	<b>116</b>	<b>(12)</b>	<b>(1,544)</b>	<b>(1,122)</b>	<b>(66)</b>	<b>9</b>	<b>(2,723)</b>
Set off of tax	74				211				1,416
<b>Deferred tax liabilities</b>	<b>(1,731)</b>				<b>(1,333)</b>				<b>(1,307)</b>

At 31 December 2019, unrecognized deferred tax assets are 1,881 (31 December 2018: 2,582), including unrecognized deferred tax assets on unused tax losses carried forward in the amount of 1,993 (31 December 2018: 2,550).

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



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (millions of Russian Roubles, unless otherwise stated)



### 14. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2018	530	34,504	3,904	69,562	5,250	2,930	116,680
Accumulated depreciation at 1 January 2018	-	(11,697)	(2,534)	(47,782)	(3,635)	-	(65,648)
Accumulated impairment at 1 January 2018	-	(149)	(60)	(321)	(15)	(227)	(772)
<b>Carrying amount at 1 January 2018</b>	<b>530</b>	<b>22,658</b>	<b>1,310</b>	<b>21,459</b>	<b>1,600</b>	<b>2,703</b>	<b>50,260</b>
<i>Changes in cost</i>							
Additions and transfers	17	275	78	4,934	468	409	6,181
Disposals	-	(231)	(18)	(2,663)	(369)	(237)	(3,518)
Reclassification	4	(1,885)	3,548	(1,930)	263	-	-
Effect of translating from functional to presentation currency	4	202	-	103	29	2	340
<i>Changes in depreciation</i>							
Depreciation charge	-	(729)	(246)	(5,948)	(319)	-	(7,242)
Disposals	-	114	10	1,814	302	-	2,240
Reclassification	-	611	(1,918)	1,505	(198)	-	-
Effect of translating from functional to presentation currency	-	(43)	-	(71)	(17)	-	(131)
<i>Changes in impairment</i>							
Impairment recognised	-	-	-	(25)	-	(676)	(701)
Impairment reversed	-	-	-	-	-	10	10
Disposals	-	9	-	21	-	159	189
Cost or valuation at 31 December 2018	555	32,865	7,512	70,006	5,641	3,104	119,683
Accumulated depreciation at 31 December 2018	-	(11,744)	(4,688)	(50,482)	(3,867)	-	(70,781)
Accumulated impairment at 31 December 2018	-	(140)	(60)	(325)	(15)	(734)	(1,274)
<b>Carrying amount at 31 December 2018</b>	<b>555</b>	<b>20,981</b>	<b>2,764</b>	<b>19,199</b>	<b>1,759</b>	<b>2,370</b>	<b>47,628</b>
Effect of initial application of IFRS 16 (cost)	-	-	-	(165)	(1)	-	(166)
Effect of initial application of IFRS 16 (depreciation)	-	-	-	69	1	-	70
<b>Carrying amount at 1 January 2019</b>	<b>555</b>	<b>20,981</b>	<b>2,764</b>	<b>19,103</b>	<b>1,759</b>	<b>2,370</b>	<b>47,532</b>
<i>Changes in cost</i>							
Additions and transfers	497	286	135	5,916	515	985	8,334
Disposals	(6)	(642)	(129)	(4,164)	(320)	(20)	(5,281)
Reclassification	-	(206)	317	(91)	(17)	(3)	-
Effect of translating from functional to presentation currency	(4)	(187)	-	(96)	(26)	(1)	(314)
<i>Changes in depreciation</i>							
Depreciation charge	-	(711)	(266)	(5,239)	(342)	-	(6,558)
Disposals	-	392	117	3,232	237	-	3,978
Reclassification	-	98	(179)	72	9	-	-
Effect of translating from functional to presentation currency	-	44	-	70	17	-	131
<i>Changes in impairment</i>							
Impairment recognised	-	(93)	(8)	(16)	-	(269)	(386)
Impairment reversed	-	1	-	-	-	147	148
Disposals	-	20	5	21	(3)	-	43
Cost or valuation at 31 December 2019	1,042	32,116	7,835	71,406	5,792	4,065	122,256
Accumulated depreciation at 31 December 2019	-	(11,921)	(5,016)	(52,278)	(3,945)	-	(73,160)
Accumulated impairment at 31 December 2019	-	(212)	(63)	(320)	(18)	(856)	(1,469)
<b>Carrying amount at 31 December 2019</b>	<b>1,042</b>	<b>19,983</b>	<b>2,756</b>	<b>18,808</b>	<b>1,829</b>	<b>3,209</b>	<b>47,627</b>

