Report on Review of Interim Financial Information
Public Joint-Stock Company KuibyshevAzot
and its subsidiaries
for the six-month period ended 30 June 2019

August 2019

Report on Review of Interim Financial Information of Public Joint-Stock Company KuibyshevAzot and its subsidiaries

Contents

Совершенствуя бизнес,
улучшаем мир

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Report on Review of Interim Financial Information

To the shareholders of Public Joint-Stock Company KuibyshevAzot

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public Joint-Stock Company KuibyshevAzot (PJSC KuibyshevAzot) and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at 30 June 2019, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

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Report on supplementary information

Our review was conducted for the purpose of identifying facts that would cause us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting. The information on the translation into US dollars of the interim condensed consolidated statement of financial position as at 30 June 2019, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, accompanying the interim condensed consolidated financial statements, which has been disclosed as supplementary financial information on pages 5 to 8, is presented for purposes of additional analysis and is not within the scope of IFRS. Such supplementary financial information has been subject to the procedures applied in our review of the interim condensed consolidated financial statements and, based on our review, nothing has come to our attention that causes us to believe that the supplementary financial information is not prepared, in all material respects, in accordance with the basis described in Note 2.2 to the interim condensed consolidated financial statements.

E.E. Zlokazova
Partner
Ernst & Young LLC

26 August 2019

Details of the entity

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

Details of the auditor

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

KuibyshevAzot Group

Interim condensed consolidated statement of financial position as at 30 June 2019

(in million of Russian rubles unless otherwise stated)

				Supplementary information USD million (Note 2.2)	
		Unaudited	Audited	Unaudited	Audited
	Note	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Assets					
Current assets					
Cash and cash equivalents	5	3,796	3,869	60	56
Trade and other receivables	6	6,006	5,154	95	74
Inventories	7	7,953	8,001	126	115
Current income tax receivable		1	1	-	-
Financial assets	11	1,094	1,158	17	17
Total current assets		**18,850**	**18,183**	**298**	**262**
Non-current assets					
Property, plant and equipment	8	32,929	31,001	522	446
Intangible assets	9	3,782	4,044	60	58
Right-of-use assets	2.3	424	-	7	-
Prepayments for property, plant and equipment and intangible assets		4,938	2,057	78	30
Investments in associates and joint ventures	10	5,775	5,176	92	74
Financial assets	11	1,434	2,079	23	30
Total non-current assets		**49,282**	**44,357**	**782**	**638**
Total assets		**68,132**	**62,540**	**1,080**	**900**
Liabilities					
Current liabilities					
Trade payables		2,565	3,495	41	50
Income tax liability		79	179	1	2
Other than income taxes payable	14	230	248	4	4
Short-term loans and borrowings	12	6,897	2,872	109	41
Advances received		1,378	1,581	22	23
Other current liabilities	13	1,027	870	16	13
Total current liabilities		**12,176**	**9,245**	**193**	**133**
Non-current liabilities					
Long-term loans and borrowings	12	20,437	20,342	324	293
Deferred tax liabilities		1,280	1,303	20	19
Retirement benefit obligations		423	409	7	6
Other non-current liabilities		-	61	-	1
Total non-current liabilities		**22,140**	**22,115**	**351**	**319**
Total liabilities		**34,316**	**31,360**	**544**	**452**
Equity					
Equity and reserves attributable to equity holders of the Company					
Share capital	15	634	634	10	9
Additional share capital		919	919	14	13
Treasury shares	15	(3,785)	(3,785)	(60)	(54)
Foreign currency translation reserve		546	697	9	10
Retained earnings		35,387	32,317	561	465
		33,701	**30,782**	**534**	**443**
Non-controlling interests		115	398	2	5
Total equity		**33,816**	**31,180**	**536**	**448**
Total liabilities and equity		**68,132**	**62,540**	**1,080**	**900**

Approved for issue and signed on behalf of Board of Directors on 26 August 2019

A.V. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant

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

KuibyshevAzot Group

Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2019

(in million of Russian rubles unless otherwise stated)

