

PJSC “KOKS”

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report**

For the year ended 31 December 2019

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Independent Auditor's Report

To the Shareholders and Board of Directors of PUBLIC JOINT STOCK COMPANY «KOKS»:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PUBLIC JOINT STOCK COMPANY «KOKS» (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

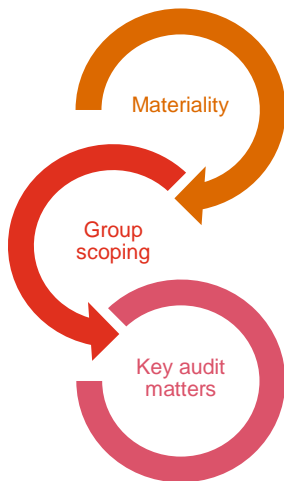
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall Group materiality: Russian Roubles (“RUB”) 400 million, which represents 2,5% of average profit/(loss) before income tax adjusted for interest income and interest expense, depreciation, amortisation and impairment, any extraordinary gains and losses, and foreign exchange gains and losses (“Adjusted EBITDA”) for the last three years.

- We conducted audit work at two reporting units, located in Russia.
- The Group engagement team visited the following locations: Kemerovo and Tula (Russia).
- Our audit scope addressed 88% of the Group’s revenue.
- Compliance with debt covenants.
- Fair value valuation of loans issued to LLC “TULACHERMET-STAL”.

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

Materiality

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

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

Overall Group materiality	RUB 400 million
How we determined it	2,5% of average Adjusted EBITDA for the last three years
Rationale for the materiality benchmark applied	We chose Adjusted EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We chose 2.5% which is within the range of acceptable quantitative materiality thresholds used for profit-oriented companies in this sector. Since the Adjusted EBITDA demonstrates significant volatility from period to period, we decided to average this benchmark over the last three years.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Compliance with debt covenants</p> <p><i>Refer to Note 21, 36 to the consolidated financial statements</i></p> <p>As of 31 December 2019, the Group carried long-term borrowings and long-term bonds in amount of RUB 55,989 million.</p> <p>The underlying loan agreements contain financial and non-financial covenants that the Group must comply with. Breach of certain debt covenants would entitle the Group's lenders to demand early repayment. If one lender exercises its right to demand early repayment, it could trigger cross-default clauses with certain other lenders.</p> <p>The variety of covenants attached to the Group's underlying loan agreements increases the risk of potential non-compliance with existing covenant terms.</p> <p>We focused on the Group's potential non-compliance with debt covenants due to materiality of potential reclassification of long-term borrowings and long-term bonds to short-term borrowings and short-term bonds. Also, early repayment of long-term borrowings and long-term bonds may cause liquidity problems for the Group.</p>	<p>We reviewed the Group's process of monitoring compliance with debt covenants and confirmed that management proactively monitors the execution of loan contract terms and is able to receive a consent from respective lenders to waive their right for early demand of loans repayment before the potential breach occurs.</p> <p>We verified completeness of the covenant terms attached to the Group's loan agreements and bond prospectuses by examining terms of loan agreements, bond prospectus, communicating with banks and reviewing confirmation letters obtained directly from the banks for all underlying borrowings balances.</p> <p>We recalculated financial covenants and obtained evidence to support the compliance with non-financial covenants by referencing to the results of our other audit procedures and information obtained from finance credit department personnel.</p>
<p>Fair value valuation of loans issued to LLC "TULACHERMET-STAL"</p> <p><i>Refer to Note 5, 35 to the consolidated financial statements</i></p> <p>The Group classified loans issued to LLC "TULACHERMET-STAL" as financial assets, subsequently measured at fair value through profit or loss.</p> <p>We focused on the matter due to materiality of the amount of loans issued to LLC "TULACHERMET-STAL" at the reporting date (24,646 mln rubles as at 31 December 2019) and critical accounting estimates and judgements applied.</p>	<p>Given the high sensitivity of the loans issued to LLC "TULACHERMET-STAL" valuation to the key assumptions disclosed in note 35 we focused our procedures on these assumptions and also on adequacy of related disclosures.</p> <p>We assessed the methodology applied by the internal experts of the Group in preparation of forecasted cash flows and tested mathematical accuracy of the calculations.</p> <p>Key assumptions used by management of the Group in the forecasted cash flows were confirmed as follows:</p>



Key audit matter	How our audit addressed the key audit matter
<p>The most critical estimates and judgements relate to applied interest rate, as well as assumptions supporting relevant forecasted cash flows of LLC “TULACHERMET-STAL”, in particular those concerning projected production volumes, projected main raw materials and finished goods prices dynamics.</p>	<ul style="list-style-type: none"> • Projected production volumes were confirmed by technical experts of LLC “TULACHERMET-STAL”; • Prices for raw materials and finished goods were compared to current market prices; • Main raw materials and finished goods prices dynamics were compared to recent reports of investment banks. <p>We compared interest rates used in fair value measurement of loans issued to LLC “TULACHERMET-STAL” with interest rates for bank loans denominated in Russian roubles obtained by the Group based on terms and conditions similar to terms and conditions of loans issued by the Group to LLC “TULACHERMET-STAL”.</p> <p>We found the assumptions made by management in the fair value assessment of loans issued to “TULACHERMET-STAL” to be reasonably acceptable and consistent with the obtained evidence. The significant inputs have been appropriately disclosed in note 35.</p> <p>In addition, we performed a sensitivity analysis around the key assumptions within a reasonably foreseeable range to ascertain the influence of any change in those assumptions to the estimated fair value of loans issued. We found that the assumptions for interest rate, dynamics of raw materials and finished goods prices and production volume to be acceptable although we noted that any change in these assumptions would have a direct impact on the fair value valuation of the loans issued to LLC “TULACHERMET-STAL”.</p>

How we tailored our Group audit scope

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

Considering our ultimate responsibility for the opinion on the Group’s consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In establishing the scope of our audit work, we have determined the nature and extent of the audit procedures to be performed at the reporting units to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements as a whole.

In establishing our overall approach to the Group audit, we considered the significance of the Group components to the consolidated financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with insignificant components not brought into the full scope of our audit.



Our approach to determining the scope of the Group audit is a process whereby reporting units are deemed to be within the scope for audit testing based on significant contribution, the presence of a significant risk, or to add elements of unpredictability.

Based on the above we determined the nature and extent of work to be performed both at the reporting units and at the consolidated level.

Based on this process, we identified subsidiaries of the Group, located in Tula and Kemerovo (Russia) that required full scope audit procedures. Together, these reporting units accounted for 88% of the Group revenue. The group audit team performed all audit procedures.

Other information

Management is responsible for the other information. The other information comprises Issuer's Report for the 1 Quarter 2020 (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

When we read Issuer's Report for the 1 Quarter 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk



of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The certified auditor responsible for the audit resulting in this independent auditor's report is Vladimir Konoplin.

AO PricewaterhouseCoopers Audit

25 March 2020

Moscow, Russian Federation

B. Konoplin



V.V. Konoplin, certified auditor (licence No. 01-000491), AO PricewaterhouseCoopers Audit

Audited entity: PUBLIC JOINT STOCK COMPANY «KOKS»

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 3130 KE 401 362, issued by Administration of Kemerovo on 30 July 1993

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

Record made in the Unified State Register of Legal Entities on 9 August 2002 under State Registration Number 1024200680877

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

Taxpayer Identification Number 4205001274

Taxpayer Identification Number 7705051102


No. 6, 1-ya Stakhanovskaya street, Kemerovo, Russian Federation, 650021


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

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

PJSC "KOKS"**Consolidated Statement of Financial Position for the year ended 31 December 2019***(in millions of RR unless stated otherwise)*

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets:			
Property, plant and equipment	7	68,378	62,405
Goodwill	9	4,497	4,497
Intangible assets	8	4,394	4,535
Deferred income tax asset	32	2,824	2,902
Non-current loans issued	12	24,771	16,433
Other non-current assets	11	116	148
Total non-current assets		104,980	90,920
Current assets:			
Inventories	13	6,709	8,287
Trade and other receivables	14	3,851	4,616
VAT recoverable		525	3,737
Advances issued	14	383	829
Current loans issued	15	4	3,700
Cash and cash equivalents	17	9,851	11,522
Asset held for sale	16	-	39
Total current assets		21,323	32,730
Total assets		126,303	123,650
EQUITY			
Share capital	18	213	213
Treasury shares	18	(11)	(11)
Retained earnings	19	32,818	26,650
Revaluation reserve		388	432
Currency translation reserve		(66)	(39)
Equity attributable to the Company's equity holders		33,342	27,245
Non-controlling interest		262	290
Total equity		33,604	27,535
LIABILITIES			
Non-current liabilities:			
Provision for restoration liability	20	67	61
Deferred income tax liability	32	1,951	1,882
Long-term borrowings	21	26,522	36,193
Long-term bonds	21	29,467	32,459
Long-term lease obligation		80	107
Other long-term payables		1	1
Total non-current liabilities		58,088	70,703
Current liabilities:			
Trade and other payables	22	19,693	19,609
Current income tax payable		222	145
Other taxes payable	23	1,293	1,185
Short-term borrowings and current portion of long-term borrowings	21	11,955	3,737
Short-term bonds	21	556	557
Short-term lease obligation		99	87
Other current financial liabilities	35	791	88
Provisions and other current non-financial liabilities		2	4
Total current liabilities		34,611	25,412
Total liabilities		92,699	96,115
Total liabilities and equity		126,303	123,650


 V.P. Morozov
 First Vice President
 MC "IMH"


 L.V. Arincheva
 Chief Accountant
 MC "IMH"

25 March 2020

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

PJSC “KOKS”**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019***(in millions of RR unless stated otherwise)*

	Note	2019	2018
Revenue	24	86,764	89,643
Cost of sales	25	(65,414)	(64,406)
Gross profit		21,350	25,237
Distribution costs	27	(3,766)	(3,259)
General and administrative expenses	28	(6,362)	(6,712)
Taxes other than income tax	26	(1,054)	(1,069)
Reversals of impairment/(Impairment) of property, plant and equipment	7	44	(129)
Gain on disposal of investment in subsidiary	6	-	66
Loss on disposal of other financial assets		(21)	(38)
Net impairment losses on financial and contract assets	36	(92)	(199)
Other operating (expenses)/income, net	29	(585)	5
Operating profit		9,514	13,902
Finance income	30	5,257	1,611
Finance expenses	31	(5,577)	(13,076)
Loss on remeasurement of financial instruments	35	(1,036)	(351)
Profit before income tax		8,158	2,086
Income tax expense	32	(2,035)	(790)
Profit for the year		6,123	1,296
Profit/(loss) is attributable to:			
Shareholders of the parent Company		6,147	1,246
Non-controlling interest		(24)	50
Profit for the year		6,123	1,296
Other comprehensive (loss)/income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Translation of financial information of foreign operations to presentation currency		(16)	45
Income tax relating to components of other comprehensive (loss)/income		(11)	66
		(27)	111
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurements of post-employment benefit obligations		(29)	(5)
Income tax relating to components of other comprehensive loss		6	1
		(23)	(4)
Total other comprehensive (loss)/income for the year		(50)	107
Total comprehensive income for the year		6,073	1,403
Total comprehensive income/(loss) attributable to:			
Shareholders of the parent company		6,097	1,353
Non-controlling interest	39	(24)	50
Total comprehensive income for the year		6,073	1,403
Basic and diluted profit per ordinary share (in RR per share)	38	18.63	3.78

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

PJSC “KOKS”

Consolidated Statement of Cash Flows for the year ended 31 December 2019

(in millions of RR unless stated otherwise)

	Note	2019	2018
Cash flows from operating activities			
Profit before income tax		8,158	2,086
Adjustments for:			
Depreciation of property, plant and equipment	25, 28	3,989	3,378
Amortisation of intangible assets	25	147	147
(Reversals of impairment)/Impairment of property, plant and equipment	7	(44)	129
Gain on disposal of investment in subsidiary		-	(66)
Loss on disposal of other financial assets		21	38
Interest income	30	(1,875)	(1,438)
Interest expense	31	5,516	5,757
Loss on remeasurement of financial instruments		1,036	351
(Reverse)/Accrual of vacation reserve		(45)	58
(Reverse)/Accrual of obsolete stock provision	29	(4)	7
Net impairment losses on financial and contract assets		92	199
Exchange (gain)/loss, net	29, 30, 31	(3,206)	6,582
Inventories surplus		(120)	(48)
Dividend income	29	(55)	(38)
Other effects		17	17
Operating cash flows before working capital changes		13,627	17,159
Changes in working capital			
Decrease/(Increase) in trade and other receivables		3,856	(2,182)
Decrease/(Increase) in inventories		1,603	(1,787)
(Decrease)/Increase in trade and other payables		(1,241)	5,192
Increase / (Decrease) in taxes other than income tax payable		129	(147)
Cash from operating activities		17,974	18,235
Income tax paid		(1,698)	(1,667)
Net cash from operating activities		16,276	16,568
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,737)	(8,621)
Payment of capitalized interest	7	(753)	(679)
Proceeds from sale of property, plant and equipment		30	33
Proceeds from disposal of subsidiaries, net of disposed cash		-	(14)
Proceeds from sale of asset held for sale	16	40	-
Loans issued		(4,129)	(10,477)
Repayment of loans issued		105	1,273
Interest received on loans issued		137	308
Dividend received		55	38
Acquisition of intangible assets and other non-current assets		(7)	(15)
Net cash used in investing activities		(12,259)	(18,154)
Cash flows from financing activities			
Proceeds from borrowings and bonds	21	23,077	29,186
Repayment of borrowings and bonds	21	(23,478)	(22,808)
Interest paid on borrowings and bonds		(5,395)	(5,339)
Sale of treasury shares	18	353	2,475
Sale of non-controlling interest in subsidiaries		-	44
Purchase of non-controlling interest in subsidiaries		(4)	(65)
Net cash (used in)/from financing activities		(5,447)	3,493
Net (decrease)/increase in cash and cash equivalents		(1,430)	1,907
Effects of exchange rate changes on cash and cash equivalents		(241)	637
Net cash and cash equivalents at the beginning of the year, including		11,522	8,978
Cash and cash equivalents	17	11,522	8,978
Net cash and cash equivalents at the end of the year, including		9,851	11,522
Cash and cash equivalents	17	9,851	11,522

