Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company KuibyshevAzot
and its subsidiaries
for 2021

March 2022

Independent auditor's report
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and its subsidiaries

Contents

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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company KuibyshevAzot (PJSC KuibyshevAzot) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How the matter was addressed in the audit
Revenue recognition	
Revenue is one of the Group's key performance measures, which gives rise to a risk that revenue may be misstated in order to achieve performance targets. In this regard, revenue recognition was one of the key audit matters. Information regarding revenue is disclosed in Note 21 to the consolidated financial statements.	We reviewed the Group's accounting policies for recognition of revenue from sale of goods. We analyzed indicators of the control transfer to customers. On a sample basis, we compared the date of control transfer with the date of revenue recognition. We performed analytical procedures in respect of revenue that included, among others, the analysis of monthly or quarterly sales to detect unusual fluctuations (by type of goods and services, by geographical area) and reconciliation with comparative information for prior periods and the anticipated results of the Group.
Covenants on loans and borrowings	
In accordance with terms of agreements for loans and borrowings, the Group should maintain and comply with certain financial and non-financial covenants. Analysing compliance with covenants was one of the matters of most significance in our audit because covenants breach may have a significant impact on the going concern assumption used in the preparation of the consolidated financial statements and on the classification of liabilities in the consolidated statement of financial position. Information regarding loan agreements and borrowing arrangements is disclosed in Note 16 to the consolidated financial statements.	We reviewed the terms of agreements for loans and borrowings including covenant ratios and events of default definitions. We reviewed management's calculations of the covenant ratios. We checked mathematical accuracy of covenant calculations and reconciled data used in the calculations with data in the consolidated financial statements and relevant accounting data. We compared the classification of loans and borrowings as current or non-current liabilities with the results of the analysis of compliance with covenants on relevant loans and borrowings.
Valuation of options: judgement and the use of estimates and assumptions	
Valuation of options was a key area of judgment for management due to the complexity and subjectivity of valuation techniques. Due to the significance of fair values of options with respect to the consolidated financial statements and the related estimation uncertainty, this area was one of the key audit matters. Information regarding valuation of options is disclosed in Notes 14 and 33.7 to the consolidated financial statements.	Our procedures included the assessment of key controls over the identification, measurement and management of valuation risk, as well as evaluating the methodologies and input parameters used by the Group in determining fair values of options. For the Group's fair value models, we involved our own valuation specialists to assess the appropriateness of the models and inputs. We further compared observable inputs against independent sources and externally available market data. Additionally, we considered whether the fair value determination was appropriately and adequately disclosed.

Other information included in the 2021 Annual Report of PJSC KuibyshevAzot

Other information consists of the information included in the 2021 Annual Report of PJSC KuibyshevAzot, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The 2021 Annual Report of PJSC KuibyshevAzot is expected to be provided to us after the date of our auditor's report.

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

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

Responsibilities of management and the Board of Directors of PJSC KuibyshevAzot for the consolidated financial statements

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 the Board of Directors of PJSC KuibyshevAzot regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors of PJSC KuibyshevAzot with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats of safeguards applied.

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

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Report on supplementary information

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

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

E. Zlokazova

E.E. Zlokazova
acting on behalf of Ernst & Young LLC
on the basis of power of attorney without number dated 1 March 2022,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906100045)

23 March 2022

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the audited entity

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

KuibyshevAzot Group

Consolidated statement of financial position

as at 31 December 2021

(in millions of Russian rubles unless otherwise stated)

		As at 31 December		Supplementary information USD million (Note 2.3) As at 31 December	
	Note	**2021**	**2020**	**2021**	**2020**
Assets					
Current assets					
Cash and cash equivalents	8	13 767	3 136	185	42
Trade and other receivables	9	6 136	3 938	83	53
Inventories	10	9 181	7 981	124	108
VAT recoverable		1 248	661	17	9
Income tax prepaid		6	161	–	2
Financial assets	15	3 375	490	45	7
Derivative financial instruments	14	426	–	6	–
Total current assets		**34 139**	**16 367**	**460**	**221**
Non-current assets					
Property, plant and equipment	11	35 965	34 595	484	468
Intangible assets	12	2 572	3 057	35	41
Right-of-use assets	13	399	420	5	6
Prepayments for property, plant and equipment and intangible assets		1 124	3 150	15	43
Investments in associates and joint ventures	14	15 979	11 519	215	156
Financial assets	15	1 468	794	20	11
Total non-current assets		**57 507**	**53 535**	**774**	**725**
Total assets		**91 646**	**69 902**	**1 234**	**946**
Liabilities					
Current liabilities					
Trade payables		2 286	2 801	31	38
Income tax payable		721	40	10	1
Taxes payable other than income tax	18	1 087	239	15	3
Short-term loans and borrowings	16	3 345	4 327	45	59
Lease liabilities	13	212	195	3	3
Advances received		6 875	2 582	93	35
Loan commitment	14	4 309	–	58	–
Other current liabilities	17	3 517	596	47	8
Total current liabilities		**22 352**	**10 780**	**302**	**147**
Non-current liabilities					
Long-term loans and borrowings	16	15 305	20 183	206	273
Deferred tax liabilities	29	1 578	1 405	21	19
Lease liabilities	13	173	235	2	3
Retirement benefit obligations	19	733	747	10	10
Derivative financial instruments	14	3 350	3 398	45	46
Other non-current liabilities	17	-	65	-	1
Total non-current liabilities		**21 139**	**26 033**	**284**	**352**
Total liabilities		**43 491**	**36 813**	**586**	**499**
Equity					
Equity and reserves attributable to equity holders of the Company					
Share capital	20	634	634	9	9
Additional share capital		919	919	12	12
Treasury shares	20	(6 396)	(3 897)	(86)	(53)
Foreign currency translation reserve		928	834	12	11
Retained earnings		51 768	34 340	697	465
		47 853	**32 830**	**644**	**444**
Non-controlling interests		302	259	4	3
Total equity		**48 155**	**33 089**	**648**	**447**
Total liabilities and equity		**91 646**	**69 902**	**1 234**	**946**

Approved for issue and signed on behalf of Board of Directors on March 23 2022

A.V. Gerasimenko
General Director

V.N. Kudashev
Chief Accountant

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

KuibyshevAzot Group

Consolidated statement of comprehensive income

for the year ended 31 December 2021

(in millions of Russian rubles unless otherwise stated)

	Note	Year ended 31 December 2021	Year ended 31 December 2020	Supplementary information USD million (Note 2.3) Year ended 31 December 2021	Supplementary information USD million (Note 2.3) Year ended 31 December 2020
Revenue	21	87,489	53,062	1,188	735
Cost of sales	22	(53,665)	(41,095)	(729)	(570)
Gross profit		**33,824**	**11,967**	**459**	**165**
Distribution costs	23	(6,537)	(5,851)	(89)	(81)
General and administrative expenses	24	(3,384)	(2,589)	(46)	(36)
Other operating income	25	1,645	2,834	22	37
Other operating expenses	26	(299)	(168)	(4)	(2)
Operating profit		**25,249**	**6,193**	**342**	**85**
Loss on disposal of subsidiaries	14	(2,960)	–	(35)	–
Gain/(loss) from remeasurement of derivative financial instruments	14	890	(1,324)	12	(18)
Finance income	27	1,305	202	18	3
Finance costs	28	(1,194)	(3,360)	(16)	(47)
Share of profit of associates and joint ventures	14	2,724	(391)	37	(6)
Profit before tax		**26,014**	**1,320**	**353**	**40**
Income tax expense	29	(4,855)	(454)	(66)	(6)
Profit for the year		**21,159**	**866**	**287**	**11**
Other comprehensive income/(loss)					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods					
Foreign currency translation reserve		94	340	1	5
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**94**	**340**	**1**	**5**
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		35	88	–	1
Income tax effect	29	(7)	(18)	–	–
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**28**	**70**	**–**	**1**
Other comprehensive income/(loss) for the year, net of tax		**122**	**410**	**2**	**6**
Total comprehensive income/(loss) for the year, net of tax		**21,281**	**1,276**	**289**	**17**
Profit for the year attributable to:					
Equity holders of the Company	30	21,061	718	286	9
Non-controlling interests		98	148	1	2
		21,159	**866**	**287**	**11**
Total comprehensive income attributable to:					
Equity holders of the Company		21,183	1,128	288	15
Non-controlling interests		98	148	1	2
		21,281	**1,276**	**289**	**17**
Earnings per share, basic/diluted (in Russian rubles and US dollars per share)					
- for profit attributable to equity holders of the Company	30	118.84	4.03	1.61	0.06

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

KuibyshevAzot Group

Consolidated statement of changes in equity

for the year ended 31 December 2021

(in millions of Russian rubles unless otherwise stated)

	Equity attributable to equity holders of the Company							
	Share capital	Additional share capital	Treasury shares (Note 20)	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 31 December 2019	**634**	**919**	**(3,897)**	**494**	**33,552**	**31,702**	**157**	**31,859**
Profit for the year	–	–	–	–	718	**718**	148	**866**
Other comprehensive income	–	–	–	340	70	**410**	–	**410**
Total comprehensive income for 2020	**–**	**–**	**–**	**340**	**788**	**1128**	**148**	**1,276**
Purchase of treasury shares (Note 20)	–	–	–	–	–	**–**	–	**–**
Non-controlling interests arising as a result of an investment increase	–	–	–	–	–	**–**	–	**–**
Dividends declared by a subsidiary to non-controlling interests	–	–	–	–	–	**–**	(46)	**(46)**
Dividends declared (Note 20)	–	–	–	–	–	**–**	–	**–**
Balance as at 31 December 2020	**634**	**919**	**(3,897)**	**834**	**34,340**	**32,830**	**259**	**33,089**
Profit for the year	–	–	–	–	21,061	**21,061**	98	**21,159**
Other comprehensive income	–	–	–	94	28	**122**	–	**122**
Total comprehensive income for 2021	**–**	**–**	**–**	**94**	**21,089**	**21,183**	**98**	**21,281**
Purchase of treasury shares (Note 20)	–	–	(2,499)	–	–	**(2,499)**	–	**(2,499)**
Non-controlling interests disposed of as a result of loss of control	–	–	–	–	–	**–**	–	**–**
Dividends declared by a subsidiary to non-controlling interests	–	–	–	–	–	**–**	(55)	**(55)**
Dividends declared (Note 20)	–	–	–	–	(3,661)	**(3,661)**	–	**(3,661)**
Balance as at 31 December 2021	**634**	**919**	**(6,396)**	**928**	**51,768**	**47,853**	**302**	**48,155**