	Note	Unaudited For the six months ended 30 June 2019	Unaudited For the six months ended 30 June 2018	Supplementary information USD million (Note 2.2) Unaudited For the six months ended 30 June 2019	Supplementary information USD million (Note 2.2) Unaudited For the six months ended 30 June 2018
Sales	16	29,826	30,814	456	519
Cost of sales	17	(21,794)	(22,539)	(334)	(380)
Gross profit		**8,032**	**8,275**	**122**	**139**
Distribution costs	18	(3,150)	(3,096)	(48)	(52)
General and administrative expenses	19	(1,409)	(1,276)	(22)	(21)
Other operating income	20	708	794	11	13
Other operating expenses	21	(286)	(324)	(4)	(5)
Operating profit		**3,895**	**4,373**	**59**	**74**
Finance income	22	719	133	11	2
Finance costs	23	(897)	(1,322)	(14)	(22)
Share of profit of associates and joint ventures	10	917	236	14	4
Profit before tax		**4,634**	**3,420**	**70**	**58**
Income tax expense	24	(744)	(718)	(11)	(12)
Profit for the period		**3,890**	**2,702**	**59**	**46**
Other comprehensive income / (loss)					
Other comprehensive income / (loss) that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation reserve		(151)	113	(2)	2
Net other comprehensive income / (loss) that may be reclassified to profit or loss in subsequent periods		**(151)**	**113**	**(2)**	**2**
Other comprehensive income / (loss) that will not be reclassified to profit or loss in subsequent periods:					
Re-measurement of income / (losses) on defined benefit plan		1	59	-	1
Income tax effect	24	-	(12)	-	-
Net other comprehensive income / (loss) that will not be reclassified to profit or loss in subsequent periods		**1**	**47**	**-**	**1**
Other comprehensive income / (loss), net of tax		**(150)**	**160**	**(2)**	**3**
Total comprehensive income / (loss), net of tax		**3,740**	**2,862**	**57**	**49**
Profit attributable to:					
Equity holders of the Company		3,939	2,660	60	45
Non-controlling interests		(49)	42	(1)	1
		3,890	**2,702**	**59**	**46**
Total comprehensive income attributable to:					
Equity holders of the Company		3,789	2,820	58	48
Non-controlling interests		(49)	42	(1)	1
		3,740	**2,862**	**57**	**49**
Earnings per share, basic / diluted (in Russian rubles and USD per share):					
- for profit attributable to the equity holders of the Company		**22.07**	**14.13**	**0.34**	**0.24**

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

KuibyshevAzot Group

Interim condensed consolidated statement of changes in equity for the six-month period ended 30 June 2019

(in million of Russian rubles unless otherwise stated)

	Equity attributable to equity holders of the Company							
	Share capital	**Additional share capital**	**Treasury shares (Note 15)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2017	**634**	**919**	**(2,225)**	**477**	**25,594**	**25,399**	**172**	**25,571**
Profit for the period	-	-	-	-	2,660	2,660	42	2,702
Other comprehensive income / (loss)	-	-	-	113	47	160	-	160
Total comprehensive income / (loss)	**-**	**-**	**-**	**113**	**2,707**	**2,820**	**42**	**2,862**
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(8)	(8)
Dividends declared (Note 15)	-	-	-	-	(376)	(376)	-	(376)
Balance as at 30 June 2018 (Unaudited)	**634**	**919**	**(2,225)**	**590**	**27,925**	**27,843**	**206**	**28,049**
Balance as at 31 December 2018	**634**	**919**	**(3,785)**	**697**	**32,317**	**30,782**	**398**	**31,180**
Profit for the period	-	-	-	-	3,939	3,939	(49)	3,890
Other comprehensive income	-	-	-	(151)	1	(150)	-	(150)
Total comprehensive income	**-**	**-**	**-**	**(151)**	**3,940**	**3,789**	**(49)**	**3,740**
Acquisition of non-controlling interests (Note 12)	-	-	-	-	22	22	(194)	(172)
Dividends declared by a subsidiary to non-controlling interests	-	-	-	-	-	-	(40)	(40)
Dividends declared (Note 15)	-	-	-	-	(892)	(892)	-	(892)
Balance as at 30 June 2019 (Unaudited)	**634**	**919**	**(3,785)**	**546**	**35,387**	**33,701**	**115**	**33,816**

	Equity attributable to equity holders of the Company							
Supplementary information USD million (Note 2.2)	**Share capital**	**Additional share capital**	**Treasury shares (Note 15)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2018	**9**	**13**	**(54)**	**10**	**465**	**443**	**5**	**448**
Balance as at 30 June 2019 (Unaudited)	**10**	**14**	**(60)**	**9**	**561**	**534**	**2**	**536**

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

KuibyshevAzot Group

Interim condensed consolidated statement of cash flows for the six-month period ended 30 June 2019

(in million of Russian rubles unless otherwise stated)