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

PJSC “KOKS”

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

(in millions of RR unless stated otherwise)

	Note	Share capital	Treasury shares	Currency translation reserve	Revaluation reserve	Retained earnings	Total attributable to equity holders of the Company	Non-controlling interest	Total equity
Balance at 31 December 2017		213	(11)	(150)	476	25,619	26,147	711	26,858
Adjustment due to adoption of IFRS 9		-	-	-	-	(660)	(660)	-	(660)
Balance at 1 January 2018		213	(11)	(150)	476	24,959	25,487	711	26,198
Profit for the year		-	-	-	-	1,246	1,246	50	1,296
Other comprehensive income/(loss) for the year		-	-	111	-	(4)	107	-	107
Total comprehensive income for the year		-	-	111	-	1,242	1,353	50	1,403
Purchase of non-controlling interest in subsidiaries, net		-	-	-	-	405	405	(471)	(66)
Revaluation reserve written-off to retained earnings		-	-	-	(44)	44	-	-	-
		-	-	-	(44)	449	405	(471)	(66)
Balance at 31 December 2018		213	(11)	(39)	432	26,650	27,245	290	27,535
Profit/(loss) for the year		-	-	-	-	6,147	6,147	(24)	6,123
Other comprehensive loss for the year		-	-	(27)	-	(23)	(50)	-	(50)
Total comprehensive (loss)/income for the year		-	-	(27)	-	6,124	6,097	(24)	6,073
Purchase of non-controlling interest in subsidiary, net		-	-	-	-	-	-	(4)	(4)
Revaluation reserve written-off to retained earnings		-	-	-	(44)	44	-	-	-
		-	-	-	(44)	44	-	(4)	(4)
Balance at 31 December 2019		213	(11)	(66)	388	32,818	33,342	262	33,604

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

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***1. General information about PJSC “KOKS” and its subsidiaries**

PJSC “KOKS” (the “Company”) was initially established in 1924 as Kemerovski Koksokhimicheski Kombinat, a state-owned enterprise. It was incorporated as an open joint stock company (abbreviated in Russian as OAO) on 30 July 1993 as part of Russia’s privatisation programme. The legal form was changed from open joint-stock company to public joint-stock company on 23 June 2016 in accordance with the current legislation of the Russian Federation. The Company’s registered office is located at 6, 1st Stakhanovskaya Street, Kemerovo, Kemerovo Region, Russian Federation, 650021.

The principal activities of PJSC “KOKS” and its subsidiaries (jointly referred to as the “Group”) include coal mining and the production of coke and coal concentrate, iron-ore concentrate, and pig iron, as well as the production of metal powder (high-purity chrome products). The Group’s manufacturing facilities are primarily based in the city of Kemerovo, Kemerovo Region, and the city of Tula, Tula Region, in the Russian Federation. Its products are sold in Russia as well as in other countries.

As at 31 December 2019 and at 31 December 2018 the Company’s beneficial controlling owner is Evgeny B. Zubitskiy.

The Group’s main subsidiaries are:

Name	Country of incorporation	Type of activity	Note	Percentage of voting shares held by the Group	
				31 December 2019	31 December 2018
PJSC “CPP “Berezovskaya”	Russia	Production of coal concentrate		98.7 %	98.7 %
LLC “Uchastok “Koksoviy”	Russia	Coal mining		100.0%	100.0%
LLC “Butovskaya mine”	Russia	Coal mining		100.0%	100.0%
LLC “Tikhova mine”	Russia	Coal mining		100.0%	100.0%
PJSC “TULACHERMET”	Russia	Pig-iron production		99.2%	99.2%
JSC “Kombinat KMaruda”	Russia	Mining and concentration of iron-ore		100.0%	100.0%
JSC “POLEMA”	Russia	Production of chrome		100.0%	100.0%
JSC “SCHZ”	Russia	Production of cast-iron ware		100.0%	100.0%
PTW Ltd.	China	Sales activities		100.0%	100.0%
LLC “Consultinvest 2000”	Russia	Lease of property		100.0%	100.0%
MC “IMH”	Russia	Management services		100.0%	100.0%
LLC “BKF “Gorizont”	Russia	Transactions with securities		100.0%	100.0%
LLC “Koks-Mining”	Russia	Management services for coal mines		100.0%	100.0%
Koks Finance DAC	Ireland	Structured entity	(1.1)	-	-
PKR Ltd	Korea	Sales activities		100.0%	100.0%
IMH Finance DAC	Ireland	Issue of euro-commercial papers	(1.2)	100.0%	100.0%
Polema (Qingdao)					
Import&Export Co., LTD	China	Sales activities		100.0%	100.0%

1.1. In April 2011, Koks Finance Limited was incorporated in Dublin, Ireland. The main activity of Koks Finance Limited is an issue of loan participation notes for the sole purpose of financing a loan to the Company (note 21). The legal form was changed from Limited Liability Company to Designated Activity Company on 15 September 2016 in accordance with the current legislation of Ireland. The Group has the current ability to direct the relevant activities of this subsidiary through contractual arrangements. Activities of Koks Finance DAC is funded by the Group. Koks Finance DAC is consolidated in the Group’s financial statements.

1.2. In April 2016, the Group finalized the establishment of IMH Finance DAC (Dublin, Ireland). The main activity of IMH Finance DAC is an issue of euro-commercial papers for the sole purpose of financing a loan to the Company. In May 2017 the Group repaid USD 14,560,000 12% Discount Notes in full.

Since April 2017 management services for coal-mining and coal-processing subsidiaries of the Group are carried out by MC “IMH”.

As at 31 December 2019 and 31 December 2018, the percentage of the Group’s ownership interest in its subsidiaries was equal to the percentage of its voting interest, with the exception of PJSC “TULACHERMET”, the percentage of the Group’s ownership in which at 31 December 2019 and at 31 December 2018 was 97.87%.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

Each Group company incorporated in Russia maintains its own accounting records and prepares financial statements in accordance with Russian Accounting Standards (RAS). The consolidated financial statements have been prepared using RAS records and reports that have been adjusted and reclassified to ensure accurate presentation in compliance with IFRS.

Each Group company incorporated outside of Russia maintains its own accounting records and prepares financial statements in accordance with the local generally accepted accounting principles (GAAP) in its home jurisdiction. The financial statements of companies outside of Russia have been adjusted and reclassified to ensure accurate presentation and compliance with IFRS.

As at 31 December 2019, the official Central Bank of the Russian Federation (CBRF) exchange rates for transactions denominated in foreign currencies were RR 61.9057 / USD 1 (as at 31 December 2018: RR 69.4706 / USD 1) and RR 69.3406 / EUR 1 (as at 31 December 2018: RR 79.4605 / EUR 1).

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1. Consolidated financial statements

(a) Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor’s returns. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that such control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group applies IFRS 10 and IFRS 3. In accordance with these standards, acquisition-related costs are to be expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the proportionate share of the non-controlling interest in the acquiree’s net assets. Any excess of the consideration transferred above the amount of any non-controlling interest in the acquiree and the fair value as of the acquisition date of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. Any excess of the acquiree’s interest in the fair value of the identifiable net assets acquired above the consideration transferred is recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

3. Summary of significant accounting policies (continued)

(b) Purchases and sales of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

3.2. Foreign currency transactions

(a) Functional and presentation currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Company’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, the Russian rouble (RR).

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into each entity’s functional currency at the official exchange rate of the Central Bank at the respective reporting dates. Foreign exchange gains and losses resulting from transaction settlements, and from the translation of monetary assets and liabilities into each entity’s functional currency at the Central Bank’s official year-end exchange rates, are recognised in the consolidated statement of profit or loss and other comprehensive income. Foreign exchange gains and losses related to loans issued, deposits, borrowings, bonds are classified as finance income and expenses in the consolidated statement of profit or loss and other comprehensive income. Other foreign exchange gains and losses are classified as other operating income and expenses.

Translation at year-end exchange rates does not apply to non-monetary items, including equity investments.

(c) Operations of Group companies, the functional currency of which differs from the Group’s presentation currency

The assets, liabilities and financial results of those Group companies (none of which operates in a hyperinflationary economy) the functional currency of which differs from the Group’s presentation currency are translated into the presentation currency in the following way:

- assets and liabilities are translated into the Group’s presentation currency using the exchange rate as at the reporting date;
- income and expenses are translated to the Group’s presentation currency using the average exchange rate for the month of transaction; and
- exchange differences calculated as a result of the translations described in points above are recognised initially as a separate component in the consolidated statement of profit or loss and other comprehensive income and are reclassified to profit or loss upon disposal of the of foreign company.

Goodwill related to acquisitions of foreign entity is translated into Russian roubles at the reporting date exchange rate. Exchange differences arising are recognised in other comprehensive income.

3.3. Property, plant and equipment

Property, plant and equipment items are recorded at cost, less accumulated depreciation and impairment, if any. Cost includes expenditures that are directly attributable to an item’s acquisition. Subsequent costs, including overhaul expenses, are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the value of the item can be measured reliably. All other repairs and maintenance are recognized in the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Mining assets consist of mine development and construction costs, which represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, etc. Mining assets are included within Buildings, Installations, Plant and Equipment.

3. Summary of significant accounting policies (continued)

At each reporting date, 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 of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of profit or loss and other 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 of disposal.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds against the carrying amount and are recognised as other operating income and expenses in the consolidated statement of profit or loss and other comprehensive income.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method (except for mining assets) to allocate their depreciable amounts (cost less residual values) over their estimated useful lives:

	Useful lives in years
Buildings	20-80
Installations	8-60
Plant and equipment	2-30
Transport vehicles	2-20
Other	2-25

Depletion of mining assets is calculated using the units-of-production method based upon quantity of material extracted from the mine and proved and probable reserves.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if needed, at each reporting date.

3.4. Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of group of assets within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit that is retained.

3.5. Intangible assets

Group's intangible assets have definite and indefinite useful lives and primarily include production licences. Acquired licences are capitalised on the basis of the costs incurred to acquire them.

All groups of intangible assets with definite useful lives are amortised using the straight-line method over their remaining useful lives (see notes 8 and 34).

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Prior impairments of intangible assets (other than goodwill) are reviewed for possible reversal at each reporting date.

3. Summary of significant accounting policies (continued)

3.6. Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is assigned using the weighted average basis. The cost of finished goods and work in progress includes raw materials, 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 selling expenses.

3.7. Assets classified as held for sale (or disposal group)

Assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as assets held for sale if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Assets or disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs of disposal.

3.8. Financial instruments

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

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

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

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

3. Summary of significant accounting policies (continued)

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

For trade receivables and contract assets, the loss allowance is determined at initial recognition and throughout its life at an amount equal to the lifetime. The Group uses a provision matrix to estimate ECL for trade receivables. For other financial assets, the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Group identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 36 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group’s definition of credit impaired assets and definition of default is explained in Note 36. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL.

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

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for financial guarantee contracts.

3. Summary of significant accounting policies (continued)

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial liabilities – modification. Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of Group’s cash management are included as a component of cash and cash equivalents in the consolidated statement of cash flows.

Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows and consolidated statement of financial position. Balances restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date are included in other non-current assets.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets.

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

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

All other borrowing costs are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

Repayment of interest expenses for the period is recognised in the consolidated statement of cash flows within financing activities.

3. Summary of significant accounting policies (continued)

Financial Guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition.

3.9. Value added tax

Value added tax (VAT) related to sales is payable to the Russian federal tax authorities at the earlier of two dates: the date of dispatch (transfer) of goods (services, work, property rights), or the date of collection of receivables from customers for the future supply of goods (work, services, property rights). VAT included in the cost of purchased goods (work, services, property rights) generally can be reclaimed by offsetting it against VAT on sales once the goods (work, services, property rights) have been accounted for, except for VAT on export sales, which is reclaimable once export transactions have been confirmed.

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

3.10. Dividends

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

3.11. Leases

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Right-of-use assets are included in property, plant and equipment. Assets are measured at cost comprising the following:

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Variable payments not included in the calculation of lease liability:

- payments under land lease agreements, the calculation of which depends on the cadastral value of the land plot and other coefficients established by government decrees;
- payments for utilities and other services, determined upon the fact of consumption;
- payments that depend on the use of the asset (per unit of volume or revenue received using the asset).

3. Summary of significant accounting policies (continued)

The lease payments are discounted using the interest rate implicit in the lease.

