KAZANORGSINTEZ GROUP

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

31 December 2020

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Independent Auditor's Report

To the Shareholders and Board of Directors of Kazan public joint stock company "Organichesky Sintez":

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kazan public joint stock company "Organichesky Sintez" (the "Company" or PAO "Kazanorgsintez") and its subsidiaries (together – the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year then ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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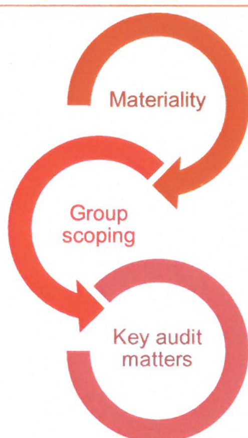
Our audit approach

Overview



Overall Group materiality: Russian Roubles ("RUB") 853 million, which represents 5% of the average profit before tax for the last 3 years

- We conducted audit work at PAO "Kazanorgsintez", located in the city of Kazan in the Russian Federation
- Our audit scope addressed 99,9 % of the Group's revenues and 99,9 % of the Group's absolute value of underlying profit before tax

Key Audit Matters

- Revenue recognition and disclosure
- Impact of COVID-19 on Group operations

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

Materiality

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

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

Overall Group materiality	RUB 853 million
How we determined it	5% of the average profit before tax for the last 3 years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. Since the profit before tax of the Group in previous years was subject to significant fluctuations, we used the average value of the profit before tax for the last 3 years. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and disclosure	
The Group executes a large volume of revenue transactions with multiple counterparties from different countries and on different terms of transfer of ownership and risks. The Group recognises revenues from sales of goods based on the quantity of goods dispatched and the agreed prices. Although revenue recognition involves only limited judgement, due to the size and volume of transactions it is an audit area which requires significant time and resources and is therefore considered to be a key audit matter. As in prior year we continued focusing on this area. *See notes 5 and 8 of the consolidated financial statements for management's disclosures of the related accounting policies, judgements and estimates and detailed disclosure of the revenue of the Group for further information.*	We performed a wide range of audit procedures in the audit of revenue including, but not limited to: • assessment of the consistency of the revenue recognition policy application; • understanding of controls and evaluation of their effectiveness in the revenue cycle; • detailed testing of non-standard journal entries in relation to revenue recognition, if identified; • substantive detailed procedures, including circularization procedures and sample testing. We incorporated an element of unpredictability by selecting transactions not otherwise tested due to their materiality and by testing operations with new customers.
Impact of COVID-19 on Group operations	
The spread of COVID-19 in 2020 has caused financial and economic tensions in global markets. In many countries of the world, a quarantine regime has been introduced. Introduced restrictions had a negative impact on economic growth and demand and, as a result, on the economic results of the Group. The current situation remains uncertain and it appears that its negative impact on global trade and on the Group could be significantly more serious than originally anticipated. There was a weakening of the ruble against the exchange rates of the US dollar and euro that expose the Group to risks in case of changes in their exchange rates, as well as a decline in prices for raw materials and products.	Our procedures included: • discussion of the impact of COVID-19 on the business and assessment of measures to minimize the impact on the financial results of the Group with its Management; • verification of the model performed by management of the Group for the purpose of impairment testing of the Group's non-financial non-current assets using discounted cash flow models including assessing the reasonableness of the methodology used by the Group's management, comparing key assumptions (including discount rate, inflation rate, oil prices and foreign currencies exchange rates) used in models with approved business plans by management,

Key audit matter	How our audit addressed the key audit matter
The cost of raw and other materials used by the Group, as well as the prices of manufactured products, largely depend on the exchange prices for oil. Additional restrictions imposed on business by the governments of countries in the context of a pandemic have led and may continue to lead to a decrease in sales of products to certain buyers. We paid particular attention to assessing / analyzing the impact of COVID-19 on the Group's business, as the above circumstances may have a significant impact on the figures presented in the consolidated financial statements.	available market information and industry forecasts. We engaged our valuation experts to draw conclusions about the assumptions and methodology that were used in the impairment testing as well as for verification of mathematical accuracy of calculations and analysis of the sensitivity of key assumptions; • analysis of net realizable value due to price volatility for finished goods. We also reviewed the adequacy and correctness of COVID-19 disclosures in the consolidated financial statements.

How we tailored our Group audit scope

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

Based on the risk assessment procedures and results of analysis on significance of consolidated financial statement lines of the Group's companies we identified PAO "Kazanorgsintez" as a significant component and performed audit procedures on consolidated financial statements in accordance with ISA 600 "Audits of Group financial statements".

The Group engagement team determined the subsidiary as an insignificant component and didn't perform audit procedures on it's figures. Our audit scope addressed 99.9% of the Group's revenues and 99.9% of the Group's absolute value of underlying profit.