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**15. RIGHT-OF-USE ASSETS**

Movements in the carrying amount of the right-of-use assets were as follows:

	Plant and equipment	Buildings	Land	Infrastructure	Other	Total
<b>Carrying amount at 31 December 2018</b>	–	–	–	–	–	–
Effect of initial application of IFRS 16 (cost)	1,028	743	117	11	676	2,575
Effect of initial application of IFRS 16 (depreciation)	(77)	–	–	–	(5)	(82)
<b>Carrying amount at 1 January 2019</b>	<b>951</b>	<b>743</b>	<b>117</b>	<b>11</b>	<b>671</b>	<b>2,493</b>
<i>Changes in cost</i>						
Additions	231	844	88	1	18	1,182
Disposals	(13)	(54)	(23)	–	(8)	(98)
Revaluation due to change of contract value	92	45	17	1	–	155
Effect of translating from functional to presentation currency	(8)	–	–	–	–	(8)
<i>Changes in depreciation</i>						
Depreciation charge	(378)	(429)	(31)	(2)	(229)	(1,069)
Disposals	–	8	2	–	2	12
Effect of translating from functional to presentation currency	7	–	–	–	–	7
Cost at 31 December 2019	1,330	1,578	199	13	686	3,806
Accumulated depreciation at 31 December 2019	(448)	(421)	(29)	(2)	(232)	(1,132)
<b>Carrying amount at 31 December 2019</b>	<b>882</b>	<b>1,157</b>	<b>170</b>	<b>11</b>	<b>454</b>	<b>2,674</b>

Interest expense on lease liabilities for the year ended 31 December 2019 amounted to 226. These expenses were included into finance costs of the consolidated statement of comprehensive income.

For the year ended 31 December 2019, the Group recognised expenses for short-term leases in the amount of 20, leases for which the underlying asset is of low value in the amount of 23 and leases with variable lease payments in the amount of 122. These expenses were included in the cost of sales, distribution costs or general and administrative expenses of the consolidated statement of comprehensive income, depending on the intended use of an asset.

**16. GOODWILL**

Movements of goodwill allocated by CGUs are presented in the table below:

	2019	2018
Cost at 1 January	17,086	16,696
Accumulated impairment at 1 January	(8,754)	(8,754)
<b>Carrying amount at 1 January</b>	<b>8,332</b>	<b>7,942</b>
<i>Changes in cost</i>		
Effect of translating from functional to presentation currency (CGU TPS)	(362)	390
<i>Changes in impairment</i>		
Impairment recognised (CGU TPS)	(981)	–
Cost at 31 December	16,724	17,086
Accumulated impairment at 31 December	(9,735)	(8,754)
<b>Carrying amount at 31 December</b>	<b>6,989</b>	<b>8,332</b>

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

	31 December 2019	31 December 2018
TPS	5,587	6,930
Scrap	733	733
OFS	669	669
<b>Total</b>	<b>6,989</b>	<b>8,332</b>

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*Impairment test*

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

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

The Group tested goodwill for impairment at 31 December 2019 using following key assumptions for value-in-use calculations:

	<u>TPS</u>	<u>Scrap</u>	<u>OFS</u>
EBITDA margin	10%-14%	2-3%	25%-35%
Discount rate	15.08%	16.93%	15.12%
Terminal growth rate	3.00%	3.00%	3.00%

Based on test results the excess of carrying value over recoverable amount of the TPS CGU in the amount of 981 was revealed while for Scrap CGU and OFS CGU the recoverable amount exceeded the carrying value by 798 and 3,647 respectively. Loss on impairment of goodwill for TPS CGU was included to impairment of assets within the consolidated statement of comprehensive income.

*Sensitivity analysis*

Calculation of value-in-use for TPS CGU is most sensitive to the following assumptions: EBITDA margin, terminal growth rate and discount rate. Possible effects of changes in these assumptions are as follows:

- A decrease in the EBITDA margin by 1 percentage points would result in a further impairment of 943;
- A decrease in the terminal growth rate by 1 percentage point would result in a further impairment of 755;
- An increase in the discount rate by 1 percentage point would result in a further impairment of 1,089.

The recoverable amount of the Scrap CGU would be equal to its carrying value if the EBITDA margin decreased by 0.4 percentage points or applicable discount rate increased by 3.2 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decreased by 2.7 percentage points or applicable discount rate increased by 3.1 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

**17. OTHER FINANCIAL ASSETS**

In 2011, the Group acquired 30% of the ordinary share capital of CJSC TechnoInvest Alliance for a cash consideration of 3,213. The Group classifies investment to CJSC TechnoInvest Alliance as financial asset measured at fair value through other comprehensive income. At 31 December 2019, the fair value of investments in CJSC TechnoInvest Alliance was measured by independent professional appraiser and comprised 3,629 (31 December 2018: 3,294).