Payments associated with short-term leases of property, plant and equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Accounting policies related to finance lease liabilities before 1 January 2019

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

3.12. Income tax

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

Current tax is the amount that is expected to be paid to or recovered from the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than income taxes are recorded within operating expenses.

Deferred income tax is accrued using the balance sheet liability method for tax loss carry forwards and for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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.

3.13. Employee benefits

Wages, salaries, contributions to state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

3.14. Post-employment obligations

Some Group's subsidiaries provide retirement benefits to their retired employees. Entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of such benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as other comprehensive income in the period they arise.

3.15. Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

3. Summary of significant accounting policies (continued)

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated statement of profit or loss and other comprehensive income each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the consolidated statement of profit or loss and other comprehensive income.

Provisions for restoration liability are recognised when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pre-tax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognised as interest expense. Changes in the provision, which is reassessed at each reporting date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability, if decrease in the liability exceeds the carrying value of property, plant and equipment, the excess is recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

3.16. Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. 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 end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions, other than interest and fines, are recorded within the income tax charge. Adjustments for uncertain income tax positions in respect of interest and fines are recorded within finance expenses and other gains/(losses), net, respectively.

3.17. Revenue recognition

Revenue from the sale of goods (primarily coke products, pig iron, coal, chrome and powder metallurgy products) and services is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of value-added tax, custom duties, rebates and discounts.

Contracts with customers do not contain a significant financing component. A significant portion of products is sold under one-year contracts with prices determined for each shipment. Group’s contracts with customers are fixed-price contracts and may include advance payment or deferred payment terms. Generally the sales are made with a credit term of 30-60 days under contracts with deferred payment terms, which is consistent with the market practice and consequently trade receivables are classified as current assets.

A receivable is recognised when the goods are delivered or dispatched based on delivery terms as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Contracts assets are immaterial and therefore not presented separately in the consolidated financial statements.

A contract liability is a Group’s obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. Contract liabilities are included in trade and other payables line as advances received.

Sales of goods are recognized when control of the products has transferred in accordance with each contract term. If the Group provides any additional services (such as carriage) to a customer after the control over goods has passed, the revenue from such services is considered to arise from a separate performance obligation, stated in the contract with a reference to delivery terms, and is recognized over the time that the service is rendered. All shipping and handling costs incurred by the Group in respect of carriage services that represent a separate performance obligation are recognised as cost of sales. All other shipping and handling costs incurred by the Group are recognised as distribution costs.

3. Summary of significant accounting policies (continued)

3.18. Share capital and reserves

Ordinary shares

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. Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium in equity.

Treasury shares

Own shares reacquired by the Company or its subsidiaries (treasury shares) are deducted from equity in the amount of the consideration paid until further cancellation or reissue. Where such shares are subsequently reissued or resold, the consideration received is recognised directly in equity. Any gain or loss arising from these transactions is recognised in the consolidated statement of changes in equity.

Revaluation reserve

Prior to adoption of IFRS 3(R), revaluation of assets held by associates, where control was subsequently obtained and fair value adjustments were performed as of the date of obtaining control, was recorded in the revaluation reserve. During the period of control, the Group transfers the revaluation reserve directly to retained earnings in proportion to the depreciation of property, plant and equipment of the subsidiary.

Currency translation reserve

The currency translation reserve was created following the consolidation of entities, whose functional currency is not the Russian rouble.

3.19. Segment reporting

An operating segment is a component of the Group that:

- (a) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with any of the Group’s other components);
- (b) whose operating results are regularly reviewed by the Group’s chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance; and
- (c) for which discrete financial information is available.

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

4. Adoption of new or revised standards and interpretations

IFRS 16 “Leases” (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The Group decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

The Group did not recognise assets and liabilities under land lease agreements for which the rental payment depends on the cadastral value of the land plot and other coefficients established by government decrees.

As at 1 January 2019 IFRS 16 “Leases” has not had any material impact on the Group’s financial position or operations and accordingly, comparatives for the 2018 reporting period has not been restated.

4. Adoption of new or revised standards and interpretations (continued)

Certain new or revised standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2019 or later, which have not had a material impact on the Group:

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

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

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 3 Definition of a business (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Amendments to IAS 1 and IAS 8 Definition of materiality (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest rate benchmark reform (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Classification of Liabilities as Current or Non-Current - Amendments to IAS 1 (issued on 23 January 2020 and effective for annual reporting periods beginning on or after 1 January 2022).

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

5. Critical accounting estimates and judgements in applying accounting policies

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

5.1. Determining of control over entities

The Group includes subsidiaries and other special purpose entities controlled by the Group in these consolidated financial statements. When determining whether there is control over entities, the Group management makes professional judgements regarding risks and benefits, as well as about the possibility of making operational decisions in relation to the entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards the existence of control, the entity is consolidated.

5. Critical accounting estimates and judgements in applying accounting policies (continued)

LLC “TULACHERMET-STAL” is a related party of the Group and is controlled by the Group’s beneficial controlling owner. As at 31 December 2019 and 2018 the Group is not a participant of LLC “TULACHERMET-STAL” (Note 16) and it does not have power to direct relevant activities of this entity.

The Group performs the following operations with LLC “TULACHERMET-STAL”:

- As of 31 December 2019 the Group recorded loans issued to LLC “TULACHERMET-STAL” carrying amount RR 24,646 million (31 December 2018: RR 19,863 million). (Note 33).
- The Group together with LLC “STAL” and Sipco B.V. (both companies are under common control of the Group’s beneficial controlling owner) entered into a number of agreements in connection with LLC “TULACHERMET-STAL” obligations under bank loan facility agreements. As a result, under these agreements, the parties have committed jointly and severally to finance LLC “TULACHERMET-STAL” project funding shortfall, if any, in the amount of up to the outstanding debt under the loan facility. Besides the Group may incur additional obligations in case LLC “TULACHERMET-STAL” does not fulfil the restrictive conditions under bank loan facility agreements. Obligations of LLC “TULACHERMET-STAL” under the bank loan facility agreements as at 31 December 2019 amounted to RR 28,003 million (31 December 2018: RR 25,790 million).
- In 2019 the Group sold to LLC “TULACHERMET-STAL” pig iron and cast-iron ware for RR 11,148 million (RR 1 million in 2018), services for RR 779 million (RR 759 million in 2018) and other products for RR 1,246 million (RR 404 million in 2018). These goods were sold and services were rendered at prices similar to prices at which the Group sells its goods and renders services to third parties.

Management applied its professional judgement to determine whether the Group exercises control over LLC “TULACHERMET-STAL” in accordance with IFRS 10 “Consolidated Financial Statements”.

In accordance with the professional judgement of the Group management, the Group does not have control over LLC “TULACHERMET-STAL”, because, despite the existing relationships, the Group does not have the power to direct relevant activities of LLC “TULACHERMET-STAL”, the Group is not a participant of LLC “TULACHERMET-STAL” and there are no contractual or other relations between the Group and LLC “TULACHERMET-STAL” that would provide the Group with the power to direct the relevant activities of LLC “TULACHERMET-STAL”.

5.2. Estimated useful lives of property, plant, equipment and licences

The Group applies a range of useful lives to buildings, installations, plant and equipment, transport vehicles and other assets classified as property, plant and equipment. Significant judgement is required in estimating the useful lives of such assets.

When determining economic life, assumptions that were valid at the time of estimation, may change when new information becomes available. Factors that could affect estimation include:

- changes in environmental and other legislation applicable to the Group’s operations;
- development of new technologies and equipment; and
- changes in the terms of licences.

If management’s estimates of useful lives were to decrease by 10%, profit before income tax for the year ended 31 December 2019 would decrease by RR 443 million (2018: profit before income tax would decrease by RR 375 million). An increase in useful lives by 10% would result in an increase of profit before income tax for the year ended 31 December 2019 by RR 363 million (2018: increase of profit before income tax by RR 307 million).

Significant judgement is required in estimating the useful lives of intangible assets, which primarily include production licences. When determining economic life, assumptions that were valid at the time of estimation, may change when new information becomes available. Factors that could affect estimation include:

- changes in environmental and other legislation applicable to the Group’s operations;
- development of new technologies and equipment;
- changes in the terms of licences;
- plans and abilities of the Group to renew existing production licences at a low cost.

5. Critical accounting estimates and judgements in applying accounting policies (continued)**5.3. Recognition of deferred tax assets**

The deferred tax asset represents income taxes, recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised (see Note 32).

In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimates based on taxable profits of the previous three years and expectations of future operating results that are believed to be reasonable under the circumstances.

5.4. Fair value of loans issued measured at fair value through profit or loss

As of 31 December 2019 the Group recorded loans issued to LLC “TULACHERMET-STAL” carrying amount RR 24,646 million (31 December 2018: RR 19,863 million). According to IFRS 9 they are measured at fair value through profit or loss. For the purpose of fair value measurement following inputs were used: average interest rate for Group’s bank loans and LLC “TULACHERMET-STAL”’s free cash flows projections.

Concerning interest rate management’s judgments are based on the assumption that terms of bank credit facilities for LLC “TULACHERMET-STAL” will be similar to those for the Group. Sensitivity analysis of fair value measurement model is disclosed in Note 35.

5.5. Expected credit losses measurement

Measurement of ECL is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 36. The Group regularly reviews and validates the model and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

5.6. Estimated impairment of goodwill

The Group tests goodwill for impairment on an annual basis. The recoverable amount of cash generating units, defined as the higher of fair value less costs of disposal and value in use. These calculations require the use of estimates (see Note 9).

The Group got in 2016 100% share in the charter capital of LLC “Gorny otdykh” and classified it as an acquisition of assets and liabilities, rather than as a business combination in accordance with the definitions in IFRS 3 "Business combinations". The Group's management does not consider the acquired assets as a cash generated unit in accordance with the definition in IAS 36 “Impairment of asset” and includes the value of the assets acquired to the carrying value of the Group’s existing cash generated units for the purposes of assessing impairment indicators and impairment testing of the Group’s assets.

6. Segment information

The Group operates as a vertically integrated business. The chief executive officer of MC “IMH” is considered to be the chief operating decision-maker (CODM). The CODM is responsible for decision-making, estimating results and distributing resources, relying on internal financial information prepared using IFRS principles.

The Group’s management has determined the following operating segments based on nature of production:

- Coal – coal mining;
- Coke – coke production;
- Ore & Pig Iron – mining of iron ore and production of iron ore products, pig iron, crushed pig iron and cast iron ware;
- Polema – production and sales of powder metallurgy articles (chrome articles);
- Unallocated – include subsidiaries: MC “IMH”, LLC “Consultinvest 2000”, LLC “BKF “Gorizont” and acquisition of asset LLC “Gorny otdykh” (Note 10).

Inter-segment sales are generally composed of:

- Sales of coal to the Coke segment;
- Sales of coke to the Ore & Pig Iron segment;
- Management services rendered to the Coal, Coke, Ore & Pig Iron and Polema segments.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(in millions of RR unless stated otherwise)

6. Segment information (continued)

Segment revenue and segment results include transfers between operating segments. Analyses of revenue generated from external sales by products and services are included in note 24.

The Group’s management assesses the performance of operating segments based on revenue, adjusted EBITDA, assets and liabilities.

	Coal	Coke	Ore & Pig Iron	Polema	Unallocated	Total
Year ended 31 December 2019						
Inter-segment revenue	5,644	18,194	199	-	2,555	26,592
External revenue	4,900	24,079	55,680	1,744	361	86,764
Segment revenue, total	10,544	42,273	55,879	1,744	2,916	113,356
Adjusted EBITDA	2,552	6,080	4,722	48	340	13,742
Year ended 31 December 2018						
Inter-segment revenue	5,400	19,551	244	4	2,746	27,945
External revenue	6,008	21,552	59,616	2,182	285	89,643
Segment revenue, total	11,408	41,103	59,860	2,186	3,031	117,588
Adjusted EBITDA	3,501	4,657	8,410	155	241	16,964

The reconciliation between (loss)/profit before income tax and Group adjusted EBITDA:

	Coal	Coke	Ore & Pig Iron	Polema	Unallocated	Total
Year ended 31 December 2019						
(Loss)/Profit before income tax	(1,213)	6,532	2,834	(22)	27	8,158
Amortisation and depreciation	2,268	327	1,323	104	114	4,136
Interest income	(6)	(33)	(1,782)	(40)	(14)	(1,875)
Inter-segment interest income	-	(1,535)	(403)	-	-	(1,938)
Interest expense	45	3,758	1,675	38	-	5,516
Inter-segment interest expense	1,621	-	148	-	169	1,938
Foreign exchange (gain)/loss, net	(120)	(2,972)	(148)	34	-	(3,206)
Reversals of impairment of property, plant and equipment	(44)	-	-	-	-	(44)
Loss/(Gain) on remeasurement of financial instruments	-	-	1,065	(66)	37	1,036
Loss on disposal of other financial assets	1	3	10	-	7	21
Total adjusted EBITDA	2,552	6,080	4,722	48	340	13,742
Year ended 31 December 2018						
(Loss)/Profit before income tax	(498)	(4,646)	7,086	123	21	2,086
Amortisation and depreciation	1,858	324	1,174	71	98	3,525
Interest income	(7)	(142)	(1,232)	(34)	(23)	(1,438)
Inter-segment interest income	-	(1,480)	(406)	(7)	-	(1,893)
Interest expense	702	3,732	1,294	28	1	5,757
Inter-segment interest expense	1,211	-	532	-	150	1,893
Foreign exchange loss/(gain), net	823	6,206	(415)	(26)	(6)	6,582
Impairment of property, plant and equipment	129	-	-	-	-	129
Loss on remeasurement of financial instruments	-	-	351	-	-	351
Loss on disposal of other financial assets	1	11	26	-	-	38
(Gain)/loss on disposal of investment in subsidiary	(718)	652	-	-	-	(66)
Total adjusted EBITDA	3,501	4,657	8,410	155	241	16,964

6. Segment information (continued)

Adjusted EBITDA analysed by the CODM is defined as profit/(loss) before income tax adjusted for interest income and interest expense, depreciation, amortisation and impairment, any extraordinary gains and losses, and foreign exchange gains and losses.