	Equity attributable to equity holders of the Company							
Supplementary information USD million (Note 2.3)	**Share capital**	**Additional share capital**	**Treasury shares (Note 20)**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2020	9	12	(53)	11	465	**444**	3	**447**
Balance as at 31 December 2021	9	12	(86)	12	697	**644**	4	**648**

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

KuibyshevAzot Group

Consolidated statement of cash flows

for the year ended 31 December 2021

(in millions of Russian rubles unless otherwise stated)

		Year ended 31 December		Supplementary information USD million (Note 2.3) Year ended 31 December	
	Note	**2021**	**2020**	**2021**	**2020**
Cash flows from operating activities					
Profit before tax					
Adjustments for:		26,013	1,320	353	18
Depreciation and amortization of property, plant and equipment, intangible assets and right-of-use assets	11, 12, 13	4,063	3,333	55	45
Loss on disposal of property, plant and equipment		–	4	–	–
Retirement benefit obligations	19	(24)	300	–	4
Expected credit losses		–	17	–	–
Loss on disposal of subsidiaries	14	2,960	–	40	–
Share of (profit)/loss of associates and joint ventures	14	(2,725)	391	(37)	5
Gain/(loss) from remeasurement of derivative financial instruments	14	(890)	1,324	(12)	18
Finance income	27	(1,139)	(202)	(15)	(3)
Finance costs	28	1,194	1,684	16	23
Net foreign exchange effect on non-operating balances	28	(166)	1,676	(2)	22
Operating cash flows before working capital changes		**29,286**	**9,847**	**398**	**132**
Changes in trade receivables and prepayments		(2,775)	(449)	(38)	(6)
Changes in inventories		(1,200)	(85)	(16)	(1)
Changes in trade and other payables		4,202	2,354	57	32
Changes in other taxes payable		848	(36)	12	(1)
Cash flows from operating activities		**30,361**	**11,631**	**413**	**156**
Income tax paid		(3,817)	(460)	(52)	(6)
Interest received		372	203	5	3
Interest paid		(1,117)	(1,497)	(15)	(20)
Net cash generated from operating activities		**25,799**	**9,877**	**351**	**133**
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,967)	(6,291)	(54)	(85)
Proceeds from sale of property, plant and equipment		40	–	1	–
Purchase of intangible assets		(30)	(15)	(–)	(–)
Disposal of non-current financial assets		–	–		–
Purchase of non-current financial assets		(539)	(559)	(7)	(8)
Disposal of current financial assets		386	941	5	13
Purchase of current financial assets		(3,304)	(33)	(45)	–
Disposal of subsidiary		(182)	–	(2)	–
Dividends received from associates	14	1,375	603	19	8
Net cash used in investing activities		**(6,221)**	**(5,354)**	**(84)**	**(72)**
Cash flows from financing activities					
Proceeds from short-term loans and borrowings	16	662	2,139	9	29
Proceeds from long-term loans and borrowings	16	2,873	2,820	39	38
Repayment of loans and borrowings	16	(8,363)	(7,030)	(114)	(95)
Payment of lease liabilities	13	(229)	(228)	(3)	(3)
Purchase of treasury shares	20	(2,499)	–	(34)	–
Dividends paid to non-controlling interests	20	(55)	(46)	(1)	(1)
Dividends paid to equity holders of the parent	20	(1,332)	(230)	(18)	(3)
Net cash (used in) / generated from financing activities		**(8,943)**	**(2,575)**	**(121)**	**35**
Net increase/(decrease) in cash and cash equivalents		**10,635**	**1,948**	**144**	**26**
Net foreign exchange difference		(4)	297	–	4
Cash and cash equivalents at the beginning of the year	8	3,136	891	43	12
Cash and cash equivalents at the end of the year	8	**13,767**	**3,136**	**187**	**42**

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

1 The Group and its operations

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

KuibyshevAzot was incorporated as a closed joint-stock company in the Russian Federation on 24 December 1992. During the privatization in 1992, management of the Company and its employees received shares in accordance with Law No. 1531-1 dated 3 July 1992 *On Privatization of State and Municipal Organizations*. In 2006, the Company changed its legal form from closed joint-stock company to open joint-stock company based on the decision of the Annual Shareholders' Meeting held on 21 April 2006.

In accordance with the requirements of Federal Law No. 99-FZ dated 5 May 2014 *On Amending Chapter 4 of Part 1 of the Russian Civil Code and on Declaring Certain Russian Legislative Provisions No Longer in Force* effective since 1 September 2014, the Company amended its articles of association and brought them into compliance with provisions of Chapter 4 of the Russian Civil Code. The Company accordingly changed its legal form from open joint-stock company (OJSC) to public joint-stock company (PJSC). The articles of association were amended upon decision of the General Shareholders' Meeting on 5 August 2016 and registered in the State Register of Legal Entities on 25 November 2016, State Registration Number 7166313658757.

As at 31 December 2021, a blocking shareholding of 27% of the total share capital of the Company (31 December 2020: 27%) is held by LLC Kuibyshevazot Plus, which was established in 2005 by the Company's management who contributed their shares in the Company into the share capital of LLC Kuibyshevazot Plus. 28% of the total share capital of the Company (31 December 2020: 25%) is held by subsidiaries of the Group, as disclosed in Note 20. The remaining part of the share capital of the Company is distributed among a number of individuals and legal entities. Therefore, the Company does not have an ultimate controlling party.

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

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") to ensure compliance with Federal Law No. 208-FZ dated 27 July 2010 *On Consolidated Financial Statements*. Most of the Group companies maintain their accounting records in Russian rubles ("RUB") and prepare their financial statements in accordance with the regulations on accounting and reporting in the Russian Federation (Note 32). These consolidated financial statements are based on accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The consolidated financial statements are presented in Russian rubles, and all values are rounded to the nearest million except when otherwise indicated. Any difference between the comparative figures and the amounts reported in the 2020 consolidated financial statements is solely the result of a reclassification for comparative purposes or change in presentation.

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

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

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

(a) Business combination and goodwill

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

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

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

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

(b) Investments in associates and joint ventures

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

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

(c) Current versus non-current classification

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

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

(d) Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

(in millions of Russian rubles unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Basis of consolidation (continued)

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

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

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

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

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

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

2.3 Foreign currency transactions

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, Russian rubles ("RUB").

Supplementary information

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

(i) All items in the consolidated statement of financial position, including all components of equity, are translated at the rate ruling at the respective reporting date.

(ii) Income and expenses are translated using the average rate of exchange for each year presented.

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

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

	RUB/USD
Average for the year ended 31 December 2020	72.1464
31 December 2020	73.8757
Average for the year ended 31 December 2021	73.6541
31 December 2021	74.2926

2 Basis of preparation and significant accounting policies (continued)

2.3 Foreign currency transactions (continued)

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

Transactions and balances

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

Group companies

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

2.4 Cash and cash equivalents

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

2.5 Accounts receivable

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

2.6 Value added tax

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

Value added tax payable

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

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

Value added tax recoverable

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.7 Inventories

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

2.8 Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified as measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets, or both. Financial assets classified as measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified as measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

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

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated as at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

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

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

2 Basis of preparation and significant accounting policies (continued)

2.8 Financial assets (continued)

Financial assets at fair value through profit or loss

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

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

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

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Impairment of financial assets

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

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

2 Basis of preparation and significant accounting policies (continued)

2.9 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2.10 Leases

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

Group as a lessee

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

i) Right-of-use assets

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

2 Basis of preparation and significant accounting policies (continued)

2.10 Leases (continued)

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

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

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

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

ii) Lease liabilities

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

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

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

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

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

Group as a lessor

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

2 Basis of preparation and significant accounting policies (continued)

2.11 Intangible assets

All of the Group's intangible assets have finite useful lives and primarily include the license and capitalized computer software. They are capitalized on the basis of the costs incurred to acquire and bring them to use. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets are amortized using the straight-line method over their useful lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

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

2.12 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

Subsequent measurement

For the purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss;
- Financial liabilities at amortized cost (loans and borrowings).

Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.12 Financial liabilities (continued)

Derecognition

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

Offsetting of financial instruments

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

2.13 Income tax

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

2.13 Income tax (continued)

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

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

2.14 Share capital and treasury shares

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

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

2.15 Dividend distribution

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

2.16 Revenue recognition

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

Sale of chemical products

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

Variable consideration

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

Rendering of services

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

2 Basis of preparation and significant accounting policies (continued)

2.16 Revenue recognition (continued)

Advances received from customers (contractual obligations)

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

2.17 Employee benefits

Social costs

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

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

Pension costs

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

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

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

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

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

2.18 Provisions

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

2.19 Earnings per share

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

2 Basis of preparation and significant accounting policies (continued)

2.20 Borrowing costs

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

2.21 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods in which the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

3 Critical accounting estimates and judgments in applying accounting policies

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

Determining the lease term of contracts with renewal and termination options − Group as lessee

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

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

The Group included the renewal period as part of the lease term for leases of machinery and equipment 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, hence, not exercising any renewal options.

Determining of control

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

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

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

Determining of control (continued)

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

In April 2021, the Group established LLC Nitrocom to construct and operate a nitric acid and ammonium nitrate solution production facility for the Group's own needs. In December 2021, the Group signed an agreement to sell a 49% interest in the share capital of LLC Nitrocom. The Group owns 51% of the share capital of the company. As a result of contractual agreement with the partner, all major operational decisions are made solely unanimously. On the basis of the agreement terms, the Group concluded that voting rights in LLC Nitrocom were not the main factor in determining the controlling party. Starting from December 2021, LLC Nitrocom is accounted for in the Group's consolidated financial statements as a joint venture using the equity method.

Remaining useful life of property, plant and equipment

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

Estimated impairment of property, plant and equipment

The Group assesses annually whether any indicators of impairment of property, plant and equipment exist, in accordance with the accounting policy stated in Note 2.9. If there are indicators of impairment, the Group determines recoverable amounts of cash-generating units, based on value-in-use calculations. These calculations require the use of estimates. As at 31 December 2021, the Group identified no indicators of impairment of property, plant and equipment.

Tax legislation

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

Retirement benefit obligations

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

Fair value measurement of financial instruments

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

Leases − Estimating the incremental borrowing rate

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

4 New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform − Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions* − amendment to IFRS 16 *Leases* The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

5 Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

5 Standards issued but not yet effective (continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework − Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations − Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use − Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts − Costs of Fulfilling a Contract − Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

5 Standards issued but not yet effective (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards − Subsidiary as a first-time Adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments − Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9*.* The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

IAS 41 Agriculture − Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 *Agriculture.* The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates − Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

(in millions of Russian rubles unless otherwise stated)

5 Standards issued but not yet effective (continued)

Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2 (continued)

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

6 Operating segment information

For management purposes, the Group is organized 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 fertilizers.