CJSC TechnoInvest Alliance has conducted exploration and evaluation of mineral resources, pilot testing of complex ore processing and developed a technology for production of rare and rare earth metals. Currently no operating activity is taking place, only design and survey works are being conducted.

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**18. INVENTORY**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Raw materials	11,786	14,570
Finished goods and goods for resale	7,932	6,247
Work in progress	6,466	6,064
Allowance for inventory obsolescence	<u>(1,026)</u>	<u>(1,165)</u>
<b>Total inventory</b>	<b><u>25,158</u></b>	<b><u>25,716</u></b>

**19. TRADE AND OTHER RECEIVABLES**

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Non-current</b>		
Interest receivable	561	60
Trade receivables	80	206
Other receivables	13	104
Expected credit losses of trade, interest and other receivables	<u>(490)</u>	<u>(229)</u>
<b>Total financial assets in long-term receivables</b>	<b><u>164</u></b>	<b><u>141</u></b>
Advances and prepayments	<u>104</u>	<u>3</u>
<b>Total non-financial assets in long-term receivables</b>	<b><u>104</u></b>	<b><u>3</u></b>
<b>Total non-current trade and other receivables</b>	<b><u>268</u></b>	<b><u>144</u></b>
<b>Current</b>		
Trade receivables	28,193	24,852
Other receivables	2,180	2,000
Interest receivable	185	805
Expected credit losses of trade, interest and other receivables	<u>(2,301)</u>	<u>(3,457)</u>
<b>Total financial assets in short-term receivables</b>	<b><u>28,257</u></b>	<b><u>24,200</u></b>
Advances and prepayments	3,150	1,916
VAT and other taxes recoverable	2,361	2,078
Allowance for impairment of advances and prepayments	<u>(146)</u>	<u>(195)</u>
<b>Total non-financial assets in short-term receivables</b>	<b><u>5,365</u></b>	<b><u>3,799</u></b>
<b>Total current trade and other receivables</b>	<b><u>33,622</u></b>	<b><u>27,999</u></b>
<b>Total trade and other receivables</b>	<b><u>33,890</u></b>	<b><u>28,143</u></b>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current due	25,621	23,332
1-30 days past due	2,240	1,650
31-60 days past due	788	213
61-90 days past due	476	88
91-180 days past due	230	268
181-365 days past due	438	979
More than 365 days	<u>1,419</u>	<u>1,497</u>
<b>Total trade, interest and other receivables</b>	<b><u>31,212</u></b>	<b><u>28,027</u></b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(millions of Russian Roubles, unless otherwise stated)

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current due	812	1,397
1-30 days past due	3	60
31-60 days past due	119	5
61-90 days past due	64	4
91-180 days past due	31	19
181-365 days past due	363	835
More than 365 days	<u>1,399</u>	<u>1,366</u>
<b>Total amount of expected credit loss of trade, interest and other receivables</b>	<b><u>2,791</u></b>	<b><u>3,686</u></b>

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current due	24,809	21,935
1-30 days past due	2,237	1,590
31-60 days past due	669	208
61-90 days past due	412	84
91-180 days past due	199	249
181-365 days past due	75	144
More than 365 days	<u>20</u>	<u>131</u>
<b>Net amount of trade, interest and other receivables less credit loss</b>	<b><u>28,421</u></b>	<b><u>24,341</u></b>

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

	<u>Trade, interest and other receivables</u>		<u>Advances and prepayments</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>At 1 January</b>	<b>3,686</b>	<b>1,448</b>	<b>195</b>	<b>99</b>
Effect of initial application of IFRS 9	-	1,772	-	-
<b>At 1 January (adjusted)</b>	<b>3,686</b>	<b>3,220</b>	<b>195</b>	<b>99</b>
Allowance recorded (Note 11)	932	1,995	62	121
Allowance reversed (Note 11)	(1,672)	(1,407)	(83)	(2)
Receivables written-off	(149)	(122)	(29)	(28)
Effect of translating from functional to presentation currency	(6)	-	1	5
<b>At 31 December</b>	<b><u>2,791</u></b>	<b><u>3,686</u></b>	<b><u>146</u></b>	<b><u>195</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**20. CASH AND CASH EQUIVALENTS**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Term deposits in U.S. Dollar (interest rate: 0.8% to 1.56% p.a.)	6,690	192
Term deposits in RUB (interest rate: 3.5% to 7.25% p.a.)	6,276	2,472
Cash on hand and balances with banks, RUB	3,591	9,695
Cash balances with banks, Euro and other currencies	3,391	8,760
Cash balances with banks, U.S. Dollar	1,163	411
Term promissory notes	<u>1</u>	<u>24</u>
<b>Total cash and cash equivalents</b>	<b><u>21,112</u></b>	<b><u>21,554</u></b>