		Unaudited		Supplementary information USD million (Note 2.2) Unaudited	
		For the six months ended 30 June		For the six months ended 30 June	
	Note	2019	2018	2019	2018
Cash flows from operating activities					
Profit before tax		4,634	3,420	70	58
Adjustments for:					
Amortisation of property, plant and equipment, intangible assets and right-of-use assets	8, 9, 2.3	1,631	1,461	25	25
Loss on disposal of property, plant and equipment	21	37	55	1	1
Retirement benefit obligations		14	27	-	-
Impairment / (reversal) of accounts receivable	19	2	(3)	-	-
Share of profit of associates and joint ventures	10	(917)	(236)	(14)	(4)
Finance income	22	(201)	(133)	(3)	(2)
Finance costs	23	897	776	14	13
Net foreign exchange effect on non-operating balances	22, 23	(518)	546	(8)	9
Operating cash flows before working capital changes		**5,579**	**5,913**	**85**	**100**
(Increase) / decrease in trade and other receivables		(852)	(103)	(13)	(2)
(Increase) / decrease in inventories		48	(92)	1	(2)
Increase / (decrease) in trade and other payables		(1,094)	(1,441)	(17)	(24)
Increase / (decrease) in other taxes payable		(18)	42	-	1
Cash flows from operating activities		**3,663**	**4,319**	**56**	**73**
Income tax paid		(867)	(659)	(13)	(11)
Interest received		222	59	3	1
Interest paid		(846)	(940)	(13)	(16)
Net cash generated from operating activities		**2,172**	**2,779**	**33**	**47**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(6,189)	(2,436)	(95)	(41)
Proceeds from sale of property, plant and equipment		1	114	-	2
Purchase of intangible assets		(62)	(350)	(1)	(6)
Disposal of non-current financial assets		-	25	-	-
Purchase of non-current financial assets		(91)	(23)	(1)	-
Disposal of current financial assets		629	1,096	10	18
Purchase of current financial assets		(51)	(171)	(1)	(3)
Acquisition of a subsidiary		(116)	-	(2)	-
Net cash used in investing activities		**(5,879)**	**(1,745)**	**(90)**	**(30)**
Cash flows from financing activities:					
Proceeds from short-term loans and borrowings		112	350	2	6
Proceeds from long-term loans and borrowings		2,896	3,576	44	60
Repayment of loans and borrowings		(772)	(4,148)	(12)	(70)
Payment of lease liabilities	2.3	(101)	-	(2)	-
Sale of interest in a subsidiary	12	1,235	-	19	-
Increase in share capital of a subsidiary through a contribution of a non-controlling shareholder		863	-	13	-
Dividends received from associates	10	318	15	5	-
Dividends paid to non-controlling interests		(40)	(8)	(1)	-
Dividends paid to equity holders of the parent	15	(877)	(564)	(13)	(10)
Net cash (used in) / generated from financing activities		**3,634**	**(779)**	**55**	**(14)**
Net increase / (decrease) in cash and cash equivalents		**(73)**	**255**	**(2)**	**3**
Net foreign exchange difference		-	-	(2)	(1)
Cash and cash equivalents at the beginning of the period	5	3,869	1,381	56	24
Cash and cash equivalents at the end of the period	**5**	**3,796**	**1,636**	**60**	**26**

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

1 The Group and its operations

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

The parent, KuibyshevAzot, was incorporated as a public joint stock company in the Russian Federation on 25 November 2016. The registered office of KuibyshevAzot is ul. Novozavodskaya, 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

As at 30 June 2019 a blocking shareholding of 27% of total share capital of the Company is held by a limited liability company Kuibyshevazot Plus, which was established in 2005 by the Company's management who contributed their shares in the Company into share capital of Kuibyshevazot Plus. 25% of total share capital of the Company is held by subsidiaries of the Group, as disclosed in Note 15. The remaining part of share capital of the Company is distributed among a number of individuals and legal entities. Therefore, the Company does not have an ultimate controlling party.

These interim condensed consolidated financial statements were authorised for issue by General Director of KuibyshevAzot on 26 August 2019.

2 Basis of preparation and changes to the Group's accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

2.2 Foreign currency transaction

Functional and presentation currency

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

Supplementary information

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

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

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

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

(in million of Russian rubles unless otherwise stated)

2 Basis of preparation and changes to the Group's accounting policies (continued)

2.2 Foreign currency transaction (continued)

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

	RUB / USD
30 June 2018	62.7565
Average for the period ended 30 June 2018	59.3536
31 December 2018	69.4706
Average for the period ended 30 June 2019	65.3384
30 June 2019	63.0756

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

2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 01 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases* that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 16 *Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

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

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

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

2 Basis of preparation and changes to the Group's accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

– *Leases previously classified as finance leases*

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

– *Leases previously accounted for as operating leases*

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

The Group also applied the available practical expedients wherein it:

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

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

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

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

2 Basis of preparation and changes to the Group's accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

– *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

– *Lease liabilities*

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

– *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below €5,000). Lease payments on short- term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

– *Significant judgement in determining the lease term of contracts with renewal options*

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

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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

(in million of Russian rubles unless otherwise stated)

2 Basis of preparation and changes to the Group's accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets				
	Land and buildings	**Motor vehicles**	**Other**	**Total**	**Lease liabilities**
As at 31 December 2018	**89**	**325**	**98**	**512**	**512**
Depreciation expense	(3)	(81)	(4)	(88)	-
Interest expense	-	-	-	-	21
Payments	-	-	-	-	(101)
As at 30 June 2019	**86**	**244**	**94**	**424**	**432**