Segment assets and liabilities

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables, advances issued, loans issued, VAT recoverable, and cash and cash equivalents.

Segment liabilities include accounts payable arising during operating activities, borrowings and interest payable.

Capital expenditures comprise additions to property, plant and equipment, and intangible assets.

Segment assets and liabilities as at 31 December 2019 and 2018, and capital expenditures for the years ended 31 December 2019 and 2018 are presented below:

	Coal	Coke	Ore & Pig Iron	Polema	Unallocated	Total
At 31 December 2019						
Segment assets	34,758	37,760	76,120	2,859	5,861	157,358
Segment liabilities	32,137	43,197	47,641	996	3,625	127,596
Capital expenditures for the year ended 31 December 2019	6,340	479	3,209	52	593	10,673
At 31 December 2018						
Segment assets	31,092	38,295	71,302	2,992	5,370	149,051
Segment liabilities	27,760	49,120	44,603	1,107	3,128	125,718
Capital expenditures for the year ended 31 December 2018	4,413	506	5,067	235	691	10,912

The reconciliation between the assets of operational segments and total assets in the consolidated statement of financial position is presented below:

	At 31 December 2019	At 31 December 2018
Segment assets	157,358	149,051
Items not included in segment assets		
Goodwill	4,497	4,497
Deferred income tax asset	2,824	2,902
Other non-current assets	54	76
Elimination of inter-segment balances	(38,430)	(32,876)
Total assets	126,303	123,650

The reconciliation between the liabilities of operational segments and total liabilities in the consolidated statement of financial position is presented below:

	At 31 December 2019	At 31 December 2018
Segment liabilities	127,596	125,718
Items not included in segment liabilities		
Provision for restoration liability	67	61
Deferred income tax liability	1,951	1,882
Taxes payable	1,515	1,330
Elimination of inter-segment balances	(38,430)	(32,876)
Total liabilities	92,699	96,115

The reconciliation between the capital expenditures of operational segments and total additions of property, plant and equipment as described in note 7 is presented below:

	Year ended 31 December 2019	Year ended 31 December 2018
Segment capital expenditures	10,673	10,912
Additions of intangible assets (note 8)	7	24
Additions of property, plant and equipment (note 7)	10,666	10,888

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***6. Segment information (continued)****Information about geographical areas**

A revenue analysis of external Russian and foreign customers based on a given customer’s geographical location is provided in note 24.

The following table presents revenues from external customers:

	Year ended 31 December 2019	Year ended 31 December 2018
Total sales:	86,764	89,643
Russia	36,066	26,623
Switzerland	36,002	51,711
Singapore	3,943	3,417
Ukraine	2,668	460
Kazakhstan	2,575	31
Kyrgyz Republic	2,549	3,951
Belarus	1,093	922
Germany	390	424
United Arab Emirates	380	-
Poland	196	733
Korea	196	236
Taiwan	136	203
China	99	192
Belgium	92	1
Azerbaijan	85	34
Great Britain	56	215
Czech Republic	5	319
Other	233	171

Revenue from the largest customers of the Group’s Coke and Ore & Pig Iron segments, which are related parties, represented RR 37,482 million of the Group’s total revenues in 2019 (2018: revenue from the largest customer of the Group’s Coke and Ore & Pig Iron segments, which was a related party, represented RR 46,721 million).

The Group’s non-current assets (different from financial instruments and deferred income tax asset) located in the Russian Federation.

7. Property, plant and equipment

	Land	Buildings	Installations	Plant and equipment	Transport vehicles	Construction in progress	Other	Total
Cost at 31 December 2018	1,312	8,392	31,762	21,694	2,807	20,746	326	87,039
Additions	135	80	2,829	1,232	2,437	3,934	19	10,666
Transfers	-	429	1,605	641	-	(2,682)	7	-
Disposals	(2)	(22)	(114)	(821)	(269)	(162)	(32)	(1,422)
Cost at 31 December 2019	1,445	8,879	36,082	22,746	4,975	21,836	320	96,283
Accumulated depreciation and impairment at 31 December 2018	-	(2,227)	(8,167)	(12,235)	(1,754)	(56)	(195)	(24,634)
Depreciation charges	-	(182)	(2,000)	(2,022)	(329)	-	(39)	(4,572)
Accumulated depreciation and impairment related to disposals	-	18	97	809	267	37	29	1,257
Impairment	-	-	-	54	-	(10)	-	44
Accumulated depreciation and impairment at 31 December 2019	-	(2,391)	(10,070)	(13,394)	(1,816)	(29)	(205)	(27,905)
Net book value at 31 December 2018	1,312	6,165	23,595	9,459	1,053	20,690	131	62,405
Net book value at 31 December 2019	1,445	6,488	26,012	9,352	3,159	21,807	115	68,378

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***7. Property, plant and equipment (continued)**

	Land	Buildings	Installations	Plant and equipment	Transport vehicles	Construction in progress	Other	Total
Cost at								
31 December 2017	963	7,603	28,384	19,944	2,445	18,208	291	77,838
Additions	352	94	2,667	1,479	410	5,846	40	10,888
Transfers	-	743	1,997	508	-	(3,249)	1	-
Disposals	(3)	(48)	(108)	(205)	(48)	(52)	(6)	(470)
Disposal through sale of subsidiary	-	-	(1,178)	(32)	-	(7)	-	(1,217)
Cost at								
31 December 2018	1,312	8,392	31,762	21,694	2,807	20,746	326	87,039
Accumulated depreciation and impairment at								
31 December 2017	-	(1,992)	(7,825)	(10,429)	(1,602)	(38)	(166)	(22,052)
Depreciation charges	-	(265)	(1,605)	(1,948)	(190)	-	(38)	(4,046)
Accumulated depreciation and impairment related to disposals	-	30	84	190	38	29	9	380
Accumulated depreciation and impairment related to sale of subsidiary	-	-	1,179	32	-	2	-	1,213
Impairment	-	-	-	(80)	-	(49)	-	(129)
Accumulated depreciation and impairment at								
31 December 2018	-	(2,227)	(8,167)	(12,235)	(1,754)	(56)	(195)	(24,634)
Net book value at								
31 December 2017	963	5,611	20,559	9,515	843	18,170	125	55,786
Net book value at								
31 December 2018	1,312	6,165	23,595	9,459	1,053	20,690	131	62,405

As at 31 December 2019 Group’s property, plant and equipment includes right-of-use assets in the amount of RR 321 million, from which RR 315 million are included in transport vehicles and RR 6 million are included in plant and equipment.

As at 31 December 2019 the construction in progress includes JSC “Kombinat KMAruda” balances related to the new mining stage to ramp up production capacity in the amount of RR 10,555 million (31 December 2018: RR 8,554 million).

As at 31 December 2019 the construction in progress includes corporate asset construction in the amount of RR 3,425 million (2018: RR 3,093) (see note 10).

During the year ended 31 December 2019, a depreciation expense of RR 3,641 million (2018: RR 3,068 million) was included in the cost of products sold, a depreciation expense of RR 348 million (2018: RR 310 million) was included in general and administrative expenses, and a depreciation expense of RR 583 million (2018: RR 668 million) was capitalised.

During the year ended 31 December 2019, the Group recognised an impairment loss on property, plant and equipment in the amount of RR 10 million (2018: RR 129 million), which, in accordance with recent management plans, will not be used in the Group’s production activities. During the year ended 31 December 2019, the Group based on value-in-use calculations reversed an impairment loss in the amount of RR 54 million due to a change in the estimates. These assets relate to coal mining subsidiaries, for which following key expectations in the impairment test model are used:

- sales volumes for coal products forecast: 37% growth for 2020 due to improved mining conditions, 35% growth for 2021 due to stable growth of production volumes, 10% growth for 2022 and 12% growth for 2023 due to achievement of full production capacity, 3% decline for 2024 and 7% growth for 2025 due to the changes in mining conditions and without changes in 2026-2030;
- sales prices for coal products forecast: 12% decline for 2020, 3% decline for 2021, 1% decline for 2022 due to market price correction, 1% growth for 2023 due to market recovery and inflation forecast thereafter to 2030.

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***7. Property, plant and equipment (continued)**

Additions of property, plant and equipment during the year ended 31 December 2019 include capitalised borrowing cost of RR 753 million, including foreign exchange losses from financing activities in the amount of RR 26 million (2018: RR 679 million, including foreign exchange losses from financing activities in the amount of RR 108 million). The capitalisation rate used to determine the amount of capitalised interest during the year ended 31 December 2019 was 8.68% (2018: 9.05%).

8. Intangible assets

Movements of intangible assets are provided below:

	Year ended 31 December 2019	Year ended 31 December 2018
Cost as at the beginning of the year	7,508	7,620
Accumulated amortisation and impairment	(2,973)	(2,961)
Net book value as at the beginning of the year	4,535	4,659
Additions	7	24
Amortisation charge	(147)	(147)
Disposals	(1)	(1)
Disposal through sale of subsidiary	-	(135)
Accumulated amortisation and impairment related to sale of subsidiary	-	135
Net book value at the end of the period	4,394	4,535
Cost as at the end of the year	7,514	7,508
Accumulated amortisation and impairment	(3,120)	(2,973)

Information on the carrying amount of each significant individual intangible asset is provided below:

	Carrying amount	
	At 31 December 2019	At 31 December 2018
Licence to produce ferruginous quartzite from the Korobkovsky mine	2,212	2,297
Coal mining licence for the Nikitinsky-2 coal basin (LLC “Tikhova mine”)	1,882	1,944
Licence for coal mining at the Koksoviy basin (Glubokiy)	88	88
Other	212	206
Total	4,394	4,535

9. Goodwill

There were no movement of goodwill arising on acquisition of subsidiaries during 2019 as provided below:

	Year ended 31 December 2019	Year ended 31 December 2018
Gross book value	6,222	6,222
Accumulated impairment	(1,725)	(1,725)
Net book value	4,497	4,497

Testing goodwill for impairment

Goodwill is allocated to the following CGUs, which represent the lowest level within the Group at which goodwill is monitored by management and which are not larger than an operating segment:

	At 31 December 2019	At 31 December 2018
JSC “Kombinat KMAruda”	2,223	2,223
PJSC “TULACHERMET”	1,248	1,248
JSC “POLEMA”	980	980
JSC “SCHZ”	46	46
Total net book value of goodwill	4,497	4,497

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on a budget for 2020 and financial forecasts for CGU, approved by management, covering periods from ten to eleven years through 2029-2030 inclusive. Cash flows beyond the related forecast period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the sector of the economy in which the relevant CGU operates.

9. Goodwill (continued)

Assumptions used in the value-in-use calculations include:

	31 December 2019	31 December 2018
Long-term growth rate	4% p.a.	4% p.a.
Post-tax discount rate	13.6% p.a.	15.5% p.a.

Other key expectations used in the impairment test model are as follows:

- sales volumes for pig iron products forecast: 1% growth for 2020 due to the blast furnace launch, 7% growth for 2021 due to achievement of the full production capacity, 9% decline for 2022 and 5% decline for 2023 (due to blast furnace maintenance), 1% growth for 2024, 11% decline in 2025 (due to blast furnace maintenance) and without changes in 2026-2030;
- sales volumes for iron ore products forecast: 5% decline for 2020, 9% growth for 2021, 2% growth in 2022, 1% p.a. growth for the period 2023-2024, 6% growth for 2025 and further stable growth of production volumes due to the launch of the new mining stage with achievement of full production capacity in 2029;
- sales volumes for powder products forecast: 48% growth for 2020, 9% growth for 2021 and without changes in 2022-2030;
- sales prices for pig iron products forecast: 4% decline for 2020, 1% growth p.a. for 2021 and 2022, 4% growth for 2023 and inflation forecast thereafter to 2030;
- sales prices for iron ore products forecast: 15% decline for the period 2020, 11% decline for the period 2021, 3% decline for the period 2022, 2% decline in 2023 and inflation forecast thereafter to 2030;
- sales prices for powder products forecast: 7% decline for 2020, 2% decline for 2021, without changes in 2022, 2% growth in 2023 and inflation forecast thereafter to 2030;
- foreign exchange rates forecast: 1% growth p.a.

Management determined a cash operating return based on past performance and its market expectations. Weighted average growth rates used are consistent with forecasts in industry reports.

The value-in-use amount calculated as of 31 December 2019 (as well as of 31 December 2018) based on the above assumptions for all CGUs exceeds the book value of assets (including allocated goodwill). Consequently, management concluded there is no impairment for goodwill in 2019 and 2018.

Management believes that a reasonable change in the post-tax discount rate and long-term growth rate in 2019 and 2018 would not impair goodwill.