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

**21. EQUITY**

At 31 December 2018, the total authorised number of ordinary shares was 472,382,880 shares with a par value of Russian Rouble 1 per share of which 472,382,880 ordinary shares were issued and fully paid. Each ordinary share carries one vote. At 31 December 2018, the Group held 166,666,132 treasury shares for a total amount of 19,309.

In May 2019, the Group purchased 20,412 of own shares from minority shareholders at a fixed price of Russian Roubles 114.42 per share totaling 2.

In June 2019, the Group reduced its share capital by 882 through repayment of 166,686,544 treasury shares. The difference between the total treasury stock reduction of 19,311 and the nominal value of the shares of 882 was reflected as a decrease in retained earnings.

Therefore, at 31 December 2019, the total authorized number of ordinary shares is 305,696,336 shares with a par value of Russian Rouble 1 per share. The Group has no treasury shares on its balance.

In 2019, the Company declared and paid dividends in the amount of 7,704 and 4,674 respectively (2018: 3,756 and 3,709 respectively).

**22. BORROWINGS**

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Non-current</b>		
Bonds payable	38,204	24,908
Loans with floating rates	15,672	14,281
Loans with fixed rates	8,709	32,065
Lease liabilities	1,697	24
Credit lines with fixed rates	715	997
Credit lines with floating rates	396	-
<b>Total</b>	<b><u>65,393</u></b>	<b><u>72,275</u></b>
<b>Current</b>		
Credit lines with fixed rates	6,243	4,180
Loans with floating rates	5,183	4,999
Bonds payable	4,988	-
Loans with fixed rates	3,801	7,558
Credit lines with floating rates	1,593	724
Lease liabilities	971	37
Other liabilities	-	202
<b>Total</b>	<b><u>22,779</u></b>	<b><u>17,700</u></b>
<b>Total borrowings</b>	<b><u>88,172</u></b>	<b><u>89,975</u></b>

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**Bonds payable**

Total amount of Group's bonds payable represents bonds of 001R programme issued by the Group in 2016-2017 and bonds issued on the Irish Stock Exchange in 2019.

Bonds of 001R programme are described below:

	<u>BO-001R-01</u>	<u>BO-001R-02</u>	<u>BO-001R-03</u>	<u>BO-001R-04</u>
Date of issue	December 2016	February 2017	March 2017	June 2017
Number of bonds	5,000,000	5,000,000	5,000,000	10,000,000
Par value, thousands of Russian Roubles	1	1	1	1
Bonds expiry date	December 2020	February 2022	March 2024	June 2027
Coupon rate, % p.a.	10.75	9.85	9.7	8.95
Coupon yield payment period	Semi-annually	Semi-annually	Quarterly	Semi-annually

Carrying amount of bonds of 001R programme is presented in the table below:

	<u>31 December 2019</u>	<u>31 December 2018</u>
BO-001R-01	4,988	4,976
BO-001R-02	4,990	4,986
BO-001R-03	4,993	4,991
BO-001R-04	9,860	9,955
<b>Total</b>	<b><u>24,831</u></b>	<b><u>24,908</u></b>

In September 2019, the Group issued bonds on the Irish Stock Exchange of U.S. Dollar 300 million with interest rate of 4.5% p.a. and maturity date in September 2024. Proceeds from issue of 19,359 were used for repayment of Group's borrowings ahead of the schedule. At 31 December 2019, the carrying amount of these bonds amounted to 18,361 and was included in non-current borrowings.

**Loans and credit lines**

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

During the year the Group entered into additional borrowing facilities, such as loans and credit lines denominated in Russian Roubles totaling 37,116 expiring in January 2020 - December 2024. These borrowings bear interest at rates varying between 3% to 15% p.a.

At 31 December 2019, the Group had available undrawn amounts under loans and credit lines totaling 72,829 (31 December 2018: 32,950).