The Group recognised rent expense from short-term leases of RUB 55 and leases of low-value assets of RUB 1 for the six months ended 30 June 2019.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation*
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*
- Annual Improvements Cycle - 2015-2017
- IFRS 3 *Business Combinations*
- IFRS 11 *Joint Arrangements*
- IAS 12 *Income Taxes*
- IAS 23 *Borrowing Costs*

3 Operating segment information

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

(1) Production and sale of caprolactam and derivatives;

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

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

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

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

(in million of Russian rubles unless otherwise stated)

3 Operating segment information (continued)

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

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated / elimination		Total	
	Unaudited		Unaudited		Unaudited		Unaudited	
Six months ended 30 June	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Sales	15,275	17,328	10,901	10,528	3,650	2,958	29,826	30,814
Segment operating profit for the period	832	1,736	2,509	2,611	660	404	4,001	4,751
IFRS adjustments:								
Difference in depreciation of property, plant and equipment							(201)	(297)
Provision for retirement benefit obligations							(14)	(26)
Other							109	(55)
IFRS operating profit for the period							**3,895**	**4,373**

Revenue from the segment 'Sale of caprolactam and its derivatives' comprises revenue received from one customer in the amount of RUB 2,694 (for the six-month period ended 30 June 2018: RUB 2,779).

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

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

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated / elimination		Total	
	As at 30 June 2019 (unaudited)	**As at 31 December 2018**	**As at 30 June 2019 (unaudited)**	**As at 31 December 2018**	**As at 30 June 2019 (unaudited)**	**As at 31 December 2018**	**As at 30 June 2019 (unaudited)**	**As at 31 December 2018**
Segment assets	28,921	28,519	5,151	5,232	33,150	28,248	67,222	61,999
IFRS adjustments:								
Right-of-use assets							424	-
Difference in depreciation of property, plant and equipment							695	807
Impairment of the Group's assets							(224)	(216)
Other							15	(50)
IFRS total assets							**68,132**	**62,540**

(in million of Russian rubles unless otherwise stated)

3 Operating segment information (continued)

	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ elimination		Total	
	As at 30 June 2019 (unaudited)	As at 31 December 2018	As at 30 June 2019 (unaudited)	As at 31 December 2018	As at 30 June 2019 (unaudited)	As at 31 December 2018	As at 30 June 2019 (unaudited)	As at 31 December 2018
Segment liabilities	1,581	1,953	1,189	1,469	31,053	27,848	33,823	31,270
IFRS adjustments:								
Lease liability							432	-
Retirement benefit obligations							423	409
Deferred tax							(345)	(324)
Other							(17)	5
IFRS total liabilities							**34,316**	**31,360**

Unallocated amounts relate mainly to borrowings of RUB 26,902 (as at 31 December 2018: RUB 23,214) and liabilities of non-core subsidiaries.

4 Related party disclosures

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over 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. During the six months ended 30 June 2019 the Group entered into transactions with the related parties, namely: associates, joint ventures and key management personnel.

The following table provides the total amount of transactions that have been entered into with related parties for the six-month period ended 30 June 2019 and 2018.

Sales of goods and services

	Unaudited	
	Six months ended 30 June	
	2019	2018
Sales of finished goods and other sales	2,617	2,679
Sale of electric power	476	373
Rental services	28	27
Interest income on loans issued to related parties	48	112
	3,169	**3,191**

Purchase of goods and services

	Unaudited	
	Six months ended 30 June	
	2019	2018
Purchase of goods	5,027	5,388
	5,027	**5,388**

(in million of Russian rubles unless otherwise stated)

4 Related party disclosures (continued)

The following table represents outstanding balances with related parties as at 30 June 2019 and 31 December 2018.

	Unaudited	
	30 June 2019	**31 December 2018**
Receivables from related parties	656	480
Payables to related parties	624	906
Borrowings issued to related parties	1,957	2,684
Borrowings from related parties	400	350

As at 30 June 2019 borrowings issued to related parties relate to a euro-denominated borrowing in the amount of RUB 1,957 issued to Linde Azot Togliatti at the interest rate of 4% (31 December 2018: RUB 2,684, interest rate of 4%).

As at 30 June 2019 borrowings received from related parties relate to an interest-free borrowing amounting to RUB 400 obtained from Praxair Azot Togliatti (31 December 2018: interest-free borrowing amounting to RUB 350).

Key management compensation

The remuneration of 12 key management personnel of the Company amounted to RUB 92 and RUB 43 for the six months ended 30 June 2019 and 2018, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel remuneration amounted of RUB 16 and RUB 9, respectively. Dividends paid to key management personnel amounted to RUB 139 and RUB 87, respectively.

5 Cash and cash equivalents

	Unaudited	
	30 June 2019	**31 December 2018**
Ruble-denominated cash on hand and balances with banks	2,372	708
Short-term deposits	102	2,399
Foreign currency denominated balances with banks	1,322	762
	3,796	**3,869**

As at 30 June 2019 cash deposits of RUB 102 (31 December 2018: RUB 2,399) bear interest of 4.52% - 7.05% (31 December 2018: 1% - 7.2%).