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 and in a number of respects, as explained in the table below, differs from the financial information presented in the consolidated financial statements.

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

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

	Caprolactam and derivatives		Ammonia and nitrogen fertilizers		Unallocated/ elimination		Total	
Year ended 31 December	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Revenue	42,358	25,948	37,332	20,008	7,799	7,106	**87,489**	**53,062**
Segment operating profit for the period	7,944	1,856	16,554	3,672	799	665	**25,297**	**6,193**
IFRS adjustments								
Difference in depreciation of property, plant and equipment							**(164)**	**(120)**
Provision for retirement benefit obligations							**(35)**	**(88)**
Other							**151**	**208**
IFRS operating profit for the period							**25,249**	**6,193**

Revenue of the 'Sale of caprolactam and its derivatives' segment comprises revenue received from one customer in the amount of RUB 6,856 million (2020: RUB 2,920 million).

(in millions of Russian rubles unless otherwise stated)

6 Operating segment information (continued)

The unallocated amount relates mainly to activities of non-core subsidiaries.

	Caprolactam and derivatives		Ammonia and nitrogen fertilizers		Unallocated/ elimination		Total	
As at 31 December	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Segment assets	27,655	26,376	10,956	8,190	51,166	33,979	**89,777**	**68,545**
IFRS adjustments								
Right-of-use assets							**399**	**420**
Difference in depreciation of property, plant and equipment							**1,065**	**1,251**
Impairment of the Group's assets							**(85)**	**(168)**
Other							**490**	**(146)**
IFRS total assets							**91,646**	**69,902**

	Caprolactam and derivatives		Ammonia and nitrogen fertilizers		Unallocated/ elimination		Total	
As at 31 December	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Segment liabilities	1,498	969	5,905	1,643	32,239	30,229	**39,642**	**32,841**
IFRS adjustments								
Lease liability							**385**	**430**
Retirement benefit obligations							**733**	**747**
Deferred tax							**(640)**	**(544)**
Financial guarantee							**64**	**136**
Derivative financial instruments							**3,350**	**3,398**
Other							**(43)**	**(195)**
IFRS total liabilities							**43,491**	**36,813**

Unallocated amounts relate mainly to borrowings of RUB 18,650 million (31 December 2020: RUB 24,510 million) and liabilities of non-core subsidiaries.

Geographic information

Revenue is allocated based on the region in which the customer is located:

	2021	**2020**
Russia	45,500	29,306
Asia	18,231	9,262
Europe	14,909	6,245
Other	8,849	8,249
	87,489	**53,062**

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

7 Balances and transactions with related parties

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 on the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

During 2021 and 2020, the Group entered into transactions mainly with the following related parties: associates and joint ventures. The nature of the related party relationships for those related parties with which the Group entered into significant transactions for the years ended 31 December 2021 and 31 December 2020, or had significant balances outstanding at 31 December 2021 and 31 December 2020, is detailed below.

(in millions of Russian rubles unless otherwise stated)

7 Balances and transactions with related parties (continued)

The income and expense items for related party transactions for the years 2021 and 2020 were as follows:

Sales of goods and services

	2021	2020
Sales of finished goods and other sales	7,824	5,310
Sales of electric power	1,249	1,133
Rental services	65	62
Interest income on loans issued to related parties	50	49
Total	**9,142**	**6,554**

Purchase of goods and services

	2021	2020
Purchase of goods	14,674	11,822
Total	**14,674**	**11,822**

At 31 December 2021 and 31 December 2020, the outstanding balances with related parties were as follows:

	2021	2020
Receivables from related parties	715	482
Payables to related parties	860	973
Borrowings issued to related parties	25	402
Promissory notes issued to related parties	1,108	406
Borrowings received from related parties	815	615

As at 31 December 2021, borrowings issued to related parties are represented by a euro-denominated borrowing in the amount of RUB 0 million issued to LLC Linde Azot Togliatti at the interest rate of 4% (31 December 2020: RUB 377 million, interest rate of 4%) and a borrowing in the amount of RUB 25 million issued to LLC Volgatechnool at the interest rate of 4% (31 December 2020: RUB 25 million, interest rate of 4%) and a borrowing in the amount of RUB 2 million at the interest rate of 4.5%

As at 31 December 2021, promissory notes issued to related parties were represented by:

- Non-interest-bearing promissory notes issued to LLC Volgatechnool, joint venture, in the amount of RUB 653 million (31 December 2020: RUB 407 million). The date of payment under the promissory notes is not earlier than 31 December 2031. At initial recognition, promissory notes are recorded at fair value using the effective interest rate of 9.08% p.a. The difference between the nominal amount of the notes and their fair value is recorded as an increase in the Group's investment in the associate (in the Group's stake in the share capital of LLC Volgatechnool) and an increase in finance costs (in the stake owned by another investor). The nominal amount of the promissory notes as at 31 December 2021 is RUB 1,599 million. The notes were provided by the Group under a framework agreement in rubles for the total amount of RUB 4,400 million at the interest rate of no more than 8%, and mature on 30 June 2021. As at 31 December 2021, the balance of the funds not yet issued is RUB 2,841 million. The Group estimated the related liability in accordance with IFRS 9 based on the analysis of average market rates for similar instruments; as a result, the liability as at 31 December 2021 amounted to RUB 0 million (31 December 2020: nil).
- Non-interest-bearing promissory notes issued to LLC Nitrocom, a joint venture, in the amount of RUB 455 million. The date of payment under the promissory notes is not earlier than 2034. At initial recognition, promissory notes are recorded at fair value using the effective interest rate of 8.85% p.a. The difference between the nominal amount of the notes and their fair value is recorded as an increase in the Group's investment in the associate (in the Group's stake in the share capital of LLC Nitrocom) and an increase in finance costs (in the stake owned by another investor). The nominal amount of the promissory notes as at 31 December 2021 is RUB 1,347 million. The notes were provided by the Group under a framework agreement on provision of RUB-denominated loans for the total amount of RUB 7,855 million, with no interest accrued, which matures in 2034. As at 31 December 2021, outstanding loan commitments amount to RUB 6,508 million. The Group estimated this loan commitment in accordance with IFRS 9 based on the analysis of average market rates for similar loans. As at 31 December 2021, the liability amounted to RUB 4,309 million. Loss on recognition is recorded as an increase in the Group's investment in the associate (in the Group's stake in the share capital of LLC Nitrocom) and an increase in finance costs (in the stake owned by another investor).The loss was recognized upon loss of control over LLC Nitrocom (Note 14).

(in millions of Russian rubles unless otherwise stated)

7 Balances and transactions with related parties (continued)

Purchase of goods and services (continued)

As at 31 December 2021, borrowings received from related parties include a short-term interest-free borrowing in the amount of RUB 815 million from LLC Praxair Azot Togliatti (31 December 2020: RUB 615 million).

In 2019, the Group provided a guarantee totaling RUB 3,400 million for liabilities of an associate under its loan agreements (Note 17).

Key management personnel compensation

The compensation to the Company's key management personnel totalled RUB 87 million and RUB 94 million in 2021 and 2020, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel compensation amounted to RUB 16 million (2020: RUB 17 million). Dividends paid to key management personnel amounted to RUB 193 million (2020: RUB 29 million).

8 Cash and cash equivalents

	2021	2020
Short-term deposits	10,880	1,403
Foreign-currency-denominated balances with banks	2,060	1,212
Ruble-denominated cash on hand and balances with banks	827	521
	13,767	**3,136**

Cash deposits of RUB 10,880 million (31 December 2020: RUB 1,403 million) bear interest of 1.5%-9.5% p.a. (2020: 2.1%-4.2%).

Balances with banks bear interest of 4.03%-7.6%.

Foreign-currency-denominated balances with banks consist of the following:

Currency	**2021**	**2020**
US dollars	203	392
Euros	1,668	505
Yuans	131	303
Serbian dinars	11	12
Indian rupees	47	
	2,060	**1,212**

9 Trade and other receivables

	2021	2020
Trade receivables	3,619	2,470
Provision for expected credit losses	(47)	(58)
	3,572	**2,412**
Other receivables	619	530
Provision for expected credit losses	–	–
	619	**530**
Advances issued (contract assets)	1,945	996
	1,945	**996**
	6,136	**3,938**

(in millions of Russian rubles unless otherwise stated)

9 Trade and other receivables (continued)

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

Currency	**2021**	**2020**
US dollars	786	630
Euros	1,132	487
Yuans	610	642
Serbian dinars	7	3
Swiss francs	2	
Indian rupees	49	
	2,586	**1,762**

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

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

	2021	**2020**
Opening balance	**58**	**57**
Charge for the year	–	17
Utilized	(11)	(16)
Closing balance	**47**	**58**

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

	Less than 30 days	**31-180 days**	**More than 181 days**	**Total**
2021	3,150	957	84	**4,191**
2020	2,523	223	196	**2,942**

10 Inventories

	2021	**2020**
Raw materials (at cost)	3,842	3,552
Work in progress (at cost)	1,706	1,270
Finished goods (at the lower of cost and net realizable value)	3,633	3,159
	9,181	**7,981**

During 2021, RUB 73 million was recognized in the cost of sales as income from reversal of the allowance for write-down of inventories to net realizable value and the allowance for slow-moving inventories (2020: expense of RUB 221 million).

(in millions of Russian rubles unless otherwise stated)

11 Property, plant and equipment

	Land and buildings	Machinery and equipment	Other	Construction in progress	Total
Cost					
Balance as at 1 January 2020	**11,817**	**38,966**	**1,320**	**9,223**	**61,326**
Disposal of subsidiaries	–	36	2	5,001	**5,039**
Additions	–	–	–	–	**–**
Disposals	(28)	(56)	(5)	–	**(89)**
Transfers from construction in progress	2,503	2,686	135	(5,324)	**–**
Foreign exchange differences	82	233	5	28	**348**
Balance as at 31 December 2020	**14,374**	**41,865**	**1,457**	**8,928**	**66,624**
Additions	129	159	7	4,688	**4,983**
Disposal of subsidiaries	–	–	–	–	**–**
Disposals	(41)	(315)	(13)	–	**(369)**
Transfers from construction in progress	1,875	3,271	69	(5,215)	**–**
Foreign exchange differences	(8)	(32)	(18)	–	**(58)**
Balance as at 31 December 2021	**16,329**	**44,948**	**1,502**	**8,401**	**71,180**
Accumulated depreciation					
Balance as at 1 January 2020	**(4,955)**	**(23,395)**	**(1,009)**	**–**	**(29,359)**
Depreciation charge for 2020	(738)	(1,767)	(120)	–	**(2,625)**
Disposals	4	54	3	–	**61**
Foreign exchange differences	(25)	(79)	(2)	–	**(106)**
Balance as at 31 December 2020	**(5,714)**	**(25,187)**	**(1,128)**	**–**	**(32,029)**
Depreciation charge for 2021	(641)	(2,531)	(168)	–	**(3,340)**
Disposals	13	145	5	–	**163**
Foreign exchange differences	1	(1)	(9)	–	**(9)**
Balance as at 31 December 2021	**(6,341)**	**(27,574)**	**(1,300)**	**–**	**(35,215)**
Net book value					
Balance as at 31 December 2020	**8,660**	**16,678**	**329**	**8,928**	**34,595**
Balance as at 31 December 2021	**9,988**	**17,374**	**202**	**8,401**	**35,965**

As at 31 December 2021, property, plant and equipment of RUB 9,149 million (31 December 2020: RUB 9,150 million) were pledged as collateral for bank loans and other borrowings (Note 16).