Other information

Management is responsible for the other information. The other information comprises the annual report of PAO "Kazanorgsintez" for 2020 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Issuer's Report for the first quarter of 2021, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Issuer's Report for the first quarter of 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

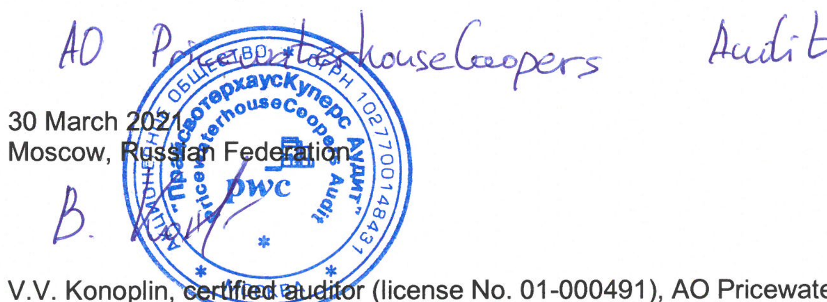
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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



30 March 2021
Moscow, Russian Federation

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

Audited entity: Kazan public joint stock company "Organichesky Sintez"

Record made in the Unified State Register of Legal Entities on 24 July 2002 under State Registration Number No. 1021603267674

Taxpayer Identification Number 1658008723

Belomorskaya str., 101, Kazan, Republic of Tatarstan, Russian Federation, 420051

Independent auditor: AO PricewaterhouseCoopers Audit

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

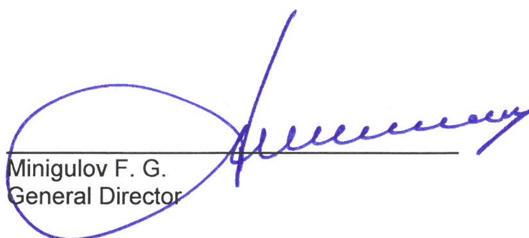
Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

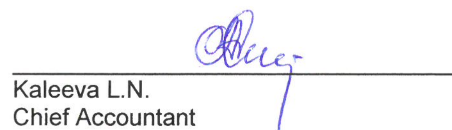
Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

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

	Note	2020	2019
Revenue	7,8	62,935	72,579
Cost of sales	7,9	(46,694)	(50,132)
Gross profit		**16,241**	**22,447**
Selling, general and administrative expenses	7,10	(6,180)	(6,453)
Other operating income/(expenses), net	7,11	91	(374)
Loss from change in allowance for expected credit losses		(45)	(1)
Operating profit		**10,107**	**15,619**
Interest income		210	571
Interest expense		(101)	(18)
Share in (loss)/profit of associates		(9)	1
(Expense)/income from investments	15	(130)	281
Foreign exchange gain/(loss), net	12	623	(1,396)
Profit before income tax		**10,700**	**15,058**
Income tax expense	13	(2,269)	(3,176)
PROFIT FOR THE YEAR		**8,431**	**11,882**
Other comprehensive loss for the year			
Items that will subsequently not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations	24	(55)	(75)
Total items that will subsequently not be reclassified to profit or loss		**(55)**	**(75)**
Total other comprehensive loss for the year		**(55)**	**(75)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,376**	**11,807**
Basic and diluted earnings per share (in Russian Roubles)	23	4.71	6.64



Minigulov F. G.
General Director



Kaleeva L.N.
Chief Accountant

30 March 2021

	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	14	54,893	51,488
Intangible assets		417	417
Right-of-use assets		36	-
Investments in associates		29	38
Financial assets	15	1,346	1,084
Other non-current assets	16	838	428
Total non-current assets		**57,559**	**53,455**
Current assets			
Inventories	17	7,852	8,083
Trade and other receivables	18	561	473
Other prepaid and recoverable taxes	19	124	968
Financial assets	15	14	531
Prepayments	20	1,285	1,102
Cash and cash equivalents	21	7,688	8,056
Total current assets		**17,524**	**19,213**
Total assets		**75,083**	**72,668**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	22	1,905	1,905
Retained earnings		63,603	63,373
Total equity		**65,508**	**65,278**
Non-current liabilities			
Deferred income tax liabilities	13	2,037	2,117
Other non-current liabilities	24	371	287
Total non-current liabilities		**2,408**	**2,404**
Current liabilities			
Trade and other payables	25	2,366	1,938
Advances received and accrued liabilities	26	3,829	2,595
Income tax payable		377	22
Other taxes payable	27	527	359
Dividends payable		68	72
Total current liabilities		**7,167**	**4,986**
Total liabilities		**9,575**	**7,390**
Total equity and liabilities		**75,083**	**72,668**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