The nominal interest rates are presented below:

	<u>Currency</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Loans and credit lines with fixed rates	RUB	3.0%-8.75%	8.4%-10.7%
Loans and credit lines with fixed rates	Euro	-	3.2%-3.79%
Loans with fixed rates	Other	3.0%	3.0%-4.03%
Loans and credit lines with floating rates	RUB	Key rate+1% - key rate +2.1% EURIBOR 3M+1.4% - EURIBOR 3M+1.9%;	10.5%; key rate+bank margin
Loans and credit lines with floating rates	Euro	LIBOR 1M + individual interest rate; EURIBOR 6M+0.75%	EURIBOR 3M+1.4% - EURIBOR 3M+1.9%; LIBOR 1M + individual interest rate
Loans and credit lines with floating rates	U.S. Dollar	LIBOR 3M+1.8%; LIBOR 3M+2.1%	LIBOR 3M+1.8%; LIBOR 3M+2.1%; LIBOR 1M + 1.4%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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The non-current borrowings maturity schedule, excluding the lease liabilities, is as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
1 to 2 years	9,985	16,258
2 to 3 years	12,740	12,857
3 to 4 years	7,561	15,267
4 to 5 years	23,548	12,922
More than 5 years	<u>9,862</u>	<u>14,947</u>
<b>Total non-current borrowings</b>	<b><u>63,696</u></b>	<b><u>72,251</u></b>

**Lease liabilities**

The lease liabilities maturity schedule at 31 December 2019 is presented as follows:

	<u>Minimum lease payments</u>	<u>Present value of minimum lease payments</u>
Due in 1 year	1,193	971
Due between 1 and 5 years	1,942	1,633
More than 5 years	<u>196</u>	<u>64</u>
<b>Total</b>	<b><u>3,331</u></b>	<b><u>2,668</u></b>

**Reconciliation of liabilities arising from financing activities**

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

	<u>1 January 2019</u>	<u>Effect of IFRS 16 adoption</u>	<u>Financing cash flows</u>	<u>Non-cash changes</u>	<u>31 December 2019</u>
Borrowings	89,914	-	(2,475)	(1,935)	85,504
Lease liabilities	<u>61</u>	<u>2,346</u>	<u>(985)</u>	<u>1,246</u>	<u>2,668</u>
	<b><u>89,975</u></b>	<b><u>2,346</u></b>	<b><u>(3,460)</u></b>	<b><u>(689)</u></b>	<b><u>88,172</u></b>
	<u>1 January 2018</u>	<u>Financing cash flows</u>	<u>Non-cash changes</u>	<u>31 December 2018</u>	
Borrowings	86,167	1,841	1,906	89,914	
Lease liabilities	<u>189</u>	<u>(141)</u>	<u>13</u>	<u>61</u>	
	<b><u>86,356</u></b>	<b><u>1,700</u></b>	<b><u>1,919</u></b>	<b><u>89,975</u></b>	

Major part of non-cash movements consists of the foreign exchange differences and recognition of right-of-use assets as a result of application of IFRS 16.



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#### 23. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>Non-current</b>		
Investment tax credit	606	60
<b>Total</b>	<u>606</u>	<u>60</u>
<b>Current</b>		
Trade payables	34,087	31,504
Wages and salaries payable (non-financial liabilities)	3,270	2,638
Dividends payable	3,076	47
Accrued liabilities and other creditors	2,564	1,669
Interest payable	593	464
Investment tax credit	144	-
<b>Total</b>	<u>43,734</u>	<u>36,322</u>
<b>Total accounts payable and accrued expenses</b>	<u><u>44,340</u></u>	<u><u>36,382</u></u>

#### 24. OTHER TAXES PAYABLE

	<u>31 December 2019</u>	<u>31 December 2018</u>
Value added tax	2,971	1,937
Social insurance contributions	972	816
Personal income tax	148	131
Property tax	105	164
Other taxes	26	26
<b>Total taxes payable</b>	<u><u>4,222</u></u>	<u><u>3,074</u></u>

#### 25. EARNINGS PER SHARE

For the year ended 31 December 2019, basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company in the amount of 9,942 (2018: 7,821) by the weighted average number of ordinary shares outstanding for the year ended 31 December 2019, excluding treasury shares, which comprised 305,704,333 shares (2018: 303,460,173 shares).