As at 31 December 2021, the cost of the land on which the Group's principal production facilities are located amounted to RUB 333 million (31 December 2020: RUB 292 million).

Borrowing costs capitalized amounted to RUB 150 million (2020: RUB 209 million). A capitalization rate of 4% (2020: 5%) was used, representing the borrowing costs under the loans raised to finance investment projects.

As at 31 December 2021 and 31 December 2020, the total cost of fully depreciated property, plant and equipment was RUB 17,436 million and RUB 17,319 million, respectively.

(in millions of Russian rubles unless otherwise stated)

12 Intangible assets

	Right to use licenses	Development costs	Other intangible assets	Total
Cost				
As at 1 January 2020	**5,032**	**78**	**10**	**5,120**
Additions	11	4	–	**15**
Disposals	–	(3)	–	**(3)**
As at 31 December 2020	**5,043**	**79**	**10**	**5,132**
Accumulated amortization and impairment				
As at 1 January 2020	**(1,542)**	**(15)**	**(9)**	**(1,566)**
Amortization charge	(501)	(7)	(1)	**(509)**
Disposals	–	–	–	**–**
Impairment	–	–	–	**–**
As at 31 December 2020	**(2,043)**	**(22)**	**(10)**	**(2,075)**
Cost				
As at 31 December 2020	**5,043**	**79**	**10**	**5,132**
Additions	14	3	14	**31**
Disposals	–	(1)	–	**(1)**
As at 31 December 2021	**5,057**	**81**	**24**	**5,162**
Accumulated amortization and impairment				
As at 31 December 2020	**(2,043)**	**(22)**	**(10)**	**(2,075)**
Amortization charge	(503)	(4)	(8)	**(515)**
Disposals	–	–	–	**–**
Impairment	–	–	–	**–**
As at 31 December 2021	**(2,546)**	**(26)**	**(18)**	**(2,590)**
Net book value				
As at 31 December 2020	**3,000**	**57**	**–**	**3,057**
As at 31 December 2021	**2,511**	**55**	**6**	**2,572**

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 the technology of energy-efficient production of cyclohexanone (EPC). The EPC uses modern patented technology from FIBRANT B.V. (the Netherlands), which allows increasing the capacity of caprolactam production from 190 to 210 thousand tons and up to 260 thousand tons per year in the long term. As at 31 December 2021, the net book value of the license was RUB 2,502 million (31 December 2020: RUB 2,993 million), and the remaining useful life was 61 months.

Development costs are mainly represented by research to improve production processes, development of new methods for processing production waste, research on testing of finished goods characteristics, and patents for new products. As at 31 December 2021, their net book value amounted to RUB 55 million (31 December 2020: RUB 57 million).

13 Leases

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

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

(in millions of Russian rubles unless otherwise stated)

13 Leases (continued)

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

	Land and buildings	Motor vehicles and constructions	Other	Total
As at 31 December 2019	**90**	**261**	**9**	**360**
Additions	10	258	–	**268**
Disposals	–	–	(9)	**(9)**
Depreciation expense	(14)	(185)	–	**(199)**
As at 31 December 2020	**86**	**334**	**–**	**420**
Additions	43	147	1	**191**
Disposals		(6)		**(6)**
Depreciation expense	(14)	(191)	(1)	**(206)**
As at 31 December 2021	**115**	**284**	**–**	**399**

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

	2021	2020
As at 1 January	**430**	**373**
Additions	155	260
Accretion of interest	28	25
Payments	(228)	(228)
As at 31 December	**385**	**430**
Current	212	195
Non-current	173	235

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

The following are the amounts recognized in the consolidated statement of comprehensive income:

	2021	2020
Depreciation expense on right-of-use assets	208	199
Interest expense on lease liabilities	28	25
Total amount recognized in the consolidated statement of comprehensive income	**236**	**224**

14 Investments in associates and joint ventures

	Praxair Azot Togliatti	Other associates	JV Linde Azot Togliatti	Volgafert	Volga-technool	Nitrocom	Other joint ventures	Total
As at 1 January 2021	**1,991**	**347**	**3,635**	**4,047**	**1,417**	**–**	**82**	**11,519**
Additions	–	–	–	–	154	2,956	–	**3,110**
Share of profit	592	279	1,421	309	101	–	23	**2,725**
Disposals	–	–	–	–	–	–	–	**–**
Dividends received	(534)	(169)	(650)	–	–	–	(22)	**(1,375)**
As at 31 December 2021	**2,049**	**457**	**4,406**	**4,356**	**1,672**	**2,956**	**83**	**15,979**

(in millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

	Praxair Azot Togliatti	Other associates	JV Linde Azot Togliatti	Volgafert	Volga-technool	Other joint ventures	Total
As at 1 January 2020	**1,950**	**305**	**3,917**	**4,605**	**1,312**	**77**	**12,166**
Additions	–	–	–	–	347	–	**347**
Share of profit	505	169	(282)	(558)	(242)	17	**(391)**
Disposals	–	–	–	–	–	–	**–**
Dividends received	(464)	(127)	–	–	–	(12)	**(603)**
As at 31 December 2020	**1,991**	**347**	**3,635**	**4,047**	**1,417**	**82**	**11,519**

Praxair Azot Togliatti

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

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

	2021	2020
Assets		
Non-current assets	2,255	2,521
Current assets, including cash and cash equivalents of RUB 455 million (2020: RUB 385 million)	2,285	1,869
Liabilities		
Non-current liabilities, including deferred tax liabilities of RUB 247 million (2020: RUB 137 million)	(247)	(137)
Current liabilities	(195)	(270)
Net assets	**4,098**	**3,983**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**2,049**	**1,991**
Summarized statement of profit or loss		
Revenue from sales	3,178	2,836
Cost of sales	(1,657)	(1,633)
Other income/(expenses)	(6)	(4)
Finance income	16	9
Income tax expense	(346)	(198)
Profit after tax	**1,185**	**1,010**
Total comprehensive income	**1,185**	**1,010**
Group's share of profit of the associate	**592**	**505**

As at 31 December 2021, the associate had no capital commitments for the purchase of property, plant and equipment and no contingent liabilities (31 December 2020: the associate had no capital commitments for the purchase of property, plant and equipment and no contingent liabilities).

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

Linde Azot Togliatti

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

(in millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

Linde Azot Togliatti (continued)

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

	2021	2020
Assets		
Non-current assets	10,430	12,033
Current assets, including cash and cash equivalents of RUB 777 million (2020: RUB 613 million)	1,927	2,122
Liabilities		
Non-current liabilities, including deferred tax liabilities of RUB 121 million (2020: RUB 145 million) and euro-denominated long-term borrowings of RUB 1,543 million (2020: RUB 5,022 million)	(1,664)	(5,167)
Current liabilities, including euro-denominated short-term borrowings of RUB 1,345 million (2020: RUB 1,118 million)	(1,880)	(1,718)
Net assets	**8,813**	**7,270**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investment	**4,407**	**3,635**
Summarized statement of profit or loss		
Revenue from sales	8,375	6,499
Cost of sales, including amortization of RUB 1,778 million (2020: RUB 1,776 million)	(5,122)	(4,843)
Other income/(expenses)	317	(2,048)
Finance income/(costs)	(141)	(260)
Income tax benefit/(expense)	(587)	87
Profit/(loss) after tax	**2,842**	**(565)**
Total comprehensive income/(loss)	**2,842**	**(565)**
Group's share of profit/(loss) of the joint venture	**1,421**	**(282)**

As at 31 December 2021, the joint venture didn't have any contingent liabilities, capital commitments for the purchase of property amount to RUB 8 million (as at 31 December 2020, the joint venture didn't have, capital commitments for the purchase of property), plant and equipment from third parties amount to RUB 26 million (31 December 2020: neither contingent liabilities, capital commitments for the purchase of property, plant and equipment from third parties amount to RUB 26 million).

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

Volgatechnool

At the end of 2019, the Group lost control of its subsidiary, LLC Volgatechnool, as it admitted an independent party as a new shareholder of the entity with the share amounting to RUB 1,235 million, entered into an agreement on the exercise of participants' rights and issued option agreements.

As at the reporting date, the Group has call options and put options to acquire 49% interest in a joint venture from its independent partner. Group may use its call option commencing July 2022. The put option grants the independent partner a right to sell its 49% in LLC Volgatechnool to the Group before 2039.

As at 31 December 2021, the Group assessed the probability of the option's exercise and recorded an option asset of RUB 426 million as a derivative financial instrument (31 December 2020: a liability of RUB 230 million). Gain from remeasurement of the derivative financial instrument amounted to RUB 661 million (2020: loss of RUB 42 million).

LLC Volgatechnool, located in Togliatti, Samarskaya oblast of the Russian Federation, was established to produce sulphuric acid and oleum for the Group's own needs. Production was launched in December 2020.

(in millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

Volgatechnool (continued)

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

	2021	2020
Assets		
Non-current assets	7,166	6,690
Current assets, including cash and cash equivalents of RUB 854 million (2020: RUB 239 million)	1,061	975
Liabilities		
Non-current liabilities, including long-term borrowings, of RUB 3,752 million (2020: RUB 3,334 million)	(3,754)	(2,684)
Current liabilities	(1,194)	(2,203)
Net assets	**3,279**	**2,778**
Proportion of the Group's ownership	51%	51%
Carrying amount of the investment	**1,672**	**1,417**

Summarized statement of profit or loss	**2021**
Revenue from sales	851
Cost of sales	(575)
Other income/(expenses)	114
Finance income/(costs)	372
Income tax benefit/(expense)	(37)
Profit/(loss) after tax	**499**
Total comprehensive income/(loss)	**499**
Group's share of profit/(loss) of the joint venture	**255**

As at 31 December 2021, the joint venture had no contingent liabilities, and had RUB 77 million of capital commitments for the purchase of property, plant and equipment from third parties (31 December 2020: no contingent liabilities and RUB 251 million of capital commitments for the purchase of property, plant and equipment from third parties).