10. Acquisition of assets

In 2016 the Group got 100% share in the charter capital of LLC “Gorny otdykh” through making contribution to the charter capital and acquisition of share in the charter capital of LLC “Gorny otdykh”.

The Group's management considers the transaction as an acquisition of assets and liabilities, rather than as a business combination in accordance with the definitions in IFRS 3 “Business combinations”.

The main asset of LLC “Gorny otdykh” is the hotel complex. Currently, the hotel complex is under reconstruction and modernization, operation activities are not conducted. Obligations and liabilities of LLC “Gorny otdykh” are represented by payables to suppliers and contractors.

The Group's management plans to use the hotel complex as a corporate recreation asset for the Group's employees and other corporate purposes. Also, the Group's management considers the possibility of providing part of the services of the hotel complex to the third parties. Thus, the Group's management does not consider the acquired assets as a cash generated unit in accordance with the definition in IAS 36 “Impairment of assets” and includes the value of the assets acquired to the carrying value of the Group's existing cash generated units for the purposes of assessing impairment indicators of the Group assets.

At 31 December 2019 the Group recognised construction in progress amounted to RR 3,425 million (2018: RR 3,093 million), other assets in the amount of RR 165 million (2018: RR 168 million) and liabilities in the amount of RR 42 million (2018: RR 45 million) (see note 7).

PJSC "KOKS"**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***11. Other non-current assets**

	At 31 December 2019	At 31 December 2018
Other long-term accounts receivable	62	72
Other financial assets	17	39
Total financial assets	79	111
Other	37	37
Total non-financial assets	37	37
Total other non-current assets	116	148

12. Non-current loans issued

	At 31 December 2019	Interest rate	At 31 December 2018	Interest rate
Loans issued to related parties and denominated in Russian roubles (note 33)	24,646	8.39%	16,381	8.9%
Loans issued and denominated in Russian roubles	125	8.39%	52	10.0%
Total non-current loans issued	24,771		16,433	

As of 31 December 2019 non-current loans issued to related parties in the amount of RR 24,646 million are measured at fair value through profit or loss (2018: non-current loans issued to related parties in the amount of RR 16,381 million are measured at fair value through profit or loss).

13. Inventories

	At 31 December 2019	At 31 December 2018
Raw materials, materials and supplies held for production purposes	5,109	5,298
Finished goods	1,137	2,434
Work in progress	463	555
Total inventories	6,709	8,287

Materials and supplies held for production purposes are recorded at net realisable value, net of provision for impairment, which amounted to RR 34 million as at 31 December 2019 (31 December 2018: RR 38 million).

14. Trade and other receivables and advances issued

	At 31 December 2019	At 31 December 2018
Trade receivables (net of expected credit loss amounting to RR 19 million as at 31 December 2019; RR 6 million as at 31 December 2018)	1,489	2,082
Trade receivables from related parties	2,103	1,337
Taxes receivable	67	204
Other accounts receivable (net of expected credit loss amounting to RR 180 million as at 31 December 2019; RR 167 million as at 31 December 2018)	169	221
Other accounts receivable from related parties (net of expected credit loss amounting to RR 139 million as at 31 December 2019; RR 88 million as at 31 December 2018)	23	772
Total trade and other receivables	3,851	4,616
Advances issued	385	839
Less impairment	(2)	(10)
Total advances issued	383	829

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment profiles of sales, and the corresponding historical credit losses experienced. As a regular payment term specified for the majority of customers is prepayment or payment within 90 days the effect of adjustment on future expected losses is immaterial. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor.

Note 36 provides ageing analysis of trade and other receivables, related expected credit losses allowance and movement in the credit losses allowance.

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***15. Current loans issued**

	At 31 December 2019	Interest rate	At 31 December 2018	Interest rate
Bank deposits denominated in Russian roubles	4	0.01 - 6.75%	8	0.01 - 6.30%
Loans issued to related parties and denominated in Russian roubles (note 33)	-		3,692	0.0 - 9.50%
Total current loans issued	4		3,700	

As of 31 December 2019 there are no current loans issued to related parties (2018: current loans issued to related parties are measured at fair value through profit or loss in the amount of RR 3,572 million and at amortised cost, net of expected credit loss allowance, in the amount of RR 120 million).

As at 31 December 2019 current loans issued to third parties expected credit loss allowance amounted to RR 86 million (31 December 2018: current loans issued to third and related parties expected credit losses allowance amounted to RR 77 million).

16. Asset held for sale

In December 2018 the Arbitration court of Tula region issued a decision to terminate the sale agreement of the stake in the authorized capital of LLC “TULACHERMET-STAL” (an entity under common control of the Group’s beneficial controlling owner), according to which PJSC “TULACHERMET” (a subsidiary of the Group) regained the stake in the authorized capital of LLC “TULACHERMET-STAL” in the amount of 33.3%. As of 31 December 2018 it was classified as asset held for sale. In August 2019 the Group completed the sale of 33.3% stake in the authorized capital of LLC “TULACHERMET-STAL”.

17. Cash and cash equivalents

	At 31 December 2019	At 31 December 2018
RR bank deposits	3,712	6,105
RR-denominated cash in hand and bank balances	1,042	2,971
Bank deposits in foreign currencies	4,969	1,311
Bank balances denominated in foreign currencies	128	1,135
Total cash and cash equivalents	9,851	11,522

All bank balances and bank deposits are neither past due and, as the result of expected credit losses assessment, nor impaired.

The analysis of the credit quality of bank balances is as follows*:

	At 31 December 2019	At 31 December 2018
A to AAA rated	17	78
B to BBB rated	9,799	11,419
Unrated	34	25
Total**	9,850	11,522

* Based on the credit ratings of independent rating agency Fitch Ratings and Moody’s as at 15 January 2020 and 12 February 2019.

** The rest of the statement of financial position item ‘cash and cash equivalents’ is cash in hand.

18. Share capital

As of 31 December 2019 and 2018, the Company’s share capital (authorised, issued and paid in) totalled RR 213 million. The share capital consisted of 330,046,400 ordinary shares with a par value of RR 0.10 per share as of 31 December 2019 and 31 December 2018. As of 31 December 2019 and 31 December 2018, the share capital included a hyperinflationary adjustment totalling RR 180 million, which was calculated in accordance with the requirements of IAS 29, “Financial Reporting in Hyperinflationary Economies”, and relates to reporting periods prior to 1 January 2003.

In June 2010, a subsidiary of the Group acquired 26,000,278 of the Company’s shares from its shareholders for RR 5,928 million. In July 2016, a subsidiary of the Group acquired 1,012,075 of the Company’s shares for RR 105 million.

In February 2017 the Company acquired 135,400 of its shares for RR 11 million. In February 2018 these shares were transferred to a subsidiary of the Group. There is no any effect from this intra-group transaction on Consolidated Financial Statements. These shares are classified as treasury shares and are deducted from equity at cost.

In November 2017 Evgeny B. Zubitskiy purchased 27,012,353 of the Company’s shares from the subsidiary of the Group for RR 2,828 million. As of 31 December 2019 other accounts receivable related to this transaction were fully paid (as of 31 December 2018 other accounts receivable related to this transaction amounted to RR 353 million) (see note 33).

19. Retained earnings

The Company's Russian statutory financial statements serve as the basis for its profit distribution and other appropriations. Under Russian law, the basis of distribution is defined as a company's profit. The net loss recognised in the Company's published Russian statutory financial statements for the year ended 31 December 2019 was RR 352 million (2018: net loss – RR 3,234 million), and the accumulated profit after dividends as at 31 December 2019 was equal to RR 9,666 million (31 December 2018: RR 10,017 million). However, the relevant legislation and other statutes and regulations governing profit distribution are open to legal interpretation and, thus, Group's management believes that at present it would not be appropriate to disclose the amount for distributable reserves in these consolidated financial statements.

During 2019 year and 2018 year no dividends were declared.

20. Provision for restoration liability

The table below summarises movements in the provision for restoration liability:

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at the beginning of the year	61	71
Disposal of provision for restoration liability due to disposal of subsidiary	-	(16)
Unwinding of the present value discount	6	6
Additions to property, plant and equipment	2	3
Utilisation	(2)	(3)
Balance at the end of the year	67	61
Less current part of the provision	-	-
Long-term part of the provision for restoration liability as at the end of the year	67	61

A provision for restoration liability in the amount of RR 67 million as of 31 December 2019 (RR 61 million as of 31 December 2018) was recorded for the net present value of the estimated future obligation to restore land around the Vakhrusheva, Butovskaya and Tikhova coal mines.

Management has estimated the restoration liability through 2050 based on their interpretation of the licence agreements and environmental legislation, and in accordance with IAS 37, "Provisions, Contingent Liabilities And Contingent Assets". The discount rate used to calculate the net present value of the restoration liability was 9.5% at 31 December 2019 (9.5% at 31 December 2018), which is a risk free pre-tax rate adjusted for the restoration liability at the reporting dates. The related asset of RR 109 million as of 31 December 2019 (31 December 2018: RR 108 million) was recorded as installations within property, plant and equipment at the net book value.

21. Borrowings and bonds**Short-term borrowings and current portion of long-term borrowings**

Loans and borrowings by type may be analysed as follows:

	At 31 December 2019	Interest rate	At 31 December 2018	Interest rate
RR-denominated bank loans, fixed	7,512	8.19 - 9.05%	2,985	8.4-11.5%
RR-denominated bank loans, variable	4,035	7.25 - 7.60%	523	6.65%
USD-denominated bank loans, fixed	408	6.25%	229	6.25%
Total short-term borrowings and current portion of long-term borrowings	11,955		3,737	

Long-term borrowings

	At 31 December 2019	Interest rate	At 31 December 2018	Interest rate
RR-denominated bank loans, fixed	23,666	8.05 - 8.70%	32,902	8.2 - 11.5%
USD-denominated bank loans, fixed	1,838	6.25%	2,521	6.25%
RR-denominated bank loans variable	1,018	7.60%	-	
Other RR-denominated borrowings, fixed	-		770	5.0%
Total long-term borrowings	26,522		36,193	

As at 31 December 2019 the loans totaling RR 2,247 million were collateralized by property, plant and equipment with the carrying value of RR 617 million. (At 31 December 2018: 3,020 million were collateralized by property, plant and equipment with the carrying value of RR 1,506 million).

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***21. Borrowings and bonds (continued)**

Borrowings of the Group are due for repayment as follows:

	At 31 December 2019	At 31 December 2018
Borrowings to be repaid – within one year	11,955	3,737
- between one and five years	26,522	34,779
- after five years	-	1,414
Total borrowings	38,477	39,930

As at 31 December 2019, the Group had undrawn borrowing facilities in the amount of RR 39,575 million, including long-term facilities in the amount of RR 37,795 (as at 31 December 2018: RR 46,302 million, including a long-term facility of RR 39,201 million).

Movements in borrowings are analysed as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term borrowings:		
Balance at the beginning of the year	3,737	6,631
Borrowings received	9,720	3,065
Borrowings repaid	(10,635)	(9,674)
Reclassification of borrowings	9,155	3,473
Bank overdrafts received	4,408	3,451
Bank overdrafts repaid	(4,408)	(3,451)
Effect of changes in exchange rates	(22)	242
Balance at the end of the year	11,955	3,737
Long-term borrowings:		
Balance at the beginning of the year	36,193	20,251
Borrowings received	13,357	21,135
Borrowings repaid	(12,843)	(2,723)
Reclassification of borrowings	(9,924)	(3,473)
Other non-cash effects	10	9
Effect of changes in exchange rates	(271)	994
Balance at the end of the year	26,522	36,193

BO-05 series bonds

In August 2018 the Group issued five-year maturity bonds in the principal amount of RR 5 billion at a coupon rate of 9.2% payable semi-annually (series BO-05 bonds).

Movements in series BO-05 bonds are analysed as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term bonds:		
Balance at the beginning of the period	165	-
Interest expense	463	165
Interest repaid	(459)	-
Balance at the end of the period	169	165
Long-term bonds:		
Balance at the beginning of the period	4,986	-
Bonds issued	-	4,986
Balance at the end of the period	4,986	4,986

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***21. Borrowings and bonds (continued)****Eurobonds**

The table below sets out an analysis of Group’s eurobonds liabilities and their movements for each of the periods presented:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term bonds:		
Balance at the beginning of the year	392	4,087
Interest expense	1,975	2,894
Bonds repaid	-	(4,599)
Interest repaid	(1,920)	(2,731)
Effect of changes in exchange rates	(60)	741
Balance at the end of the year	387	392
Long-term bonds:		
Balance at the beginning of the year	27,473	27,889
Bonds repaid	-	(5,812)
Effect of changes in exchange rates	(2,992)	5,396
Balance at the end of the year	24,481	27,473

As at 31 December 2019, the carrying value of 7.5% loan participation notes due 2022 amounted to RR 24,868 million (including the current portion of the bonds, which is equal to RR 387 million), net of transaction costs.

As at 31 December 2018, the carrying value of 7.5% loan participation notes due 2022 amounted to RR 27,865 million (including the current portion of the bonds, which is equal to RR 392 million).

Debt covenants

In relation to the year 2019, the lender has increased the threshold values of the covenants under the terms of loan agreements, so the right of the lender to demand early repayment of long-term debt as of 31 December 2019 and at the date of approval of the consolidated financial statements has not occurred.