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

#### 26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

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The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2019 are detailed below:

	<u>Group's controlling shareholder</u>	<u>Entities controlled by the Group's controlling shareholder</u>	<u>Entities under significant influence of the Group's controlling shareholder</u>
Trade and other receivables	-	579	801
Loans receivable	-	318	465
Trade and other payables	(2,319)	(530)	(417)
Borrowings	-	(921)	-

Transactions with related parties for the year ended 31 December 2019 were as follows:

	<u>Group's controlling shareholder</u>	<u>Entities controlled by the Group's controlling shareholder</u>	<u>Entities under significant influence of the Group's controlling shareholder</u>
Revenue	-	18	637
Purchases	-	(308)	(634)
Distribution costs	-	(34)	(30)
General and administrative expenses	-	(1,631)	(434)
Finance income, net	10	94	26

Transactional cash flows with related parties for the year ended 31 December 2019 were as follows:

	<u>Group's controlling shareholder</u>	<u>Entities controlled by the Group's controlling shareholder</u>	<u>Entities under significant influence of the Group's controlling shareholder</u>
Operating activities	14	(990)	(72)
Financing activities	325	(314)	-
Investing activities	-	(1,511)	(766)

In addition to the transactions mentioned above, during the year ended 31 December 2019, the Group had the following transactions with related parties:

- The Group declared dividends to related parties in the amount of 6,774 and paid in the amount 4,134;
- The Group acquired from related parties property, plant and equipment and intangible assets of 464 and 54 respectively.

At 31 December 2019, the Group recognized the right-of-use assets from related parties in the amount of 861.

At 31 December 2019 the Group was not involved into surety agreements under liabilities of the related parties. At 31 December 2018 the Group entered into the surety agreements under liabilities of the related parties with banks in the amount of 100.

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

	<u>Group's controlling shareholder</u>	<u>Entities controlled by the Group's controlling shareholder</u>	<u>Entities under significant influence of the Group's controlling shareholder</u>
Trade and other receivables	329	417	897
Loans receivable	-	1,085	229
Trade and other payables	-	(304)	(189)
Borrowings	-	(9)	-

Transactions with related parties for the year ended 31 December 2018 were as follows:

	<u>Group's controlling shareholder</u>	<u>Entities controlled by the Group's controlling shareholder</u>	<u>Entities under significant influence of the Group's controlling shareholder</u>
Revenue	-	128	321
Purchases	-	(1,176)	(284)
Distribution costs	-	(14)	(21)
General and administrative expenses	-	(1,387)	(500)
Finance income, net	4	72	11

In addition to the transactions mentioned in the table above, during the year ended 31 December 2018, the Group had the following transactions with related parties:

- The Group declared and paid dividends to related parties in the amount of 3,076;
- The Group acquired from related parties property, plant and equipment and intangible assets of 188 and 430 respectively;
- The Group sold treasury shares to Group's controlling shareholder in the amount of 325 and also acquired the non-controlling interest of LLC ETERNO and MSA a.s. from a related party for a total consideration of 5,300.

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

	<u>Group's controlling shareholder</u>	<u>Entities controlled by the Group's controlling shareholder</u>	<u>Entities under significant influence of the Group's controlling shareholder</u>
Operating activities	-	(3,178)	(461)
Financing activities	-	(9,566)	-
Investing activities	-	(114)	(901)

**Directors' and key management remuneration**

At 31 December 2019, the Board of Directors of the Company comprised 7 directors (31 December 2018: 7 directors). For the year ended 31 December 2019, compensation to the members of the Board of Directors of the Company, excluding social taxes, amounted to 224 and was included in general and administrative expenses (2018: 197). For the year ended 31 December 2019, aggregate remuneration of executives, excluding social taxes, amounted to 1,658 and was included in general and administrative expenses (2018: 1,508).



## **27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**

### **Legal proceedings**

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

### **Tax legislation**

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

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

At 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate, and that it is probable that the Group's tax, currency and customs positions will be sustained.

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

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 57 at 31 December 2019 (31 December 2018: 147) which relate primarily to income tax. There is no liability recorded for this exposure in the consolidated financial statements as management does not believe payment is probable.

### **Operating environment**

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

During past several years the U.S. and the E.U. continued to extend sanctions towards Russian Federation, which led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is difficult to anticipate.

### **Capital expenditure commitments**

At 31 December 2019, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totalling 738 (31 December 2018: 960).

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**28. FINANCIAL RISK MANAGEMENT**

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

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

In 2019, the management has identified and assessed the most significant corporate level risks (including financial risks). The Group's risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance and exposures.