As at 31 December 2021, collateral issued by the Group for the joint venture in the form of a pledged share in the joint venture, and securities as collateral for the loans received amounted to RUB 2,016 million (31 December 2020: RUB 1,783 million).

LLC Volgatechnool cannot distribute its profits or make key decisions unless it obtains prior unanimous consent from both the shareholders of the joint venture.

Volgafert

At the end of 2019, the Group lost control of its subsidiary, LLC Volgafert, as it had made several amendments to the agreement on the exercise of participants' rights and the issue of option agreements.

As of the 31 December 2021 the Group has call option and put option agreements to acquire 32% interest in the joint venture from the independent partner, the Group can exercise the call option starting from 2025. The put option grants the independent partner the right to sell its 32% interest in OOO Volgafert to the Group until 2069.

As at 31 December 2021, the Group assessed the probability of the option's exercise and recorded an option liabilities of RUB 2 934 million as a derivative financial instrument (31 December 2020: a liability of RUB 3 168 million). Gain from remeasurement of the derivative financial instrument amounted to RUB 229 million (2020: loss of RUB 1 282 million).

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

(in millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

Volgafert (continued)

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

	2021	2020
Assets		
Non-current assets	14,849	11,880
Current assets, including cash and cash equivalents of RUB 480 million (2020: RUB 1,338 million)	985	1,998
Liabilities		
Non-current liabilities, including deferred tax liabilities of RUB 0 million and euro-denominated long-term borrowings of RUB 9,091 million (2020: RUB 7,904 million)	(9,282)	(7,922)
Current liabilities	(147)	(5)
Net assets	**6,405**	**5,951**
Proportion of the Group's ownership	68%	68%
Carrying amount of the investment	**4,356**	**4,047**

Summarized statement of profit or loss	**2021**	**2020**
Revenue from sales	–	–
Cost of sales	(24)	(28)
Other income/(expenses)	(3)	(1,013)
Finance income/(costs)	646	5
Income tax benefit/(expense)	(164)	216
Profit/(loss) after tax	**454**	**(820)**
Total comprehensive income/(loss)	**454**	**(820)**
Group's share of profit/(loss) of the joint venture	**309**	**(558)**

As at 31 December 2021, the joint venture had no contingent liabilities and had RUB 2,508 million of capital commitments for the purchase of property, plant and equipment from third parties (31 December 2020: no contingent liabilities and RUB 2,534 million of capital commitments for the purchase of property, plant and equipment from third parties).

As at 31 December 2021, collateral issued by the Group for the joint venture in the form of a pledged share in the joint venture as collateral for loans received amounted to RUB 4,054 million (31 December 2020: RUB 4,054 million).

LLC Volgafert cannot distribute its profits or make key decisions unless it obtains prior unanimous consent from both the shareholders of the joint venture.

LLC Nitrocom

LLC Nitrocom was established to produce nitric acid and ammonium nitrate solution for the Group's own needs. The start of production is planned for 2027. LLC Nitrocom is located in Togliatti, Samara oblast, the Russian Federation.

Disposal of LLC Nitrocom

In late 2021, the Group lost control over LLC Nitrocom (a subsidiary) as it entered into a corporate agreement and transferred 49% participants' rights to a third party. According to the agreement, the Group and the third party exercise joint control over LLC Nitrocom.

According to the agreement, the Group received no compensation for the 49% interest in LLC Nitrocom it transferred.

Prior to disposal of LLC Nitrocom, the Group and LLC Nitrocom entered into a framework agreement on provision of RUB-denominated loans for the total amount of RUB 7,855 million, with no interest accrued, which matures in 2034. As at 31 December 2021, outstanding loan facilities not yet issued amount to RUB 6,508 million. The Group estimated the loan commitment in accordance with IFRS 9 based on the analysis of average market rates for similar loans. As at 31 December 2021, the respective liability amounted to RUB 4,309 million.

(in millions of Russian rubles unless otherwise stated)

14 Investments in associates and joint ventures (continued)

Disposal of LLC Nitrocom (continued)

The Group entered into a call option and a put option to acquire a 49% interest in LLC Nitrocom from a third party. The Group may use the call option commencing December 2024. The third party may demand exercise of the put option before 2041.

The Group assessed the probability of the options' exercise and recognized the respective liability of RUB 416 million in derivative financial liabilities.

The Group recognized the loss on disposal in the amount of RUB 2,960 million in the consolidated statement of the comprehensive income. Loss on disposal of the subsidiary is calculated as follows:

Carrying amount of the disposed net assets of the subsidiary	(1,473)
Contribution made by the third party to the share capital of the subsidiary	288
Fair value of remaining 51% interest	751
Recognition of a loan commitment (RUB 4,309 million multiply by 49%)	(2,110)
Recognition of an option to acquire a 49% interest	(416)
Total loss on disposal of the subsidiary	**(2,960)**

Summarized financial information LLC Nitrocom based on its IFRS financial statements and reconciliation of this information with the carrying amount of the investment in the consolidated financial statements are presented below:

	2021
Assets	
Non-current assets	1,512
Non-current assets, including cash and equivalents in the amount of RUB 491 million	535
Liabilities	
Non-current liabilities (long-term loans)	(456)
Current liabilities	(105)
Net assets	**1,486**
The Group's commitment to provide financing	4,309
Proportional share of the Group's stake	51%
Carrying amount of the investment	**2,956**

LLC Nitrocom cannot allocate its profit or make key decisions without prior unanimous approval of both participants of the joint venture.

The Group's share in assets and liabilities, revenue and financial results of the other associates included in the consolidated financial statements under the equity method comprise as follows:

	2021	**2020**
Assets		
Non-current assets	116	121
Current assets	647	501
Liabilities		
Non-current liabilities	(35)	(109)
Current liabilities	(271)	(166)
Net assets	**457**	**347**
Carrying amount of the investment	**457**	**347**
Revenue	3,377	2,057
Expenses	(3,099)	(1,888)
Profit after tax	**278**	**169**
Total comprehensive income/(loss)	**278**	**169**

The Group has other joint ventures that are collectively insignificant.

(in millions of Russian rubles unless otherwise stated)

15 Financial assets

Current financial assets include:

	2021	2020
Short-term deposit: 3.5%-9.26%	3,130	–
Short-term portion of housing loans issued to employees: 0%-15% (2020: 0%-15%)	71	79
Short-term portion of a loan issued to a joint venture (euro-denominated): 4% (2020: 4%)	–	377
Other	173	34
	3,374	**490**

Non-current financial assets include:

	2021	2020
Promissory notes issued to a joint venture: 0%	1,108	406
Long-term housing loans issued to employees: 0%-15% (2020: 0%-15%)	320	355
Borrowings issued to a joint venture: 8%	25	25
Other	15	8
	1,468	**794**

Long-term loans to employees have different maturity dates up to the year 2041 (2020: up to 2040).

Long-term interest-free promissory notes issued to a joint venture for a period until 2031-2034 are recorded at fair value of RUB 1 108 million using an effective interest rate of 8.7%-9.1%. As at 31 December 2021, the nominal amount of the notes is RUB 2 906 million (31 December 2020: RUB 1 057 million).

16 Loans and borrowings

Short-term loans and borrowings

	Interest rate	Currency	2021	2020
Current portion of long-term loans and borrowings				
International Finance Corporation	LIBOR 6 + 4.125%	US dollars	–	652
Inteza	1.9%-2.82%	Euros	230	–
Rosbank	EURIBOR 6 + 0.85%-1.4%	Euros	465	44
Rosbank	1.97%-5.05%	US dollars	475	–
Sberbank	8.29%-9.04%	Rubles	1,237	100
Raiffeisenbank	3.22%	Euros	–	280
Other	LIBOR 6 + 4.125%		15	19
Total current portion of long-term loans and borrowings			**2,422**	**1,095**
Short-term loans and borrowings				
Gazprombank	5.7%-8.35%	Rubles	–	1,717
Gazprombank	0.75%	Euros	–	46
International Finance Corporation	12%	Rubles	–	648
Praxair Azot Togliatti	8%	Rubles	815	615
Other			108	206
Total short-term loans and borrowings			**923**	**3,232**
			3,345	**4,327**

(in millions of Russian rubles unless otherwise stated)

16 Loans and borrowings (continued)

Short-term loans and borrowings (continued)

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

	2021	2020
Borrowing denominated in:		
- Russian rubles	2,100	3,277
- US dollars	481	656
- Euros	701	394
- Rupees	63	
	3,345	**4,327**

Long-term loans and borrowings

	Interest rate	Maturity	Currency	2021	2020
Sberbank	8.29%-9.04%	2023-2026	Rubles	7,963	9,200
Gazprombank	9.95%-10.10%	2023-2028	Rubles	1,253	1,925
Rosbank	1.97%-5.05%	2023-2024	US dollars	1,546	2,394
Raiffeisenbank	1.98%-2.19%	2023-2026	Euros	2,102	2,259
International Finance Corporation	LIBOR 6 + 4.125%		US dollars	–	1,304
Banca Intesa	1.9%-2.82%	2023-2024	Euros	563	836
Gazprombank	3.88%	2024-2028	US dollars	520	517
Rosbank	6M EURIBOR + 0.85%-1.4%	2023-2025	Euros	675	1,230
Gazprombank	3.8%	2024-2028	Euros	296	319
Sberbank	EURIBOR 3 + 0.95%	2023-2025	Euros	47	50
Raiffeisenbank	6M EURIBOR + 1.20%+1.8%	2025	Euros	140	66
Other				200	83
				15,305	**20,183**

The maturity of long-term borrowings is as follows:

	2021	2020
Current	2,422	1,095
1 to 2 years	4,601	4,360
2 to 3 years	4,847	5,830
3 to 5 years	5,368	7,934
Over 5 years	490	2,059
	17,728	**21,278**
Less: current portion	(2,423)	(1,095)
	15,305	**20,183**

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

	2021	2020
Borrowing denominated in:		
- Russian rubles	9,417	11,208
- US dollars	2,066	4,215
- Euros	3,822	4,760
	15,305	**20,183**

(in millions of Russian rubles unless otherwise stated)

16 Loans and borrowings (continued)

Long-term loans and borrowings (continued)

The amount of collateral issued by the Group for long-term and short-term borrowings is RUB 9,149 million (2020: RUB 9,150 million), which is represented by pledged equipment and real estate (Note 11).