Balances with bank are not interest-bearing.

Foreign currency denominated balances with banks consist of the following:

	Unaudited	
Currency	**30 June 2019**	**31 December 2018**
US dollars	640	353
Euros	535	280
Yuans	144	126
Serbian dinars	3	3
	1,322	**762**

(in million of Russian rubles unless otherwise stated)

6 Trade and other receivables

	Unaudited	
	30 June 2019	31 December 2018
Trade receivables	2,871	2,779
Impairment provision	(45)	(43)
	2,826	**2,736**
VAT recoverable	1,863	1,129
Advances paid (contract assets)	1,132	930
Other receivables	185	359
	6,006	**5,154**

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

	Unaudited
Balance as at 31 December 2017	**68**
Accrued / (unused amounts reversed)	(3)
Utilised	(13)
Balance as at 30 June 2018	**52**
Balance as at 31 December 2018	**43**
Accrued / (unused amounts reversed)	2
Utilised	-
Balance as at 30 June 2019	**45**

7 Inventories

	Unaudited	
	30 June 2019	31 December 2018
Raw materials	3,527	3,280
Work in progress	1,549	1,450
Finished goods	2,877	3,271
	7,953	**8,001**

During the six months ended 30 June 2019 RUB 15 was recognised as an expense for slow-moving inventories and inventories carried at net realisable value (six months ended 30 June 2018: RUB 19). This was recognised in cost of goods and services sold.

8 Property, plant and equipment

Movements in property, plant and equipment were as follows:

	Unaudited
Balance as at 31 December 2017	**28,620**
Additions	1,346
Disposals	(169)
Depreciation charge	(1,182)
Foreign exchange differences	25
Balance as at 30 June 2018	**28,640**
Balance as at 31 December 2018	**31,001**
Additions	3,339
Disposals	(38)
Depreciation charge	(1,280)
Foreign exchange differences	(93)
Balance as at 30 June 2019	**32,929**

(in million of Russian rubles unless otherwise stated)

8 Property, plant and equipment (continued)

At 30 June 2019 property, plant and equipment carried at RUB 8,505 (31 December 2018: RUB 8,505) have been pledged as collateral for bank loans and other borrowings (Note 12).

9 Intangible assets

Movements in intangible assets were as follows:

	Unaudited
Balance as at 31 December 2017	**4,496**
Additions	40
Disposals	(3)
Depreciation charge	(279)
Balance as at 30 June 2018	**4,254**
Balance as at 31 December 2018	**4,044**
Additions	3
Disposals	(2)
Depreciation charge	(263)
Balance as at 30 June 2019	**3,782**

In 2010 the Group signed a license agreement with DSM FIBRE INTERMEDIATES B.V. (subsequently renamed to FIBRANT B.V.) and received a non-exclusive license for energy-efficient production of cyclohexanone (EPC). As at 30 June 2019 net book value of the license was RUB 3,727 and the remaining useful life was 91 months.

10 Investments in associates and joint ventures

	Unaudited					
	Praxair Azot Togliatti	**Other associates**	**JV Linde Azot Togliatti**	**JV Granifert**	**Other joint ventures**	**Total**
As at 31 December 2017	**1,853**	**243**	**2,802**	**382**	**58**	**5,338**
Share of profit / (loss)	119	54	(1)	59	5	236
Disposals	-	(26)	-	-	-	(26)
Dividends received	-	(15)	-	-	-	(15)
As at 30 June 2018	**1,972**	**256**	**2,801**	**441**	**63**	**5,533**
As at 31 December 2018	**1,962**	**286**	**2,863**	**-**	**65**	**5,176**
Share of profit / (loss)	168	76	666	-	7	917
Disposals	-	-	-	-	-	-
Dividends received	(222)	(96)	-	-	-	(318)
As at 30 June 2019	**1,908**	**266**	**3,529**	**-**	**72**	**5,775**

As at 30 June 2019 an associate had capital commitments for the purchase of property, plant and equipment in the amount of RUB 17 (31 December 2018: no capital commitments for the purchase of property, plant and equipment).

As at 30 June 2019 a joint venture had no capital commitments for the purchase of property, plant and equipment from third parties (31 December 2018: no capital commitments for the purchase of property, plant and equipment).