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

**Market risk**
*Foreign exchange risk*

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

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

Analysis of the financial instruments by currency is as follows:

	31 December 2019			31 December 2018		
	RUB	U.S. Dollar	Euro and other currencies	RUB	U.S. Dollar	Euro and other currencies
Trade receivables	18,881	6,867	940	21,532	520	716
Interest receivable	197	-	17	135	-	-
Other receivables	1,428	34	57	1,076	307	55
Loans receivable	1,072	1	127	1,793	4	16
Cash and cash equivalents	9,868	7,853	3,391	12,191	603	8,760
<b>Monetary financial assets</b>	<b>31,446</b>	<b>14,755</b>	<b>4,532</b>	<b>36,727</b>	<b>1,434</b>	<b>9,547</b>
Loans, credit lines and bonds payable	(61,988)	(19,843)	(3,673)	(79,314)	(4,198)	(6,200)
Accounts payable and accrued expenses	(33,724)	(474)	(6,279)	(31,438)	(669)	(1,173)
Lease liabilities	(2,660)	-	(8)	(45)	-	(16)
Interest payable	(356)	(237)	-	(461)	(2)	(1)
Other liabilities	-	-	-	(202)	-	-
<b>Monetary financial liabilities</b>	<b>(98,728)</b>	<b>(20,554)</b>	<b>(9,960)</b>	<b>(111,460)</b>	<b>(4,869)</b>	<b>(7,390)</b>
<b>Net total</b>	<b>(67,282)</b>	<b>(5,799)</b>	<b>(5,428)</b>	<b>(74,733)</b>	<b>(3,435)</b>	<b>2,157</b>

At 31 December 2019, if the Russian Rouble had weakened/strengthened by 20% (31 December 2018: 20%) against the U.S. Dollar with all other variables held constant, the Group's post-tax profit for the year would have been 928 lower/higher (31 December 2018: 550), mainly as a result of foreign exchange losses/gains on translation of U.S. Dollar-denominated accounts receivable, cash and cash equivalents, borrowings and accounts payable.

At 31 December 2019, if the Russian Rouble had weakened/strengthened by 20% (31 December 2018: 20%) against the Euro with all other variables held constant, the Group's post-tax profit for the year would have been 869 lower/higher (31 December 2018: 345 higher/lower), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated cash and cash equivalents, borrowings and accounts payable.

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*Price risk*

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

*Interest rate risk*

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

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing its exposure to interest rate risk. In 2019, the Group's borrowings at floating rate were denominated in U.S. Dollar, Euro and other currencies.

At 31 December 2019, floating interest rate loans account for 26% of the total amount of the Group's borrowings (31 December 2018: 22%).

Group analyzes the risks associated with changes in interest rates on an ongoing basis. Various scenarios are simulated taking into account refinancing, renewal of credit, current positions and alternative financing. On the basis of these scenarios, the Group calculates the impact on profit and loss of a defined interest rate change. In each model for all currencies is used the same interest rate change. The Group performed an analysis of sensitivity to changes in interest rates for liabilities that represent the major interest-bearing positions and include all types of loan agreements with floating rates. Management estimates the risk of changes in fixed interest rates on existing agreements as low. According to the analysis of sensitivity performed for the year ended 31 December 2019, the impact of one percentage point shift in interest rate on post-tax profit would have been an increase/decrease of 84 (2018: 187).

**Fair value measurements**

The carrying amounts of financial instruments such as trade and other receivables, cash and cash equivalents, accounts payable and accrued expenses, loans and credit lines with floating rates, lease liabilities approximate their fair values.

The following table provides the details for financial instruments which fair value differs from the carrying amount:

	Level of the fair value hierarchy	Note	31 December 2019		31 December 2018	
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>						
Loans receivable	Level 3		1,200	1,170	1,813	1,812
<b>Financial liabilities</b>						
Loans and credit lines with fixed rates	Level 3	22	19,468	19,566	44,800	45,427
Bonds payable	Level 2	22	43,192	44,520	24,908	25,115

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair values of level 3 financial assets and liabilities were calculated based on the present value of future principal and interest cash flows, discounted at market discount rate that reflects the credit risk of counterparties. The fair value of level 2 financial liabilities was calculated based on the present value of future principal and interest cash flows, discounted at observable market rate.

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*Financial assets measured at fair value*

The Group owns 30% of share capital of CJSC TechnoInvest Aliance and accounts for it at fair value in accordance with IFRS 9 "Financial Instruments". At 31 December 2019, the fair value of investments in CJSC TechnoInvest Aliance was determined by independent appraiser and comprised 3,629 (31 December 2018: 3,294).

The fair value was determined based on the discounted cash flow model. This model includes some assumptions that are not supportable by observable market prices or rates (level 3 inputs). In determining the fair value amount at 31 December 2019, discount rate of 16.5% (31 December 2018: 16.9%) was used. The fair value amount at 31 December 2019 would be lower by 598 if the discount rate increased by 1 percentage point.