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

Changes in liabilities arising from financing activities are as follows:

	31 December 2020	Changes in cash flows	Changes in currency rates	Other	31 December 2021
Short-term loans and borrowings	4,327	(607)	(13)	(362)	3,345
Long-term loans and borrowings	20,183	(4,221)	(370)	(287)	15,305
Total	**24,510**	**(4,828)**	**(383)**	**(649)**	**18,650**

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

17 Other liabilities

Other current liabilities

	2021	2020
Dividends payable	2,393	9
Salaries payable	904	400
Other	220	187
	3,517	**596**

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

As at 31 December 2021, other liabilities comprise a guarantee issued to a related party for its liabilities to financial institutions. The Group expects no liabilities to arise in relation to these payments. As at 31 December 2021, the fair value of the guarantee calculated in accordance with IFRS 9 using the analysis of peers’ credit ratings amounted to RUB 0 million for the non-current portion and to RUB 64 million for the current portion (31 December 2020: RUB 64 million for the non-current portion and RUB 72 million for the current portion).

18 Taxes payable other than income tax

	2021	2020
VAT recoverable	864	136
Payments to the Pension Fund and other social taxes	96	24
Personal income tax	33	8
Property tax	68	53
Other taxes	26	18
	1,087	**239**

The Group had no tax liabilities past due at 31 December 2021 and 31 December 2020.

(in millions of Russian rubles unless otherwise stated)

19 Retirement benefit obligations

In accordance with the collective contract, the Group provides its employees with additional post-employment benefits. Defined benefits include one-off benefits paid at the date of retirement and some regular post-employment benefits. The Group pays benefits when they are due. The amounts paid at the date of retirement usually depend on the length of service and the terms of the collective contract.

The levels of remuneration may depend on the employee's salary at the time of payment of the remuneration, or be fixed and independent of salary and tariff rates. In practice, the Group indexes employee salaries and fixed benefits to inflation (or higher). In addition, some rewards are offered on a lifetime basis. Thus, the plans are subject to inflation in the Russian Federation, interest rate risks and the risk of changes over the life of the beneficiaries.

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

Net benefit expense recognized in profit or loss:

	31 December 2021	31 December 2020
Service cost	43	321
Interest expense on benefit obligations	46	32
Net benefit expenses	**89**	**353**

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

	Post-employment pension benefits
Defined benefit obligation at 1 January 2020	**502**
Service cost	321
Interest expense	32
Contributions by employer	(20)
Actuarial gain recorded in other comprehensive income, including:	(88)
- changes in financial assumptions	(67)
- experience adjustments	(21)
Defined benefit obligation at 31 December 2020	**747**
Service cost	43
Interest expense	46
Contributions by employer	(67)
Actuarial gain recorded in other comprehensive income, including:	(36)
- changes in financial assumptions	(146)
- experience adjustments	110
- changes in demographic assumptions	–
Defined benefit obligation at 31 December 2021	**733**

The principal actuarial assumptions used to measure liabilities were as follows:

	31 December 2021	31 December 2020
Discount rate	8.4%	6.4%
Salary growth rate	5.7%	6.0%
Mortality rate	Russia 2019, death probabilities reduced by 20%	Russia 2019, death probabilities reduced by 23%

(in millions of Russian rubles unless otherwise stated)

19 Retirement benefit obligations (continued)

A quantitative sensitivity analysis for significant assumption as at 31 December 2021 is shown below:

	Discount rate		Salary increase percent		Inflation rate		Mortality rate		Disposal probability	
2021										
Sensitivity level	1%	-1%	1%	-1%	1%	-1%	10%	-10%	10%	-10%
Impact on defined benefit pension plan	(63)	75	50	(42)	23	(20)	(4)	4	(7)	7

As at 31 December 2021 and 31 December 2020, the Group did not have any pension plan assets or unreported actuarial gains or losses.

20 Share capital

	Number of issued shares (thousands)		Number of treasury shares	Total number of outstanding shares	Share capital	Treasury shares
	Preference	Ordinary	(thousands)	(thousands)	(RUB million)	
As at 1 January 2020	**3,697**	**234,148**	**(60,170)**	**177,675**	**634**	**(3,897)**
Ordinary shares purchased	–	–	–	–	–	–
Treasury shares purchased	–	–	–	–	–	–
Treasury shares disposed	–	–	–	–	–	–
As at 31 December 2020	**3,697**	**234,148**	**(60,170)**	**177,675**	**634**	**(3,897)**
Ordinary shares purchased	–	–	–	–	–	–
Treasury shares purchased	–	–	(7,140)	(7,140)	–	(2,499)
Treasury shares disposed	–	–	–	–	–	–
As at 31 December 2021	**3,697**	**234,148**	**(67,310)**	**170,535**	**634**	**(6,396)**

The total number of authorized ordinary shares is 549,148 thousand shares (31 December 2020: 549,148 thousand), and the number of preference shares is 138,897 thousand shares (31 December 2020: 138,897 thousand) with a nominal value of 1 ruble per share of both the types.

Shares that were purchased before 31 December 2021 from shareholders and were not cancelled are held as 'treasury shares'. At 31 December 2021, KuibyshevAzot, LLC Togliattichiminvest, LLC Kuibyshevazot-invest and LLC Activinvest held 65,827 thousand ordinary and 1,482 thousand preference shares of the Company (31 December 2020: 57,688 thousand ordinary shares and 1,482 thousand preference shares).

Preference shares are non-redeemable, non-cumulative and give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are made. The non-cumulative preference shares give their holders the right to receive dividends of not less than 1% of their nominal value and, in case of liquidation of the Company, the right to receive liquidation value equaling their nominal value. If the Company fails to pay dividends, preference shareholders obtain the right to vote on matters within the competence of the general shareholders' meeting, which ceases when the first dividend payment on preference shares is made in full.

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

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

	2021	2020
Dividends payable at 1 January	**9**	**193**
Dividends declared during the year	3,716	46
Dividends paid during the year	(1,332)	(230)
Dividends payable at 31 December	**2,393**	**9**
Dividends per share declared during the year, rubles	17	–

(in millions of Russian rubles unless otherwise stated)

20 Share capital (continued)

In 2021, the Company declared interim dividends for the nine months of 2021 in the amount of RUB 10 per ordinary share or preference share, as well as final dividends for 2020 in the amount of RUB 6.85 per ordinary share or preference share (2020: the Company declared no interim or additional dividends).

21 Revenue from sales

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

	For the year ended 31 December 2021			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilizers**	**Other**	**Total**
Type of goods or services				
Caprolactam and derivatives	42,358	–	–	**42,358**
Ammonia and nitrogen fertilizers	–	37,332	–	**37,332**
Other	–	–	7,799	**7,799**
Total revenue from contracts with customers	**42,358**	**37,332**	**7,799**	**87,489**
Geographical markets				
Russia	12,235	25,731	7,534	**45,500**
Asia	17,108	1,123	–	**18,231**
Europe	9,133	5,757	19	**14,909**
Other	3,882	4,721	246	**8,849**
Total revenue from contracts with customers	**42,358**	**37,332**	**7,799**	**87,489**
Timing of revenue recognition				
Goods transferred at a point in time	42,358	37,332	5,527	**85,217**
Services rendered at a point in time	–	–	2,272	**2,272**
Total revenue from contracts with customers	**42,358**	**37,332**	**7,799**	**87,489**

	For the year ended 31 December 2020			
Segments	**Caprolactam and derivatives**	**Ammonia and nitrogen fertilizers**	**Other**	**Total**
Type of goods or services				
Caprolactam and derivatives	25,948	–	–	**25,948**
Ammonia and nitrogen fertilizers	–	20,008	–	**20,008**
Other	–	–	7,106	**7,106**
Total revenue from contracts with customers	**25,948**	**20,008**	**7,106**	**53,062**
Geographical markets				
Russia	7,950	14,530	6,826	**29,306**
Asia	8,813	450	–	**9,263**
Europe	4,048	2,165	33	**6,246**
Other	5,137	2,863	247	**8,247**
Total revenue from contracts with customers	**25,948**	**20,008**	**7,106**	**53,062**
Timing of revenue recognition				
Goods transferred at a point in time	25,948	20,008	4,820	**50,776**
Services rendered at a point in time	–	–	2,286	**2,286**
Total revenue from contracts with customers	**25,948**	**20,008**	**7,106**	**53,062**

For the year ended 31 December 2021, the Group recognized a provision for expected credit losses on trade and other receivables, included in general and administrative expenses in the consolidated statement of comprehensive income, amounting to RUB 0 million (year ended 31 December 2020: RUB 17 million).

(in millions of Russian rubles unless otherwise stated)

22 Cost of sales

	2021	2020
Raw materials	38,291	28,461
Heat energy and electricity	4,991	4,372
Labor costs	4,537	3,767
Depreciation and amortization	3,934	3,140
Other	2,868	485
Changes in finished goods and work in progress	(956)	870
	53,665	**41,095**

23 Distribution costs

	2021	2020
Transportation costs	5,401	4,792
Labor costs	471	433
Materials	252	238
Depreciation and amortization	97	119
Other	316	269
	6,537	**5,851**

24 General and administrative expenses

	2021	2020
Labor costs	1,767	1,513
Third party services	436	384
Taxes other than income tax	344	220
Consultancy services	246	127
Depreciation and amortization	75	74
Materials	61	48
Insurance	34	36
Other	422	187
	3,385	**2,589**

25 Other operating income

	2021	2020
Recovery of excise taxes	1,342	1,729
Disposal of inventories	180	157
Government grants	56	643
Foreign exchange gain on operating activities	–	305
Other	67	–
	1,645	**2,834**

In 2021, government grants were mainly received to compensate for costs incurred to transport and ship goods. The Group complied with all provisions and contingencies related to these grants.

(in millions of Russian rubles unless otherwise stated)

26 Other operating expenses

	2021	2020
Social expenses	224	164
Foreign exchange loss on operating activities	75	–
Loss on disposal of property, plant and equipment	–	4
	299	**168**

27 Finance income

	2021	2020
Interest income	477	202
Foreign exchange gain on financing activities	166	–
Income on derecognition of liabilities	648	–
Other	14	–
	1,305	**202**

28 Finance costs

	2021	2020
Interest expense	1,196	1,573
Less capitalized borrowing costs	(150)	(209)
Foreign exchange loss on financing activities	–	1,676
Recognition of discount on financial instruments	148	320
	1,194	**3360**

In 2021 the Group recognized and expensed the loss on initial recognition of non-interest bearing long-term financial assets of the Group at fair value in the amount of RUB 148 million (2020: RUB 320 million). (Note 7). Recognition of this loss did not affect the Group's cash flows.