(in million of Russian rubles unless otherwise stated)

11 Financial assets

Current financial assets include:

	Unaudited 30 June 2019	31 December 2018
Short-term portion of a loan issued to a joint venture (euro-denominated): 4% (2018: 4%)	961	1,046
Short-term portion of housing loans allowed to employees: 0% - 15% (2018: 0% - 15%)	82	84
Other	51	28
	1,094	**1,158**

Non-current financial assets include:

	Unaudited 30 June 2019	31 December 2018
Long-term portion of a loan issued to a joint venture (euro-denominated): 4% (2018: 4%)	996	1,638
Long-term housing loans allowed to employees: 0% - 15% (2018: 0% - 15%)	391	386
Other	47	55
	1,434	**2,079**

As at 30 June 2019 long-term loans to employees have different maturity dates up to the year 2039 (31 December 2018: up to 2038).

12 Loans and borrowings

Short-term loans and borrowings

	Interest rate	Currency	Unaudited 30 June 2019	31 December 2018
Current portion of long-term loans and borrowings				
Ak Bars Bank	8.5%	Rubles	972	729
International Finance Corporation*	LIBOR 6+4.125%	US dollars	2,505	712
Gazprombank	8.55% - 8.65%	Rubles	492	-
Lease liability	9.3%	Rubles	172	-
Russian Foundation for Technological Development	5%	Rubles	125	50
Rosbank	EURIBOR 6+1.4%, 3%	Euros	118	98
Sberbank	EURIBOR 3, EURIBOR 6+1.25% - 2.2%	Euros	65	145
Raiffeisenbank	EURIBOR 6+1.6%	Euros	-	23
Other			2	6
Total current portion of long-term loans and borrowings			**4,451**	**1,763**
Short-term loans and borrowings				
VEB.RF	9.7%	Rubles	1,258	-
International Finance Corporation	12%	Rubles	638	666
Praxair Azot Togliatti	0%	Rubles	400	350
Societe Generale (China) Limited	4.43%	US dollars	64	-
Other			38	40
Total short-term loans and borrowings			**2,398**	**1,056**
Interest on loans and borrowings			48	53
			6,897	**2,872**

(in million of Russian rubles unless otherwise stated)

12 Loans and borrowings (continued)

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

	Unaudited 30 June 2019	31 December 2018
Borrowing denominated in:		
- Russian rubles	4,127	1,872
- US dollars	2,584	733
- euros	186	267
	6,897	**2,872**

Long-term loans and borrowings

	Interest rate	Maturity date	Currency	Unaudited 30 June 2019	31 December 2018
Sberbank	9.25% - 9.97%	2021 - 2026	Rubles	7,957	7,026
Gazprombank	8.2% - 10.1%	2020 - 2028	Rubles	4,623	5,046
Rosbank	5% - 5.76%	2022 - 2023	US dollars	2,297	2,529
International Finance Corporation*	LIBOR 6+4.125%	2020 - 2023	US dollars	-	2,452
Sberbank	EURIBOR 3+1.25% - 2.2%	2020 - 2022	Euros	1,453	828
Raiffeisenbank	3.22%	2021 - 2024	Euros	1,077	-
MET DEV S.r.l. 1	13.25%	2025	Euros	1,042	-
Rosbank	EURIBOR 6+1.55% - 2.4%	2020-2022	Euros	485	569
Gazprombank	5.95%	2024 - 2028	US dollars	442	486
Lease liability	9.3%	2020 - 2061	Rubles	260	-
Gazprombank	3%	2024 - 2028	Euros	253	280
Ak Bars Bank	8.5%	2020	Rubles	243	729
Russian Foundation for Technological Development	5%	2020-2021	Rubles	150	225
Banca Intesa	2.82%	2021 - 2023	Euros	138	153
Other				17	19
				20,437	**20,342**

* As at 30 June 2019 the Group did not meet a non-financial covenant set by a loan agreement with a bank – entering into derivative transactions. As at 30 June 2019 the Group had RUB 2,505 of the loan with a breached non-financial covenant including RUB 1,948 of long-term debt which was classified as current liabilities as at that date.

As at the date of the interim condensed financial statements approval credit institutions have not requested accelerated payments of the loans.

(in million of Russian rubles unless otherwise stated)

12 Loans and borrowings (continued)

The maturity of long-term borrowings is as follows:

	Unaudited 30 June 2019	31 December 2018
Current	2,503	1,763
1 to 2 years	3,824	3,306
2 to 3 years	6,641	4,366
3 to 5 years	7,073	8,744
Over 5 years	4,847	3,926
	24,888	**22,105**
Less: Current portion	(2,503)	(1,763)
Less: Loans with breached covenants	(1 948)	-
	20,437	**20,342**

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

	Unaudited 30 June 2019	31 December 2018
Borrowing denominated in:		
- Russian rubles	13,250	13,044
- euros	4,448	1,830
- US dollars	2,739	5,468
	20,437	**20,342**

In April 2019 the Group signed a contract to sell a 49% share in Volgatekhnool, the value of the share amounted to RUB 1,235. As part of this transaction, in April 2019, the Group entered into an agreement with the share purchaser on the rights of the Group to acquire an interest for cash consideration over a period of time. According to IFRS 32, the Group recognised this financial instrument as a financial liability.

in June 2019, the Group entered into an agreement on the rights of the Group to acquire an interest in the subsidiary Volgafert for cash consideration over a period of time. According to IFRS 32, the Group recognised this financial instrument as a financial liability.