**Credit risk**

Credit risk is managed at the level of individual companies of the Group. The carrying value of financial assets represents the maximum credit exposure. The carrying value of financial assets at 31 December 2019 was 50,733 (31 December 2018: 47,708).

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

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

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

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

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

	<b>Agency</b>	<b>Rating</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
PJSC VTB Bank	Moody's	Baa3	6,652	6,707
AO Raiffeisenbank	Moody's	Baa3	5,408	643
Sberbank	Moody's	Baa3	4,803	1,222
AO UniCredit Bank	Fitch	BBB-	1,868	1,812
Bank GPB (JSC)	Moody's	Ba1	1,376	9,438
JSC Alfa-Bank	Moody's	Ba1	28	1,085
Other			977	647
<b>Total risk concentrations within cash balances with banks</b>			<b>21,112</b>	<b>21,554</b>

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Counterparty 1	5,890	3,366
Counterparty 2	2,288	3,050
Counterparty 3	1,567	2,015
<b>Total risk concentrations within trade receivables</b>	<b>9,745</b>	<b>8,431</b>



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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Counterparty 1	386	766
Counterparty 2	374	417
Counterparty 3	<u>329</u>	<u>263</u>
<b>Total risk concentrations within loans receivable</b>	<b><u>1,089</u></b>	<b><u>1,446</u></b>

At 31 December 2019, balances due from overseas customers comprise 9,837 (31 December 2018: 3,981).

Key customers of the Group are mainly represented by state-owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business. Cash was collected from key customers according to the contractual terms during the reporting period, and management does not expect any losses from non-performance by these counterparties.

### Liquidity risk

The Group's policy in managing the liquidity risk implies maintaining the sufficient balance of cash and cash equivalents and using a variety of credit facilities as a source of financing, including the factoring agreements to ensure the Group's ability of fulfillment its obligations on time. Under the factoring agreements the Group, the suppliers and the factors agree on additional delay in payment of the Group's liabilities for a certain fee. At 31 December 2019, balances of accounts payable under the factoring agreements amounted to 16,849 (at 31 December 2018: 16,876). The factor fees for providing the additional delay in payment in 2019 comprised 1,450 (2018: 1,403) and were included in finance costs.

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

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
<b>At 31 December 2019</b>				
Trade and other payables	43,211	240	218	148
Borrowings	27,174	14,278	51,746	12,109
Lease liabilities	<u>1,193</u>	<u>874</u>	<u>1,068</u>	<u>196</u>
<b>Total</b>	<b><u>71,578</u></b>	<b><u>15,392</u></b>	<b><u>53,032</u></b>	<b><u>12,453</u></b>
<b>At 31 December 2018</b>				
Trade and other payables	35,876	60	-	-
Borrowings	28,295	16,505	40,733	18,242
Lease liabilities	46	22	6	-
Other liabilities	<u>202</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>64,419</u></b>	<b><u>16,587</u></b>	<b><u>40,739</u></b>	<b><u>18,242</u></b>

### Capital risk management

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





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

Net debt is calculated as total debt from borrowings (Note 22) less cash and cash equivalents. Total capital is calculated as net equity plus net debt. Net equity is calculated as equity (as shown in the consolidated statement of financial position) less treasury shares.

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

Measures of net debt to total equity and debt at 31 December 2019 and 2018 were as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total borrowings	88,172	89,975
Less: cash and cash equivalents	<u>(21,112)</u>	<u>(21,554)</u>
<b>Net debt</b>	<b>67,060</b>	<b>68,421</b>
Total equity	5,748	3,811
Less: treasury shares	-	19,309
<b>Net equity</b>	<b>5,748</b>	<b>23,120</b>
Total net equity and net debt	<u>72,808</u>	<u>91,541</u>
<b>Net debt to net equity and net debt ratio</b>	<b><u>92%</u></b>	<b><u>75%</u></b>

## 29. EVENTS AFTER THE REPORTING PERIOD

In January 2020, the Group refinanced liabilities under the loan agreement with PJSC VTB Bank maturing in July 2023 in the amount of 11,668. Refinancing was carried out by means of existing credit line facilities in Gazprombank (Joint - stock Company) and Sberbank of Russia totalled 6,668. The remaining amount of 5,000 was obtained under the new loan agreement with "Bank Otkritie Financial Corporation" (Public Joint-Stock Company) maturing in January 2025.

In January-February 2020, the Company paid dividends in the amount of 3,000 declared in December 2019.