29 Income tax

	2021	2020
Current income tax expense	4,724	453
Adjustments to current income tax of prior years	(49)	(106)
Deferred tax (benefit)/expense relating to profit or loss	173	90
Income tax expense recognized in profit or loss	**4,848**	**436**
Deferred tax (benefit)/expense relating to items recognized in OCI	7	18
Income tax (benefit)/expense recognized in OCI	**7**	**18**
Income tax expense for the year	**4,855**	**454**

(in millions of Russian rubles unless otherwise stated)

29 Income tax (continued)

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

	2021	2020
Profit before tax	**26,014**	**1,320**
Theoretical tax charge at statutory rate of 20%	**5,203**	**265**
Effect of other income tax rates	18	10
Share of loss/(profit) of associates and joint ventures	(444)	(208)
Recalculation of current income tax of prior periods	(49)	(106)
Tax effect of non-deductible expenses and non-taxable income:		
Social expenses	51	39
Disposal of subsidiary	592	–
Derecognition of option	(130)	–
Revaluation of derivative financial instruments	(192)	265
Dividends received	(21)	–
Effect of recalculating actuarial liabilities	7	18
Effect of discounting financial assets	25	61
Other non-deductible expenses / (non-taxable income)	(205)	110
Income tax expense, including effect of other comprehensive income/(loss)	**4,855**	**454**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of movements in these temporary differences is detailed below and is recorded at the rate of 20% (2020: 20%).

	1 January 2020	Origination/ (reversal) of temporary differences	31 December 2020	Origination/ (reversal) of temporary differences	31 December 2021
Tax effect of temporary differences					
Trade and other receivables	13	(3)	10	(2)	8
Other liabilities	183	41	224	3	227
Financial assets	30	2	28	(3)	25
Property, plant and equipment	(1,458)	(157)	(1,615)	(91)	(1,705)
Intangible assets	158	(20)	138	(23)	115
Inventories	(248)	74	(174)	(52)	(226)
Other	6	(22)	(16)	(6)	(2)
Net deferred tax liabilities	**(1,316)**	**(89)**	**(1,405)**	**(173)**	**(1,578)**
Including:					
Deferred tax assets	390		400		376
Deferred tax liabilities	(1,706)		(1,805)		(1,954)

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

Deferred tax assets will be realized in periods other than the periods in which deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilize the deferred tax assets.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 23 327 million (2020: RUB 9,128 million) associated with investments in subsidiaries, as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in millions of Russian rubles unless otherwise stated)

30 Earnings per share

Earnings per share were calculated by dividing profit or loss attributable to equity holders by the weighted average number of ordinary and preference shares outstanding, excluding shares purchased by the Group and held as treasury shares.

	2021	2020
Weighted average number of ordinary shares outstanding (thousands)	234,148	234,148
Weighted average number of preference shares outstanding (thousands)	3,697	3,697
Less weighted average number of treasury shares outstanding (thousands)	(60,619)	(59,682)
Weighted average number of ordinary and preference shares outstanding (thousands)	**177,226**	**178,163**
Profit attributable to equity holders of the Company	21,061	718
Earnings per share (in rubles):		
- basic/diluted, for profit for the period attributable to ordinary/preference equity holders of the Company	118.84	4.03

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

31 Contingencies, commitments and operating risks

31.1 Commitments and guarantees

As at 31 December 2021 and 31 December 2020, the Group had contractual commitments for the purchase of property, plant and equipment from third parties totaling RUB 359 million and RUB 850 million (including VAT, as appropriate), respectively, designated for construction of new facilities and modernization of existing production facilities.

In 2019, the Group provided a loan guarantee to an associated company in respect of the obligations of this company in the total amount of RUB 3,400 million. The fair value of the guarantee of its share of the joint venture's contingent liabilities, calculated in accordance with IFRS 9 using the analysis of peers' credit ratings, is included in other liabilities in the amount of RUB 64 million (Note 17).

As at 31 December 2021 the Group and the joint venture LLC Volgatechnool had a RUB 4,400 million framework loan agreement with an interest rate not exceeding 8%, expiring on 31 May 2022. The Group estimated the loan commitment under IFRS 9 based on an analysis of the average market interest rates for similar loans and at 31 December 2021 the value of that commitment was amounted to RUB 0 million (31 December 2020: nil).

In 2021, the Group and LLC Nitrocom entered into a framework agreement on provision of RUB-denominated loans for the total amount of RUB 7,855 million, with no interest accrued, which matures in 2034. As at 31 December 2021, outstanding loan commitments amount to RUB 6,508 million. The Group estimated the loan commitment in accordance with IFRS 9 based on the analysis of average market rates for similar loans. As at 31 December 2021, the respective liability amounted to RUB 4,309 million.

31.2 Taxation

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

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

31 Contingencies, commitments and operating risks (continued)

31.2 Taxation (continued)

In 2021, mechanisms were further implemented to counter the tax evasion using low-tax jurisdictions and aggressive tax planning structures, and some parameters of the tax system of the Russian Federation were further customized. In particular, these changes included further development of the beneficial ownership concept, tax residence of legal entities at the place of actual activity, a permanent representative office, as well as the approach to taxation of controlled foreign companies in the Russian Federation.

The Russian tax authorities continue to keep a close eye on transactions of Russian companies with foreign companies of the Group and carefully analyze them for economic feasibility and transparent documentary support using various sources of information (documents received from the taxpayer, inquiries of witnesses and counterparties, public data sources, etc.).

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 requiring detailed study in terms of confirming the business goal of the international group's entity as part of tax control procedures.

The legislation has been implemented concerning cross-border automatic information exchange and preparation of the multinational enterprise (MNE) group documentation for financial years starting on or after 1 January 2017. The law requires preparation of the three-tier transfer pricing documentation (master file, local file, country-by-country report (CbCR)) and a notification concerning participation in the MNE. These rules apply to the MNE with consolidated revenue of RUB 50 billion or more for the preceding financial year if the MNE's parent entity is a Russian tax resident, or if the MNE's consolidated revenue exceeds the statutory CbCR threshold as established by the home country of the MNE's parent entity outside Russia.

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

Management believes that at 31 December 2021 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions are likely to be sustained.

Russian transfer pricing legislation allows the tax authorities to impose additional tax liabilities and related fines if prices/margins in controlled transactions differ from the market level. The list of controlled transactions mainly includes transactions between related parties.

Starting from 1 January 2019, most domestic transactions are no longer subject to transfer pricing control, and the threshold of RUB 60 million applies to cross-border transactions, subject to tax control, with the same related counterparty. In addition, subject to transfer pricing control are certain types of transactions between unrelated entities, e.g. transactions with companies located in low-tax jurisdictions, and transactions involving the external trade of goods as part of global exchange trading (provided that the turnover in those transactions exceeds the RUB 60 million threshold). Counter adjustment of tax liabilities can be used in case additional taxes are assessed as a result of breaching transfer pricing rules; another mechanism is to apply voluntary symmetric adjustments to transfer prices and, consequently, tax liabilities, provided that certain legislative requirements are met and the transactions in question are deemed controlled.

For intra-group transactions which fall outside the transfer pricing control from 2019, there is still a possibility for the local tax authorities to audit those from the perspective of unjustified tax benefit. TP methods may be applied to determine the amounts of additional accruals.

The legislation concerning preparation of the multinational enterprise (MNE) group documentation applies to financial years starting on or after 1 January 2017. The law requires preparation of the three-tier transfer pricing documentation (master file, local file, country-by-country report (CbCR)) and a notification concerning participation in the MNE. These rules apply to MNE with consolidated revenue of RUB 50 billion or more in the preceding financial year if the MNE's parent entity is a Russian tax resident, or if the MNE's consolidated revenue exceeds the statutory CbCR threshold as established by the home country of the MNE's parent entity outside Russia.

31 Contingencies, commitments and operating risks (continued)

31.2 Taxation (continued)

In 2021, 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 executive body in charge of tax and levies oversight and control may audit prices/margins in controlled transactions; if it disagrees with the Group's prices in these transactions, it may assess additional tax liabilities, unless the Group is able to support the arm's length nature of its pricing in these transactions by way of the compliant transfer pricing documentation (local file).

31.3 Environmental matters

The enforcement of environmental regulations 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 recognized immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Potential liabilities which might arise as a result of changes in effective legislation or regulations, or resulting from civil litigation, cannot be reliably estimated but could be material. In the current enforcement climate under the existing environmental legislation, management believes that there are no significant unrecorded liabilities for environmental damage.

31.4 Lawsuits

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. The total amount of contingent liabilities determined by management at the reporting date in relation to the negative outcome of the litigation and not accrued in the consolidated financial statements is estimated not to exceed RUB 279 million.

31.5 Contingencies

Contingencies that were determined by management at the reporting date as those that may be subject to different interpretations of legislation and regulations, and were not accrued in the consolidated financial statements, can range from RUB 0 to RUB 517 million for the Group. In respect of these contingencies there is also uncertainty over the term of their execution, as they depend on the occurrence (non-occurrence) of one or more future uncertain events not controlled by the Group.

31.6 Operating environment of the Group

The Group operates in the sector of production of caprolactam and its derivatives, as well as in the sector of mineral fertilizers, and sells its products within Russia and to other countries. The highly competitive nature of the market leads to price volatility for the Group's main products. Most of the Group's businesses are located in the Russian Federation and, as a result, are subject to economic and political influence of the government of the Russian Federation.

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.

In 2021, the Russian economy continued to be negatively impacted by sanctions imposed on Russia by a number of countries and a prolonged devaluation of the Russian ruble. Interest rates remained high at the beginning of the year, although during 2021 they decreased along with the decreasing key rate. The combination of the above and certain prior year negative factors resulted in reduced access to capital, a higher cost of capital and growing uncertainty regarding future economic growth, which could negatively affect the Group's financial position, results of operations and business prospects.

In addition, at the beginning of 2020, a new coronavirus (COVID-19) began to spread rapidly across the globe. As a result, the World Health Organization (WHO) announced the beginning of a pandemic in March 2020. The measures taken by many countries to contain the spread of COVID-19 led to significant operational difficulties for many companies and have a significant impact on global financial markets. As the situation evolves rapidly, COVID-19 may significantly impact the operations of many companies in various sectors of the economy, including, but not limited to, operating activity disruptions due to halts or discontinuation of production, supply chain disruptions, staff quarantines, decrease in demand and difficulties in obtaining funding. Besides, the Group may face even greater adverse implications of COVID-19 as a result of its negative impact on major financial markets.

(in millions of Russian rubles unless otherwise stated)

31 Contingencies, commitments and operating risks (continued)

31.6 Operating environment of the Group (continued)

Management is closely monitoring the evolving COVID-19 situation and is taking all necessary steps to ensure business continuity. The Group has had no significant business interruptions or supply chain disruptions due to the coronavirus. The main priority of the Group is the safety of its employees, customers and the population in the regions of its presence.