22. Trade and other payables

	At 31 December 2019	At 31 December 2018
Financial liabilities		
Trade accounts payable	9,929	8,416
Interest payable	115	100
Other accounts payable	241	225
Total financial liabilities	10,285	8,741
Non-financial liabilities		
Wages and salaries payable	1,511	1,587
Advances received	7,897	9,281
Total non-financial liabilities	9,408	10,868
Total trade and other payables	19,693	19,609

23. Other taxes payable

	At 31 December 2019	At 31 December 2018
VAT	703	637
Contributions to state pension and social insurance funds	289	266
Property tax	168	157
Individual income tax	108	108
Other taxes	25	17
Total taxes other than income tax payable	1,293	1,185

The total statutory pension contributions for 2019 included in captions of the consolidated statement of profit or loss and other comprehensive income and capitalised to property, plant and equipment amounted to RR 2,554 million (2018: RR 2,604 million), including portion in the amount of RR 73 million accrued on payment to key management (2018: RR 73 million).

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***24. Revenue**

	Year ended 31 December 2019	Year ended 31 December 2018
Sales in Russia:		
Sales of pig iron	16,820	5,537
Sales of coke and coking products	7,827	9,037
Sales of coal and coal concentrate	3,766	4,648
Sales of services	2,731	2,629
Sales of cast-iron ware	1,769	1,663
Sales of powder metallurgy products	791	967
Sales of chrome	331	325
Sales of crushed pig iron and other pig iron products	31	6
Sales of iron ore concentrate	-	895
Other sales	2,000	916
Total sales in Russia	36,066	26,623
Sales to other countries:		
Sales of pig iron	33,784	49,319
Sales of coke and coking products	16,246	12,599
Sales of chrome	304	381
Sales of powder metallurgy products	241	314
Sales of cast-iron ware	82	93
Sales of coal and coal concentrate	-	143
Other sales	41	171
Total sales to other countries	50,698	63,020
Total revenue	86,764	89,643

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

	Year ended 31 December 2019	Year ended 31 December 2018
At a point in time	83,130	85,664
Over time	3,634	3,979
Total revenue	86,764	89,643

25. Cost of sales

	Year ended 31 December 2019	Year ended 31 December 2018
Raw materials and supplies	44,386	45,555
Wages and salaries including associated taxes	8,695	8,669
Depreciation of property, plant and equipment	3,641	3,068
Transportation services	3,634	3,979
Energy	1,420	1,407
Changes in finished goods and work in progress	1,387	(901)
Other services	377	456
Amortisation of intangible assets	147	147
Other expenses	1,727	2,026
Total of cost of sales	65,414	64,406

Starting from 1 January 2018 transportation costs incurred by the Group in respect of transportation services that represent a separate performance obligation are recognised as cost of sales.

In 2019 total employee benefits expenses, included in cost of sales, general and administrative expenses amounted to RR 13,032 million (2018: RR 13,196 million).

26. Taxes other than income tax

	Year ended 31 December 2019	Year ended 31 December 2018
Property tax	613	584
Mineral resources extraction tax	231	251
Land tax	166	180
Provision for uncertain tax position	-	4
Other taxes	44	50
Total taxes other than income tax	1,054	1,069

PJSC "KOKS"**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***27. Distribution costs**

	Year ended 31 December 2019	Year ended 31 December 2018
Transportation services	3,583	2,971
Other selling expenses	183	288
Total distribution costs	3,766	3,259

28. General and administrative expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries including associated taxes	4,337	4,527
Other purchased services	1,383	1,523
Depreciation of property, plant and equipment	348	310
Materials	245	275
Other	49	77
Total general and administrative expenses	6,362	6,712

29. Other operating (expenses)/income, net

	Year ended 31 December 2019	Year ended 31 December 2018
Dividend income	55	38
Reversal/(Accrual) of obsolete stock provision	4	(7)
Loss on disposal of property, plant and equipment	(38)	(15)
Exchange (loss)/gain, net	(115)	564
Charity payments	(237)	(261)
Income/(Expenses) of service facilities	50	(184)
Reimbursement of losses	(189)	(70)
VAT non-recoverable	(111)	(48)
Other	(4)	(12)
Other operating (expenses)/income, net	(585)	5

30. Finance income

	Year ended 31 December 2019	Year ended 31 December 2018
Financial foreign exchange gain on eurobonds issued and interest accrued on bonds issued, net	3,063	-
Interest income on loans issued measured at FVTPL	1,731	1,139
Financial foreign exchange gain on borrowings and interest accrued on borrowings, net	319	-
Interest income on loans issued measured at AC	144	299
Financial foreign exchange gain on deposits, net	-	142
Financial foreign exchange gain on loans issued and interest accrued on loans issued, net	-	31
Total finance income	5,257	1,611

31. Finance expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense	5,516	5,757
Financial foreign exchange loss on deposits, net	61	-
Financial foreign exchange loss on bonds issued and on interest accrued on bonds issued, net	-	6,185
Financial foreign exchange loss on borrowings and interest accrued on borrowings, net	-	1,134
Total finance expenses	5,577	13,076

PJSC “KOKS”

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(in millions of RR unless stated otherwise)

32. Income tax expense

Income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax expense	1,893	1,657
Deferred income tax expense/(benefit)	142	(868)
Impairment of deferred tax asset	-	1
Income tax expense	2,035	790

The income tax rate applicable to the Group’s subsidiaries incorporated in Russia is 20% (2018: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	8,158	2,086
Theoretical tax at statutory rate	1,632	471
Impairment of deferred tax asset	-	1
Tax effect of items that are not tax deductible/exempt:		
Exchange differences	110	(49)
Charity payments	58	53
Social infrastructure expenses	39	50
Impairment losses on financial and contract assets	28	24
VAT non-recoverable	18	9
Financial assets disposal	2	23
Impairment of property, plant and equipment	2	13
Disposal of investment in subsidiary	-	(17)
Other non-deductible expenses	137	163
Income tax related to previous periods	2	11
Write-down of deferred income tax asset	7	37
Withholding tax	-	1
Total income tax expense	2,035	790

	As of 31 December 2018	Charged to profit or loss	Charged to other comprehensive income	As of 31 December 2019
Tax effect of taxable temporary differences				
Property, plant and equipment	3,575	541	-	4,116
Intangible assets	815	(8)	-	807
Inventories	35	(12)	-	23
Accounts receivable	16	9	-	25
Asset held for sale	8	(8)	-	-
Borrowings	-	15	-	15
Other	13	(6)	-	7
Deferred income tax liabilities	4,462	531	-	4,993
Less: deferred tax assets offset	(2,580)	-	-	(3,042)
Total deferred income tax liabilities	1,882	-	-	1,951
Tax effect of deductible temporary differences				
Losses carried forward	(4,205)	(150)	-	(4,355)
Accounts payable	(206)	14	(6)	(198)
Inventories	(154)	11	-	(143)
Derivative financial instruments	(49)	7	-	(42)
Provision for restoration liability	(21)	5	-	(16)
Accounts receivable	(24)	15	-	(9)
Loans issued	(228)	(212)	-	(440)
Borrowings	(487)	(10)	11	(486)
Financial guarantees	(18)	-	-	(18)
Other	(90)	(69)	-	(159)
Deferred income tax assets	(5,482)	(389)	5	(5,866)
Less: deferred tax liabilities offset	2,580	-	-	3,042
Total deferred income tax assets	(2,902)	-	-	(2,824)
Net deferred income tax (assets)/liabilities	(1,020)	142	5	(873)

32. Income tax expense (continued)

	As of 31 December 2017	Adoption of IFRS 9	As of 1 January 2018	Charged to profit or loss	Charged to other compre- hensive income	As of 31 December 2018
<i>Tax effect of taxable temporary differences</i>						
Property, plant and equipment	2,988	-	2,988	587	-	3,575
Intangible assets	809	-	809	6	-	815
Inventories	21	-	21	14	-	35
Accounts receivable	129	-	129	(113)	-	16
Asset held for sale	-	-	-	8	-	8
Other	54	-	54	(41)	-	13
Deferred income tax liabilities	4,001	-	4,001	461	-	4,462
Less: deferred tax assets offset	(2,319)	-	(2,319)	-	-	(2,580)
Total deferred income tax liabilities	1,682	-	1,682	-	-	1,882
<i>Tax effect of deductible temporary differences</i>						
Losses carried forward	(3,224)	-	(3,224)	(990)	9	(4,205)
Accounts payable	(159)	-	(159)	(47)	-	(206)
Inventories	(72)	-	(72)	(82)	-	(154)
Derivative financial instruments	(49)	-	(49)	-	-	(49)
Provision for restoration liability	(31)	-	(31)	10	-	(21)
Accounts receivable	(10)	-	(10)	(14)	-	(24)
Loans issued	-	(151)	(151)	(77)	-	(228)
Borrowings	(373)	-	(373)	(39)	(75)	(487)
Financial guarantees	-	(14)	(14)	(4)	-	(18)
Other	(5)	-	(5)	(85)	-	(90)
Deferred income tax assets	(3,923)	(165)	(4,088)	(1,328)	(66)	(5,482)
Less: deferred tax liabilities offset	2,319	-	2,319	-	-	2,580
Total deferred income tax assets	(1,604)	(165)	(1,769)	-	-	(2,902)
Net deferred income tax liabilities/(assets)	78	(165)	(87)	(867)	(66)	(1,020)

As of 31 December 2019, the Group did not record deferred tax liabilities for temporary differences of RR 801 million (31 December 2018: RR 883 million) related to investments in subsidiaries, as the Company is able to control the reversal of temporary differences and does not intend to realise them in the foreseeable future.

33. Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over 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. Information about the parties that ultimately own and control the Company is disclosed in note 1.

Balances outstanding with related parties as at 31 December 2019, excluding remuneration of key management personnel:

	Companies under common control	Associates	Ultimate shareholders	Total
Non-current loans issued	24,646	-	-	24,646
Trade receivables	2,103	-	-	2,103
Other accounts receivable	22	1	-	23
Advances issued	-	9	-	9
Trade accounts payable	(246)	(80)	-	(326)
Other accounts payable	(91)	(8)	-	(99)
Advances received	(2,092)	-	-	(2,092)
Financial guarantee	(88)	-	-	(88)

33. Balances and transactions with related parties (continued)

Balances outstanding with related parties as at 31 December 2018, excluding remuneration of key management personnel:

	Companies under common control	Associates	Ultimate shareholders	Total
Non-current loans issued	16,381	-	-	16,381
Trade receivables	1,337	-	-	1,337
Other accounts receivable	419	-	353	772
Advances issued	-	297	-	297
Current loans issued	3,692	-	-	3,692
Trade accounts payable	(38)	(7)	-	(45)
Other accounts payable	-	(34)	-	(34)
Advances received	(7,305)	-	-	(7,305)
Financial guarantee	(88)	-	-	(88)

Balances outstanding with related parties as at 31 December 2019 and 31 December 2018 are not secured and have to be extinguished with cash.

Related party transactions for the year ended 31 December 2019, excluding remuneration of key management personnel:

	Companies under common control	Associates	Ultimate shareholders	Total
<i>Sales in Russia:</i>				
Sales of pig iron	11,147	-	-	11,147
Sales of coal and coal concentrate	3,753	-	-	3,753
Sales of services	2,228	-	-	2,228
Other sales	1,249	-	-	1,249
Sales of coke and coking products	9	-	-	9
Sales of cast-iron ware	1	-	-	1
<i>Sales to other countries:</i>				
Sales of pig iron	28,815	-	-	28,815
Sales of chrome	37	-	-	37
<i>Other income/(expenses):</i>				
Interest income	1,734	-	-	1,734
Dividends	9	46	-	55
Gain on disposal of property plant and equipment	46	-	-	46
Net impairment losses on financial and contract assets	-	(51)	-	(51)
Loss on disposal of other financial assets	(22)	-	-	(22)
Other operating income/(expenses), net	258	(41)	2	219
Loss on remeasurement of financial instruments	(1,065)	-	-	(1,065)
<i>Purchase of goods and services:</i>				
Distribution costs	-	(2,941)	-	(2,941)
Purchase of raw materials and supplies	(302)	(3,759)	-	(4,061)
Other purchased services	(3)	-	-	(3)

33. Balances and transactions with related parties (continued)

Related party transactions for the year ended 31 December 2018, excluding remuneration of key management personnel:

	Companies under common control	Associates	Ultimate shareholders	Total
Sales in Russia:				
Sales of coal and coal concentrate	4,648	-	-	4,648
Sales of services	2,337	-	-	2,337
Other sales	406	-	-	406
Sales of cast-iron ware	1	-	-	1
Sales to other countries:				
Sales of pig iron	48,381	-	-	48,381
Sales of coke and coking products	1,708	-	-	1,708
Other income/(expenses):				
Interest income	1,154	-	-	1,154
Dividends	-	38	-	38
Gain on disposal of property plant and equipment	4	-	-	4
Net impairment losses on financial and contract assets	-	(88)	-	(88)
Loss on disposal of other financial assets	(36)	-	-	(36)
Other operating income/(expenses), net	65	(21)	-	44
Loss on remeasurement of financial instruments	(351)	-	-	(351)
Purchase of goods and services:				
Distribution costs	-	(2,695)	-	(2,695)
Purchase of raw materials and supplies	(5)	(3,069)	-	(3,074)

During the year ended 31 December 2019, revenue from transactions of the Group with related-party metallurgical products trader, related-party coal trader and related party steel-producer, all companies under common control, amounted to RR 42,356 million and mainly consists of revenue from pig iron, coal and services sales (year ended 31 December 2018: the Group sold pig iron, coke and coking products, coal and services to a related-party metallurgical products trader and related-party coal trader, both under common control, for the amount of RR 52,589 million). As at 31 December 2019, the Group had an outstanding balance of advances received from these related parties in the amount of RR 2,092 million (31 December 2018: RR 4,597 million).