Total amount of guarantee issued by the Group for long and short-term borrowings is RUB 8,505 (31 December 2018: RUB 8,505), which is represented by pledged equipment and real estate (Note 8).

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

Changes in liabilities arising from financing activities are as follows:

	31 December 2018	Changes in cash flows	Changes in currency rates	Changes due to covenant non-compliance	Other	Unaudited 30 June 2019
Short-term loans and borrowings	2,872	(661)	(117)	1,948	2,855	6,897
Long-term loans and borrowings	20,342	2,897	(694)	(1,948)	(160)	20,437
Total	**23,214**	**2,236**	**(811)**	**-**	**2,695**	**27,334**

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

13 Other current liabilities

	Unaudited 30 June 2019	31 December 2018
Salaries payable	524	537
Dividends payable	28	13
Other	475	320
	1,027	**870**

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

14 Other than income taxes payable

	Unaudited 30 June 2019	31 December 2018
Payments to the Pension Fund and other social taxes	91	98
Personal income tax	31	27
Property tax	12	13
Other taxes	96	110
	230	**248**

The Group had no tax liabilities past due at 30 June 2019 and 31 December 2018.

15 Share capital

	Number of issued shares (thousands)		Number of treasury shares	Total number of outstanding shares	Share capital	Treasury shares
Unaudited	**Preference**	**Ordinary**	**(thousand)**	**(thousand)**	**(RUB million)**	
As at 01 January 2018	3,697	234,148	(49,614)	188,231	634	(2,225)
As at 30 June 2018	3,697	234,148	(49,614)	188,231	634	(2,225)
As at 01 January 2019	3,697	234,148	(59,348)	178,497	634	(3,785)
As at 30 June 2019	3,697	234,148	(59,348)	178,497	634	(3,785)

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

Shares that were purchased before 30 June 2019 from shareholders and that were not cancelled are held as ‘treasury shares’. At 30 June 2019 Togliattichiminvest, Kuibyshevazot-invest and Activinvest held 57,866 thousand ordinary and 1,482 thousand preference shares of the Company (31 December 2018: 57,866 thousand ordinary and 1,482 thousand preference shares).

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

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

(in million of Russian rubles unless otherwise stated)

15 Share capital (continued)

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

	Unaudited	
	2019	**2018**
Dividends payable at 1 January	**13**	**200**
Dividends declared during the period	892	376
Dividends paid during the period	(877)	(564)
Dividends payable at 30 June	**28**	**12**
Dividends per share declared during the period, rubles	**5**	**2**

During the six months ended 30 June 2019 the Company declared final dividends for 2018 of 5 rubles per share for both ordinary and preference shares (six months ended 30 June 2018: final dividends for 2017 of 2 rubles).

16 Sales

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

	For the six months ended 30 June 2019 (unaudited)			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilisers**	**Other**	**Total**
Type of goods or service				
Caprolactam and derivatives	15,275	-	-	15,275
Ammonia and nitrogen fertilisers	-	10,901	-	10,901
Other	-	-	3,650	3,650
Total revenue from contracts with customers	**15,275**	**10,901**	**3,650**	**29,826**
Geographical markets				
Russia	4,588	7,200	3,431	15,219
Asia	7,689	73	31	7,793
Europe	2,362	1,516	38	3,916
Other	636	2,112	150	2,898
Total revenue from contracts with customers	**15,275**	**10,901**	**3,650**	**29,826**
Timing of revenue recognition				
Goods transferred at a point in time	15,275	10,901	2,935	29,111
Services transferred at a point in time	-	-	715	715
Total revenue from contracts with customers	**15,275**	**10,901**	**3,650**	**29,826**

(in million of Russian rubles unless otherwise stated)

16 Sales (continued)

	For the six months ended 30 June 2018 (Unaudited)			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilisers**	**Other**	**Total**
Type of goods or service				
Caprolactam and derivatives	17,328	-	-	17,328
Ammonia and nitrogen fertilisers	-	10,528	-	10,528
Other	-	-	2,958	2,958
Total revenue from contracts with customers	**17,328**	**10,528**	**2,958**	**30,814**
Geographical markets				
Russia	4,739	6,572	2,800	14,111
Asia	8,370	325	45	8,740
Europe	2,963	2,024	10	4,997
Other	1,256	1,607	103	2,966
Total revenue from contracts with customers	**17,328**	**10,528**	**2,958**	**30,814**
Timing of revenue recognition				
Goods transferred at a point in time	17,328	10,528	2,341	30,197
Services transferred at a point in time	-	-	617	617
Total revenue from contracts with customers	**17,328**	**10,528**	**2,958**	**30,814**

For the six months ended 30 June 2019 the Group recognised impairment losses on receivables arising from contracts with customers, included under General and administrative expenses in the interim condensed consolidated statement of comprehensive income, amounting to RUB 2 (six months ended 30 June 2018: reversal of impairment losses amounting to RUB 3).