Management believes that it is taking appropriate measures to maintain the economic stability of the Group in the current environment.

32 Principal subsidiaries

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

			2021		2020	
Name	**Country of incorporation**	**Activity**	**% ownership**	**% voting**	**% ownership**	**% voting**
Port Togliatti	Russian Federation	Transportation of finished goods	66%	79%	66%	79%
Togliattichiminvest	Russian Federation	Sales of construction materials	100%	100%	100%	100%
Kuibyshevazot-invest	Russian Federation	Investing	100%	100%	100%	100%
EPC Shanghai	China	Engineering plastics production	90%	90%	90%	90%
TC KUAZ Shanghai	China	Trade	50%	50%	50%	50%
TC KUAZ Hong Kong	Hong Kong	Trade	100%	100%	100%	100%
Activinvest	Russian Federation	Investing	100%	100%	100%	100%
Azotremstroi	Russian Federation	Capital construction	100%	100%	100%	100%
Kurskchimvolokno	Russian Federation	Production of synthetic fibre	100%	100%	100%	100%
Moskovskiye Volokna	Russian Federation	Rental services	100%	100%	100%	100%
Baltex	Russian Federation	Production of synthetic fabric	100%	100%	100%	100%
Srednevolzhskaya energosbytovaya kompaniya	Russian Federation	Sale of electric power	74%	74%	74%	74%
JV Granifert	Russian Federation	Ammonium sulfate production	100%	100%	100%	100%

The Company exercises control over the Chinese subsidiary TC KUAZ Shanghai because it has the right to control all decisions regarding the significant activities of the subsidiary, as well as appoint a majority of the board of directors, approve detailed budgets for the subsidiary, and appoint personnel to key management positions

33 Financial risk management

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

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

33.1 Credit risk

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

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33 Financial risk management (continued)

33.1 Credit risk (continued)

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

33.2 Market risk

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

33.3 Interest rate risk

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates linked to EURIBOR and LIBOR indices and the key rate of the CBR. At 31 December 2021, approximately 57% of the Group's borrowings are at a fixed rate of interest (31 December 2020: 63%).

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

		Increase/ decrease in basis points	**Effect on profit before tax**
2021			
LIBOR	Maximum change	1.25%	−
EURIBOR	Maximum change	0.20%	3
Key rate of the CBR	Maximum change	3.00%	200
LIBOR	Minimum change	-0.25%	−
EURIBOR	Minimum change	-0.20%	(3)
Key rate of the CBR	Minimum change	-3.00%	(200)
2020			
LIBOR	Maximum change	1.00%	(20)
EURIBOR	Maximum change	0.20%	(3)
Key rate of the CBR	Maximum change	1.25%	(150)
LIBOR	Minimum change	-0.25%	5
EURIBOR	Minimum change	-0.20%	3
Key rate of the CBR	Minimum change	-0.75%	90

33.4 Foreign currency risk

The Group exports products to Asian, American and European countries and, therefore, is exposed to foreign currency risk. Foreign-currency-denominated assets (Notes 8 and 9) and liabilities (Note 16) give rise to foreign exchange exposure. Approximately 445 of the Group's revenue from sales is denominated in currencies other than rubles − the functional currency of the Company, whilst 92% of costs is denominated in rubles. Hence, the Group is exposed to the related foreign currency risk primarily with respect to the US dollar. However, management believes that foreign currency risk is not significant.

(in millions of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.4 Foreign currency risk (continued)

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

		Increase/ decrease in basis points	Effect on profit before tax
2021			
Euros	Maximum change	15%	(258)
US dollars	Maximum change	15%	118
Chinese yuans	Maximum change	14%	104
Euros	Minimum change	-15%	258
US dollars	Minimum change	-15%	(118)
Chinese yuans	Minimum change	-14%	(104)
2020			
Euros	Maximum change	16.0%	(643)
US dollars	Maximum change	16.0%	(623)
Chinese yuans	Maximum change	16.0%	179
Euros	Minimum change	-16.0%	643
US dollars	Minimum change	-16.0%	623
Chinese yuans	Minimum change	-16.0%	179

33.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of available credit facilities (31 December 2021: RUB 35 394 million; 31 December 2020: RUB 27,471 million) as well as the available limit for financing trade operations through factoring agreements (31 December 2021: RUB 9 098 million, 31 December 2020: RUB 8,775 million) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's Financial Department aims to maintain flexibility of funding by keeping committed credit lines available.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2021 based on contractual undiscounted payments.

Year ended 31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans and borrowings	390	3,924	16,537	515	**21,366**
Lease liabilities	51	160	42	130	**383**
Trade and other payables	7,391	–	–	–	**7,391**
	7,832	**4,084**	**16,579**	**645**	**29,140**

Year ended 31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans and borrowings	1,555	3,823	20,479	2,163	**28,020**
Lease liabilities	46	149	101	134	**430**
Trade and other payables	3,178	325	–	–	**3,503**
	4,779	**4,297**	**20,580**	**2,297**	**31,953**

(in millions of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.6 Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or sell treasury shares held by subsidiaries. In 2021 and 2020, no changes were made in the Group's objectives, policies or processes.

33.7 Fair values

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

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

At 31 December 2021 and 31 December 2020, the fair value of financial instruments, which is estimated by discounting future contractual cash flows at current market interest rates for similar financial instruments with the same remaining maturity, approximates their carrying amount.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

Significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2021, are shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of fair value to inputs**
Options to buy or sell stock of LLC Volgatechnool	Binomial model	Volatility	2021: 48.05%	An increase (decrease) in volatility by 7% will lead to an increase (decrease) in fair value by RUB 7 million
		Credit risk/ spread	2021: 0.51%	An increase (decrease) in credit risk/spread by 1% will lead to an increase (decrease) in fair value by RUB 1 million
		Return on dividends	2021: 5.4%	An increase (decrease) in return on dividends by 2% will lead to an increase (decrease) in fair value by RUB 1 million
		Fair value of the underlying asset	2021: RUB 2037 million	An increase (decrease) in the fair value of the underlying asset by RUB 400 million will lead to an increase (decrease) in fair value by RUB 400 million

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33 Financial risk management (continued)

33.7 Fair values (continued)

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value to inputs
Options to buy or sell stock of LLC Volgafert	Binomial model	Volatility	2021: 26.3%	An increase (decrease) in volatility by 7% will lead to an increase (decrease) in fair value up to RUB 30 million
		Credit risk/ spread	2021: 2.55%	An increase (decrease) in credit risk/spread by 1% will lead to an increase (decrease) in fair value up to RUB 54 million
		Return on dividends	2021: 12.57%	An increase (decrease) in return on dividends by 2% will lead to an increase (decrease) in fair value up to RUB 26 million
		Fair value of the underlying asset	2021: RUB 2 483 million	An increase (decrease) in the fair value of the underlying asset by RUB 500 million will lead to an increase (decrease) in fair value by RUB 383 million

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value to inputs
Options to buy or sell stock of LLC Nitrocom	Binomial model	Credit risk/ spread	2021: 0.51%	An increase (decrease) in credit risk/spread by 1% will lead to an increase (decrease) in fair value up to RUB 6 million
		Fair value of the underlying asset	2021: RUB 727 million	An increase (decrease) in the fair value of the underlying asset by RUB 150 million will lead to an increase (decrease) in fair value by RUB 141 million

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value to inputs
Options to buy or sell stock of LLC Volgatechnool	Binomial model	Volatility	2020: 47%	An increase (decrease) in volatility by 7% will lead to an increase (decrease) in fair value by RUB 2 million
		Credit risk/ spread	2020: 1.86%	An increase (decrease) in credit risk/spread by 1% will lead to an increase (decrease) in fair value by RUB 4 million
		Return on dividends	2020: 11.33%	An increase (decrease) in return on dividends by 2% will lead to an increase (decrease) in fair value by RUB 5 million
		Fair value of the underlying asset	2020: RUB 1,308 million	An increase (decrease) in the fair value of the underlying asset by RUB 200 million will lead to an increase (decrease) in fair value by RUB 96 million

(in millions of Russian rubles unless otherwise stated)

33 Financial risk management (continued)

33.7 Fair values (continued)

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value to inputs
Options to buy or sell stock of LLC Volgafert	Binomial model	Volatility	2020: 28%	An increase (decrease) in volatility by 7% will lead to an increase (decrease) in fair value by RUB 30 million
		Credit risk/ spread	2020: 3.12%	An increase (decrease) in credit risk/spread by 1% will lead to an increase (decrease) in fair value by RUB 140 million
		Return on dividends	2020: 7.48%	An increase (decrease) in return on dividends by 2% will lead to an increase (decrease) in fair value by RUB 83 million
		Fair value of the underlying asset	2020: RUB 1,907 million	An increase (decrease) in the fair value of the underlying asset by RUB 300 million will lead to an increase (decrease) in fair value by RUB 611 million

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

	Carrying amount		Assets and liabilities for which fair values are disclosed (Level 2)		Assets and liabilities at fair value (Level 3)	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**	**31 December 2021**	**31 December 2020**
Financial assets						
Cash and cash equivalents	13,767	3,136	13,767	3,136	−	−
Financial assets − current	3,375	490	3,375	490	−	−
Financial assets − non-current	1,468	794	1,468	794	−	−
Trade receivables	3,572	2,412	3,572	2,412	−	−
Derivative financial instruments	426	−	−	−	426	−
Financial liabilities						
Short-term loans and borrowings	3,345	4,327	3,345	4,327	−	−
Long-term loans and borrowings	15,305	20,183	15,305	20,183	−	−
Derivative financial instruments	3,350	3,398	−	−	3,350	3,398
Financial guarantee	64	136	64	136	−	−
Trade payables	2,286	2,801	2,286	2,801	−	−

34 Events after the reporting period

In February 2022, certain countries announced new packages of sanctions against the public debt of the Russian Federation and a number of Russian banks, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the ruble against the US dollar and the euro. The Bank of Russia has increased the key rate to 20% on 28 February 2022

In March 2022, temporary restrictive economic measures were introduced in the Russian Federation, including a ban on residents providing loans to non-residents in foreign currency and on residents transferring foreign currency to their accounts in foreign banks, restrictions on payments on securities to foreign investors, restrictions on transactions with counterparties in a number of foreign countries, also the mandatory sale by Russian exporters of 80% of foreign currency proceeds from foreign trade contracts.

The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence.

Currently, the Groups management is analyzing the possible impact of changing micro- and macroeconomic conditions on the Company's financial position and results of operations.