During the year ended 31 December 2019 and 31 December 2018 related party transactions commercial terms were similar to third parties transactions commercial terms.

LLC “TULACHERMET-STAL”

As at 31 December 2019, non-current loans issued by the Group to LLC “TULACHERMET-STAL” maturing in 2023 totalled RR 24,646 million (31 December 2018: loans issued to LLC “TULACHERMET-STAL” amounted to RR 19,863 million, including non-current loans issued maturing in 2023 amounted RR 16,381 million and currents loans issued amounted to RR 3,482 million) (see note 12, 15 and 35).

Remuneration of key management personnel

Remuneration of key management personnel, including beneficial controlling owner acting as chief executive officer of MC “IMH”, is presented in the table below:

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	683	683
Contributions to state pension and social insurance funds	110	110
Severance pay	3	16
Total remuneration of key management personnel	796	809

All these payments are short-term employee benefits and are included in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income. The compensation was paid to 34 people for the year ended 31 December 2019 and 39 people for the year ended 31 December 2018.

As at 31 December 2019 the remuneration of key management personnel outstanding balance amounted to RR 34 million (31 December 2018: RR 31 million).

34. Contingencies, commitments and operating risks

Operating environment of the Group

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

Capital commitments

As at 31 December 2019 the amount of capital commitments was RR 1,336 million (at 31 December 2018: RR 1,854 million).

Taxes

Russian tax and customs legislation, enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting such tax positions may be challenged by the tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the tax authorities for three calendar years preceding the year when decisions about the review were made. Under certain circumstances, reviews may cover longer periods.

Russia’s transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation empowers the tax authorities to make transfer pricing adjustments and impose additional tax liabilities regarding controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to ensure compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible that, as the interpretation of the transfer pricing rules evolves, such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

Insurance policies

At 31 December 2019 and 2018, the Group held limited insurance policies on its assets and operations, or for public liability or other insurable risks.

Environmental matters

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

Legal proceedings

During the 2019 year, the Group was involved in a number of court proceedings (both as a plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding that could have a material effect on the result of the Group’s operations or its financial position, and which have not been accrued or disclosed in these consolidated financial statements.

34. Contingencies, commitments and operating risks (continued)**Licences**

The Group is subject to periodic reviews of its activities by government authorities with respect to compliance with the requirements of its mining licences. Management responds promptly, provides reports based on the results of such reviews and, if necessary, cooperates with the government authorities to agree on remedial actions necessary to resolve any findings resulting from such reviews. Failure to comply with the terms of a licence and legal requirements could result in fines, penalties or licence limitation, suspension or revocation. Management believes any issues of non-compliance, including changes in the work plan or financial measures, will be resolved by negotiations, eliminating weaknesses or corrective actions without any adverse effect on the Group’s financial position, results of operations, or cash flows. The Group may renew its licences beyond the original expiration date if it meets the licence agreement terms. Accordingly, depreciation of property, plant and equipment related to the licenced areas takes into account the fact that licences will be renewed in the future.

The Group’s coal fields are situated on land belonging to the Kemerovo Regional Administration, while its ferruginous quartzite fields are located in territory belonging to the Belgorod Regional Administration. Licences are issued by the Russian Ministry of Natural Resources, and the Group pays mineral resources extraction tax to explore and mine mineral resources from these fields.

Licence holder	Field	Expiry date
LLC “Butovskaya mine”	Butovskoe-Zapadnoe and Chesnokovskoe areas of the Kemerovo coal field (Butovskaya mine)	December 2033
LLC “Uchastok “Koksoviy”	Koksoviy area (Vakhrusheva coal mine)	December 2020
LLC “Uchastok “Koksoviy”	Koksoviy area (Glubokiy)	April 2034
LLC “Tikhova mine”	Nikitinsky-2 coal basin	September 2025
JSC “Kombinat KMAruda”	Licence to produce ferruginous quartzite from the Korobkovsky mine	January 2026

35. Fair value disclosures

Fair value measurements of Group’s financial instruments are analysed by their level in the fair value hierarchy as follows:

- (i) Level 1 covers measurements made at quoted prices in active markets for identical assets or liabilities;
- (ii) Level 2 measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- (iii) Level 3 measurements are valuations not based on observable market data.

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial assets and liabilities carried at fair value

The following table analyses Group’s financial instruments carried at fair value by the level of fair value hierarchy:

	31 December 2019			31 December 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Loans issued	-	-	24,771	-	-	19,953
Other financial assets	-	-	17	-	-	39
Asset held for sale	-	-	-	-	39	-
Liabilities						
Other financial liability	-	-	703	-	-	-
Financial guarantee	-	-	88	-	-	88

At 31 December 2019 the carrying amount of loans issued measured at FVTPL includes loans issued to LLC “TULACHERMET-STAL”.

35. Fair value disclosures (continued)

The following table analyses Group's financial instruments carried at fair value movement for the reporting period:

	Loans issued	Other financial assets	Other financial liability	Financial guarantee
Fair value at 31 December 2018	19,953	39	-	(88)
Loans issued	4,125	-	-	-
Interest income	1,731	-	-	-
Repayment of loans issued	(99)	-	-	-
Reclassification	163	-	(769)	-
Disposal of other financial assets	-	(22)	-	-
Remeasurement at FVTPL	(1,102)	-	66	-
Fair value at 31 December 2019	24,771	17	(703)	(88)

Fair value measurement of loans issued to LLC "TULACHERMET-STAL" is determined using average interest rates for borrowings received by the Group and forecasted cash flows of LLC "TULACHERMET-STAL". Due to assumptions underlying fair value estimation, loans issued to LLC "TULACHERMET-STAL" are categorized as Level 3 in the fair value hierarchy, described above.

The fair value of the loans issued to LLC "TULACHERMET-STAL" is sensitive to interest rate changes and forecasted cash flows changes. Forecasted cash flow of LLC "TULACHERMET-STAL" is mostly sensitive to production volume changes, raw materials and finished goods prices dynamics.

The table below represents the effect on fair value of the loans issued that would occur from changes of the initial inputs at 31 December 2019:

Inputs used	Range of inputs	Reasonable changes	Sensitivity of fair value measurement
Loans issued	Interest rate	+1%	(816)
		-1%	849
Production volume for 2020 year	1,564 th.tn	+10%	19
		-10%	(14)
Finished goods prices dynamics change	-4,3%- +8%	+3%	528
		-3%	(1,198)
Raw materials prices dynamics changes	-16%-+4%	+3%	(737)
		-3%	1,088

The table below represents the effect on fair value of the loans issued that would occur from changes of the initial inputs at 31 December 2018:

Inputs used	Range of inputs	Reasonable changes	Sensitivity of fair value measurement
Loans issued	Interest rate	+ 1%	(745)
		- 1%	779
Production volume for 2019 year	1,140 th.tn	+ 10%	122
		- 10%	(152)
Finished goods prices dynamics change	-4%-+4%	+ 3%	445
		- 3%	(739)
Raw materials prices dynamics changes	-6%-+5%	+3%	(390)
		-3%	274

Financial assets and liabilities carried at amortised cost

Group's financial instruments except those carried at fair value are measured at amortised cost. Management believes that the carrying amount of cash and cash equivalents, accounts receivable and payable in the consolidated statement of financial position approximates their fair value based on level 1 (cash), level 2 (cash equivalents, loans issued and bank deposits) and level 3 (accounts receivable and payable) measurements.

35. Fair value disclosures (continued)

The table below presents financial instruments measured at amortised cost for which carrying amount differs from fair value:

	31 December 2019				31 December 2018			
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
Assets								
Loans issued and bank deposits	4	-	4	-	180	-	178	-
Liabilities								
Borrowings (excluding overdrafts)	38,477	-	38,707	-	39,930	-	40,032	-
Bonds	30,023	29,732	-	-	33,016	36,264	-	-

The fair value of loans issued and bank deposits carried at amortised cost was determined using valuation techniques based on Level 2 measurements as expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of long-term and short-term debt carried at amortised cost was determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on Level 2 measurements as expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of the Group's bonds was based on quoted market prices, which are Level 1 measurements.

36. Financial risks

The Group's risk management is based on determining risks to which the Group is exposed in the course of ordinary operations. The Group is exposed to the following major risks: (a) credit risk, (b) market risk, and (c) liquidity risk. Risk management is carried out on an ongoing basis and consists of proactive analysis, control and management of all opportunities, threats and risks arising in connection with the Group's operational objectives.

(a) Credit risk

The maximum exposure to credit risk is represented by the book value of the following financial assets net of expected credit losses allowance and the maximum amount the Group could pay if the financial guarantee issued for related party is called on (note 5, 33 and 35).

	Note	31 December 2019	31 December 2018
Non-current financial assets:			
Non-current loans issued	12	24,771	16,433
Other long-term accounts receivable	11	62	72
Other financial assets	11	17	39
Current financial assets:			
Trade and other accounts receivable	14	3,784	4,412
Current loans issued	15	4	3,700
Cash and cash equivalents	17	9,851	11,522
Total carrying value		38,489	36,178

For minimising of credit risk, the Group takes the following procedures:

- interaction between the Group's structural divisions (commercial, legal, accounting, economic security divisions, etc.) is regulated to ensure that credit risks are minimised;
- sales of products are made to customers with an appropriate credit history;
- the Group mostly sells products to customers that are major market players; and
- when expanding its presence in sales markets, the Group performs stringent legal and financial reviews of potential customers.

36. Financial risks (continued)**Expected credit losses allowance**

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other accounts receivable and contract assets.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. For purposes of measuring probability of default, the group defines default as a situation when the exposure meets one or more of the following criteria:

- the customer is more than 90 days past due on its contractual payments;
- international rating agencies have classified the customer in the default rating class;
- the customer meets the unlikeliness-to-pay criteria listed below:
 - the customer is insolvent;
 - the customer is in breach of financial covenants; and
 - it is becoming likely that the customer will enter bankruptcy.

The Group monitors all financial assets, loans issued and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month estimated credit loss.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment.

The Group analyses all data collected using statistical models and estimates the remaining lifetime probability of default exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment and interest rates. Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The expected credit losses allowance for account receivable, loans issued measured at amortised cost, cash and cash equivalents and other financial assets as at 31 December 2019 are presented in the table below:

	Gross carrying amount	ECL allowance
- not past due	12,323	(38)
- less than 30 days overdue	59	(29)
- 31 to 90 days overdue	208	(2)
- 91 to 360 days overdue	658	(60)
- over 360 days overdue	905	(306)
Total	14,153	(435)

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***36. Financial risks (continued)**

The expected credit losses allowance for account receivable, loans issued measured at amortised cost, cash and cash equivalents and other financial assets as at 31 December 2018 are presented in the table below:

	Gross carrying amount	ECL allowance
- not past due	15,721	(2)
- less than 30 days overdue	226	(38)
- 31 to 90 days overdue	53	(7)
- 91 to 360 days overdue	506	(260)
- over 360 days overdue	57	(31)
Total	16,563	(338)

The credit quality of not past due financial assets was assessed using historical data on counterparties' failure to pay and the length of the business relationship. The following categories are used by the Group:

- Group 1 – the length of the business relationship with the counterparty is over a year, and the counterparty has never defaulted on its liabilities;
- Group 2 – the length of the business relationship with the counterparty is over a year, and the counterparty has delayed payment but still fulfilled its liabilities; and
- Group 3 – the length of the business relationship with the counterparty is less than a year.

Credit risk related to not past due financial assets (expected to be realised in full) as at 31 December 2019:

	Group 1	Group 2	Group 3	Total
Trade and other receivables	472	1,860	21	2,353
Loans issued	4	-	-	4
Other non-current accounts receivable	42	18	-	60
Cash and cash equivalents	9,851	-	-	9,851
Other financial assets	17	-	-	17
Total	10,386	1,878	21	12,285

The table below presents movements in the credit losses allowance for the year ended 31 December 2019:

	Trade accounts receivable	Loans issued	Other accounts receivable	Total
As at 31 December 2018	6	77	255	338
Charged to profit or loss	16	60	82	158
Reversed through profit or loss	(1)	(44)	(18)	(63)
Used	(2)	-	-	(2)
As at 31 December 2019	19	93	319	431

Credit risk related to not past due financial assets (expected to be realised in full) as at 31 December 2018:

	Group 1	Group 2	Group 3	Total
Trade and other receivables	1,946	1,650	310	3,906
Loans issued	-	180	-	180
Other non-current accounts receivable	51	21	-	72
Cash and cash equivalents	11,522	-	-	11,522
Other financial assets	39	-	-	39
Total	13,558	1,851	310	15,719

36. Financial risks (continued)

The table below presents movements in the in the credit losses allowance for the year ended 31 December 2018:

	Trade accounts receivable	Loans issued	Other accounts receivable	Total
As at 31 December 2017	6	-	150	156
Charged to profit or loss	6	81	123	210
Reversed through profit or loss	(5)	(4)	(14)	(23)
Used	(1)	-	(4)	(5)
As at 31 December 2018	6	77	255	338

Concentration of credit risk

Management monitors concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 5% of the Group's net assets. As of 31 December 2019, the Group had a concentration of credit risk due to loans issued to related party in the amount of RR 24,646 million (31 December 2018: RR 19,863 million) (see note 12 and 15). At 31 December 2019 and 31 December 2018, there were no other significant credit risk concentration, due to the diversified structure of the Group's counterparties and timely repayment of the receivables.