17 Cost of sales

	Unaudited	
	Six months ended 30 June	
	2019	**2018**
Raw materials	15,463	16,597
Heat energy and electricity	2,383	2,066
Labour costs	1,801	1,737
Depreciation and amortisation	1,569	1,376
Other	244	483
Changes in finished goods and work in progress	334	280
	21,794	**22,539**

18 Distribution costs

	Unaudited	
	Six months ended 30 June	
	2019	**2018**
Transportation costs	2,583	2,468
Labour costs	163	219
Materials	95	112
Depreciation and amortisation	29	57
Other	280	240
	3,150	**3,096**

(in million of Russian rubles unless otherwise stated)

19 General and administrative expenses

	Unaudited	
	Six months ended 30 June	
	2019	2018
Labour costs	862	656
Third party services	184	195
Taxes other than income tax	85	188
Consultancy services	66	56
Fines and penalties	18	33
Depreciation and amortisation	33	28
Insurance	28	24
Materials	28	22
Impairment of accounts receivable	2	(3)
Other	103	77
	1,409	**1,276**

20 Other operating income

	Unaudited	
	Six months ended 30 June	
	2019	2018
Compensation received from the federal budget	601	641
Disposal of inventory	92	45
Foreign exchange gains on operating activities	-	96
Other	15	12
	708	**794**

21 Other operating expenses

	Unaudited	
	Six months ended 30 June	
	2019	2018
Social expenses	107	174
Foreign exchange loss on operating activities	93	-
Loss on disposal of property, plant and equipment	37	55
Expenses for elimination of damage caused by fire	-	10
Other	49	85
	286	**324**

22 Finance income

	Unaudited	
	Six months ended 30 June	
	2019	2018
Interest income	201	126
Foreign exchange gains on financing activities	518	-
Other	-	7
	719	**133**

(in million of Russian rubles unless otherwise stated)

23 Finance costs

	Unaudited	
	Six months ended 30 June	
	2019	2018
Interest expense	949	926
Less capitalised borrowing costs	(60)	(169)
Foreign exchange loss on financing activities	-	546
Other	8	19
	897	**1,322**

24 Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of comprehensive income are:

	Unaudited	
	Six months ended 30 June	
	2019	2018
Current income tax expense	767	755
Deferred tax benefit relating to profit or loss	(23)	(37)
Income tax expense recognized in profit or loss	**744**	**718**
Deferred tax (income) / expenses relating to items recognized in OCI	-	12
Income tax expense / (benefit) recognised on OCI	**-**	**12**
Income tax expense for the period	**744**	**730**

25 Commitments and contingencies

25.1 Commitments and guarantees

As at 30 June 2019 and 31 December 2018 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RUB 17,949 and RUB 2,845 respectively, designated for construction of new and modernisation of existing production facilities.

25.2 Taxation

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

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

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

(in million of Russian rubles unless otherwise stated)

25 Commitments and contingencies (continued)

25.2 Taxation (continued)

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

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

Management believes that at 30 June 2019 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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

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

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

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

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

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

25.3 Environmental matters

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

25 Commitments and contingencies (continued)

25.4 Lawsuits

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

25.5 Contingencies

Contingencies that were determined by management at the reporting date as those that may be subject to different interpretations of legislation and regulations, and were not accrued in the consolidated financial statements, can range from RUB 0 to RUB 466 for the Group. In respect of these contingencies there is also uncertainty over the term of their execution, as they depend on the occurrence (non-occurrence) of one or more future uncertain events not controlled by the Group.

25.6 Operating environment of the Group

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

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

26 Financial instruments and fair value hierarchy

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

At 30 June 2019 and 31 December 2018, the fair value of financial instruments, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, approximates their carrying value.

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

(in million of Russian rubles unless otherwise stated)

26 Financial instruments and fair value hierarchy (continued)

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

	Carrying amount		**Assets and liabilities for which fair values are disclosed (Level 2)**	
	30 June 2019 (unaudited)	**31 December 2018**	**30 June 2019 (unaudited)**	**31 December 2018**
FINANCIAL ASSETS:				
Cash and cash equivalents	3,796	3,869	3,796	3,869
Financial assets - current	1,094	1,158	1,094	1,158
Financial assets – non-current	1,434	2,079	1,434	2,079
Trade receivables	2,826	2,736	2,826	2,736
FINANCIAL LIABILITIES:				
Short-term loans and borrowings	6,897	2,872	6,897	2,872
Long-term loans and borrowings	20,437	20,342	20,437	20,342
Trade payables	2,565	3,495	2,565	3,495

During the six months ended 30 June 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.