At 31 December 2019, the Group's significant bank accounts are held only with major Russian banks, mainly Gazprombank, Bank VTB and Sberbank (2018: Gazprombank, Bank VTB and Sberbank) thus exposing the Group to a concentration of credit risk (see note 17).

(b) Market risk**Foreign currency risk**

The Group has international operations and, therefore, is exposed to foreign currency risk arising due to changes in euro and US dollar exchange rates against the Russian rouble. Foreign currency risk is managed by making operating decisions depending on the current market situation.

The amounts of the Group's assets and liabilities denominated in a foreign currency other than the functional currency of the Group's companies as at 31 December 2019 are provided below:

	in thousands of USD	in thousands of EUR
Trade and other receivables	4,188	262
Cash and cash equivalents	80,434	850
Trade accounts payable	(40,132)	(1,915)
Interest payable	(170)	-
Bonds	(401,708)	-
Borrowings	(36,281)	-
Net total, in foreign currency	(393,669)	(803)

The Group's assets and liabilities denominated in USD amounted RR 24,370 million at the exchange rate as at 31 December 2019. The Group's assets and liabilities denominated in EUR amounted RR 56 million at the exchange rate as at 31 December 2019.

The analysis of the effect of foreign currency risk on the Group's profit/equity for 2019 is given below.

The official CBRF RR / USD exchange rate at 31 December 2019 was RR 61.9057 / USD 1. A 20% decrease/increase in the RR / USD exchange rate would have resulted in an increase/decrease of net profit for the year of RR 3,899 million.

The official CBRF RR / EUR exchange rate as at 31 December 2019 was RR 69.3406 / EUR 1. A 20% decrease/increase in the RR / EUR exchange rate would have resulted in an increase/decrease of net profit for the year of RR 9 million.

36. Financial risks (continued)

The amounts of the Group’s assets and liabilities denominated in a foreign currency other than the functional currency of the Group’s companies as at 31 December 2018 are provided below:

	in thousands of USD	in thousands of EUR
Trade and other receivables	6,016	1,052
Cash and cash equivalents	31,283	3,247
Trade accounts payable	(3,147)	(2,427)
Interest payable	(186)	-
Bonds	(401,105)	-
Borrowings	(39,585)	-
Net total, in foreign currency	(406,724)	1,872

The Group’s assets and liabilities denominated in USD amounted RR 28,255 million at the exchange rate as at 31 December 2018. The Group’s assets and liabilities denominated in EUR amounted RR 149 million at the exchange rate as at 31 December 2018.

The analysis of the effect of foreign currency risk on the Group’s profit/equity for 2018 is given below.

The official CBRF RR / USD exchange rate at 31 December 2018 was RR 69.4706 / USD 1. A 20% decrease/increase in the RR / USD exchange rate would have resulted in an increase/decrease of net profit for the year of RR 4,521 million.

The official CBRF RR / EUR exchange rate as at 31 December 2018 was RR 79.4605 / EUR 1. A 20% decrease/increase in the RR / EUR exchange rate would have resulted in a decrease/increase of net profit for the year of RR 24 million.

Interest rate risk

The Group is exposed to interest rate risk on short-term and long-term loans issued, borrowings and bonds. Instruments issued at fixed interest rates expose the Group to fair value fluctuations due to changing interest rates.

The Group minimises interest rate risk by:

- monitoring trends in the domestic (RR) and global (USD/EUR) currency markets;
- monitoring analyst reviews and comments by leading financial institutions and major global information agencies; and
- making decisions based on analyses of the interdependence of such parameters as currency, term, amount and interest rate type.

The Group’s interest expenses were not exposed to the risk of changes in variable interest rates in 2019 and 2018, because predominant part of borrowings is at fixed interest rate (see note 21).

(c) Liquidity risk

In order to minimise liquidity risks, the Group maintains committed credit facilities in major domestic and international banks. The Group determines the necessary credit limit on the basis of ten-year, five-year, annual and monthly financial plans for each entity within the Group and for the Group as a whole.

The Group distinguishes between funds needed depending on what they will be used for.

Working capital needs are mainly financed through short-term credit lines and overdrafts at the minimal interest rate offered in financial markets under existing market conditions.

Investment programmes to acquire new high-cost equipment, construct new production facilities, or rebuild and upgrade existing facilities are financed through medium-term and long-term credit facilities (mainly special purpose ones).

The Group has raised a number of public and syndicated borrowings in the past and intends to further pursue such endeavours depending on market conditions. The relevant loan arrangements contain financial and non-financial covenant terms that the Group must comply with. The Group management established an effective process that allows to proactively monitor the execution of contract terms and receive a consent from respective lenders to waive its right for early demand of loans repayment before the potential breach occurs, if any.

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***36. Financial risks (continued)**

Management monitors the correspondence of repayment periods for external and internal debts with the payback period for the relevant assets at both the strategic and operational levels. The Group uses both general ratios (adjusted EBITDA, adjusted EBITDA/Revenue, Net Debt/adjusted EBITDA, adjusted EBITDA/Interest expense, Debt/Equity, etc.) and a number of special debt (liquidity) ratios in its decision-making.

Management allocates available cash surpluses, based on the issuance of intra-group loans approved by the general shareholders' meeting, among the Group's entities to attain optimal and balanced availability of funds for each entity. Such allocation may be used to replenish working capital in each entity without the need to raise third-party borrowings and, when necessary, to refinance more costly bank facilities and other borrowings. Intra-group loans are issued at market rates.

The table below provides an analysis of non-discounted cash flows related to the Group's contractual obligations by maturity as at 31 December 2019:

	Payable in the period							Total
	Within 3 months	3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Beyond 5 years	
Trade accounts payable	7,095	2,834	-	-	-	-	-	9,929
Other accounts payable	240	1	-	-	-	-	-	241
Leases	35	80	80	6	-	-	-	201
Other current financial liabilities	33	101	135	83	167	167	83	769
Borrowings:								
- Principal	1,332	10,623	11,227	2,191	793	12,337	-	38,503
-Interest payable as of 31 December 2019	115	-	-	-	-	-	-	115
- Interest to be accrued in future periods*	769	1,924	1,632	1,176	1,037	644	-	7,182
Bonds:								
- Principal	-	-	-	24,683	5,000	-	-	29,683
-Interest accrued as of 31 December 2019	169	288	-	-	-	-	-	457
- Interest to be accrued in future periods*	116	2,203	2,318	1,104	291	-	-	6,032
Total	9,904	18,054	15,392	29,243	7,288	13,148	83	93,112

* Bank interest to be accrued in future periods was estimated based on the terms and conditions of loan and borrowing agreements in effect as at the reporting date.

Financial guarantee issued to LLC “TULACHERMET-STAL” (note 5) is payable on demand. As of 31 December 2019 this financial obligation is recognised as other current financial liability in the consolidated statement of financial position with carrying amount of RR 88 million, measured as expected credit loss allowance (2018: RR 88 million).

Liabilities due within 12 months are to be paid by cash received from operating activities and external financing received subsequent to the reporting date.

The table below provides an analysis of non-discounted cash flows related to the Group's contractual obligations by maturity as at 31 December 2018:

	Payable in the period							Total
	Within 3 months	3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Beyond 5 years	
Trade accounts payable	7,967	449	-	-	-	-	-	8,416
Other accounts payable	225	-	-	-	-	-	-	225
Financial lease	27	79	118	-	-	-	-	224
Borrowings:								
- Principal	851	2,886	9,435	12,322	3,478	9,569	1,414	39,955
-Bank interest payable as of 31 December 2018	100	-	-	-	-	-	-	100
- Bank interest to be accrued in future periods*	857	2,517	2,853	1,819	1,172	689	60	9,967
Bonds:								
- Principal	-	-	-	-	27,700	5,000	-	32,700
-Interest accrued as of 31 December 2018	166	323	-	-	-	-	-	489
- Interest to be accrued in future periods*	583	1,636	2,544	2,544	1,505	296	-	9,108
Total	10,776	7,890	14,950	16,685	33,855	15,554	1,474	101,184

* Bank interest to be accrued in future periods was estimated based on the terms and conditions of loan and borrowing agreements in effect as at the reporting date.

36. Financial risks (continued)

As at 31 December 2019, the Group's current liabilities exceeded current assets by RR 13,288 million (as at 31 December 2018 current assets exceeded current liabilities by 7,318 million). The Group had undrawn borrowing facilities in the amount of RR 39,575 million (see note 21) as at 31 December 2019 (out of which RR 37,795 million are long-term facilities) (as at 31 December 2018: the Group had undrawn borrowing facilities in the amount of RR 46,302 million (out of which RR 39,201 million are long-term facilities)).

Accordingly, management believes that a going concern basis for the preparation of these consolidated financial statements is appropriate.

37. Capital risk management

The capital structure of the Group consists of net debt (short-term and long-term borrowings and bonds offset by cash and cash equivalents) and equity of the Group.

Every year, the Group plans and carries out investment programmes to maintain a high technical and technological level for its property, plant and equipment, avoid business interruptions, maintain environmental protection and life safety standards, and introduce new production facilities that can ensure the Group's future profitability.

The Group has defined following criteria for the requirements (positive NPV, average payback period of five years, internal rate of return at least 20%, Net Debt / EBITDA below 4.0, EBITDA / Interest expense at least 1.5 and other indicators) for both small-scale and large-scale investment projects, including new investment projects under consideration.

38. Profit per share

The amount of basic profit per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted profit per share equals the basic profit per share.

Profit per share is calculated as follows:

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year		6,147	1,246
Weighted average number of ordinary shares in issue (millions of shares)	18	329.91	329.91
Basic and diluted profit per ordinary share (in RR per share)		18.63	3.78

39. Non-controlling interest

The following table provides information about PJSC "TULACHERMET", the only Group subsidiary that has a non-controlling interest that is material to the Group (information is presented before inter-company eliminations):

Carrying amount of non-controlling interest		(Loss)/Profit attributable to non-controlling interest		Revenue		(Loss)/Profit		Total comprehensive (loss)/income	
at 31 December 2019	at 31 December 2018	for the year ended 31 December 2019	for the year ended 31 December 2018	for the year ended 31 December 2019	for the year ended 31 December 2018	for the year ended 31 December 2019	for the year ended 31 December 2018	for the year ended 31 December 2019	for the year ended 31 December 2018
242	265	(23)	65	53,345	57,524	(1,078)	3,057	(1,078)	3,057
Current assets		Non-current assets		Current liabilities		Non-current liabilities			
at 31 December 2019	at 31 December 2018	at 31 December 2019	at 31 December 2018	at 31 December 2019	at 31 December 2018	at 31 December 2019	at 31 December 2018	at 31 December 2019	at 31 December 2018
17,251	20,754	39,721	34,490	(27,114)	(15,377)	(17,335)	(26,267)		

PJSC “KOKS”**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(in millions of RR unless stated otherwise)***39. Non-controlling interest (continued)**

	Year ended 31 December 2019	Year ended 31 December 2018
Net cash from operating activities	5	3,855
Net cash used in investing activities	(2,410)	(9,072)
Net cash from financing activities	3,405	5,344
Net increase in cash and cash equivalents	1,000	127
Effects of exchange rate fluctuations on cash and cash equivalents	(193)	480
Cash and cash equivalents at the beginning of the year	6,735	6,128
Cash and cash equivalents at the end of the year	7,542	6,735

As of 31 December, 2019 the ownership share held by non-controlling interests was equal to 2.13% and the voting rights share held by non-controlling interests was equal to 0.8% (as of 31 December 2018: 2.13% and 0.8%, respectively).

No dividends were paid by PJSC “TULACHERMET” to non-controlling shareholders in the years ended 31 December 2019 and 31 December 2018.

Holders of the non-controlling interest in PJSC “TULACHERMET” have the right to veto any transaction with related parties with a financial effect above 2% of the book value of the entity's assets as estimated in accordance with the RAS financial statements as of 31 December 2019 – RR 1,043 million (as of 31 December 2018 – RR 1,037 million).

40. Subsequent events**Borrowings**

Subsequent to 31 December 2019, within new borrowing facilities the Group raised RR 9,500 million, including short-term bank loans in the amount of RR 3,500 million and long-term bank loans in the amount of RR 6,000 million. These resources have been used for financing of operating activities and repayment of existing borrowings.

Situation around coronavirus

At the year-end 2019 the first information about COVID-19 (Coronavirus) has been appeared, when the World Health Organization announced that several events of unknown virus were identified. Over the first months of the year 2020 the virus outbreak became global and increased its negative impact. Besides in March 2020 the OPEC+ failed to reach additional oil production cuts agreement. These factors have triggered financial markets sharp crash, raw materials prices decrease, in particular, significant oil prices decrease, Russian rouble depreciation against US dollar and euro.

Although at the date of approval of the consolidated financial statements the situation is in progress, its negative influence on global economy and further economic growth uncertainty can affect Group's future financial position and financial performance. Group's management monitors the situation development and is searching the way to minimize its negative impact on business.