	Note	2020	2019
OPERATING ACTIVITIES			
Profit before income tax		**10,700**	**15,058**
Adjustments for:			
Depreciation	9,10	3,416	3,402
Interest income, net		(109)	(553)
Loss/(gain) from revaluation of financial assets to fair value	15	130	(281)
Share in losses of associate		9	-
Foreign exchange (gain)/loss, net		(688)	1,418
Loss on disposal of non-current assets	11	116	273
Change in provision for impairment of property, plant and equipment	14	2	46
Increase in allowance for expected credit losses		45	1
Recovery of unclaimed prior year dividends		(20)	(13)
Operating profit before working capital changes		**13,601**	**19,351**
Decrease/(increase) in inventories		231	(691)
(Increase)/decrease in trade and other receivables		(88)	472
Decrease/(increase) in prepaid and recoverable taxes other than prepaid income tax		844	(818)
(Increase)/decrease in other assets		(593)	446
Decrease in trade and other payables and other liabilities		(330)	(355)
Increase/(decrease) in advances received and accrued liabilities		1,229	(589)
Increase/(decrease) in taxes payable other than income tax		168	(6)
Changes in working capital		**1,461**	**(1,541)**
Income taxes paid		(1,994)	(3,179)
Net cash from operating activities		**13,068**	**14,631**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and advances issued for capital construction and acquisition of equipment		(6,072)	(10,896)
Proceeds from sale of property, plant and equipment		21	82
Placement of deposits (securities) and other financial assets		-	(776)
Withdrawal of deposits (securities) and other financial assets		42	12,159
Purchases of non-current assets		(123)	(182)
Interest income received		167	403
Dividends received		1	-
Net cash (used in)/from investing activities		**(5,964)**	**790**
FINANCING ACTIVITIES			
Dividends paid		(8,150)	(13,910)
Repayment of lease liability		(11)	-
Net cash used in financing activities		**(8,161)**	**(13,910)**
Net (decrease)/increase in cash and cash equivalents		**(1,057)**	**1,511**
Cash and cash equivalents at the beginning of the year		**8,056**	**6,961**
Effect of exchange rate changes on cash held in foreign currencies		689	(416)
Cash and cash equivalents at the end of the year		**7,688**	**8,056**

	Note	Share capital	Revaluation reserve for financial assets	Retained earnings	Total equity
Balance at 1 January 2019		**1,905**	**-**	**65,505**	**67,410**
Profit		-	-	11,882	**11,882**
Other comprehensive loss less deferred tax	24	-	-	(75)	**(75)**
Total comprehensive income for 2019		**-**	**-**	**11,807**	**11,807**
Dividends declared	28	**-**	**-**	(13,939)	**(13,939)**
Balance at 1 January 2020		**1,905**	**-**	**63,373**	**65,278**
Profit		-	-	8,431	**8,431**
Other comprehensive loss less deferred tax	24	-	-	(55)	**(55)**
Total comprehensive income for 2020		**-**	**-**	**8,376**	**8,376**
Dividends declared	28	-	-	(8,146)	**(8,146)**
Balance at 31 December 2020		**1,905**	**-**	**63,603**	**65,508**

1. GENERAL INFORMATION

Kazan public joint stock company «Organichesky Sintez» (the «Company» or PAO «Kazanorgsintez») was incorporated in Kazan, Republic of Tatarstan, Russian Federation, on 31 August 1993. The principal activity of the Company and its subsidiaries (the "Group") is production of chemical products and derivatives thereof (mainly polyethylene) which are marketed and sold primarily in the Russian Federation.

Major production facilities of the Group are located in Kazan, Republic of Tatarstan, Russian Federation. The registered office of the Company is located at the following address: 101, Belomorskaya str., Kazan, Republic of Tatarstan, Russian Federation, 420051.

Details of the Company's subsidiary are provided in Note 34.

2. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market. Russia's economy is particularly sensitive to oil and gas prices. Laws and regulations (in particular, tax laws) continue to develop and are subject to frequent changes and possible varying interpretations. The Russian economy continues to be negatively impacted by international sanctions against certain Russian companies and individuals.

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Russian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. These measures have, among other things, severely restricted economic activity in Russia and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Group, as well as the Russian and global economy for an unknown period of time.

The termination from April 1, 2020 of the previous OPEC+ deal to limit oil production increased the risks of a significant oversupply of oil and petroleum products in the market, which, together with reduced global demand for energy resources in the context of COVID-19 pandemic, led to a significant drop in stock markets, a sharp decline in oil prices and a significant weakening of the Russian Rouble against the US Dollar and Euro. The current environment has partially contributed to the decline in the world prices for polymers and, consequently, certain products sold by the Group. At the end of the second quarter of 2020, the global economic activity began to gradually recover due to a partial lifting of restrictions aimed at preventing the spread of the epidemic, as well as a partial recovery of global oil prices as a result of the new OPEC+ deal to limit oil production, and compliance with the production reduction targets.

Management is taking all necessary measures to ensure sustainability of the Group's operations and all the required precautions to ensure the safety and health of workers against the spread of COVID-19. The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results. As significant uncertainty still exists regarding the severity of the short-term and long-term adverse impact of the COVID-19 pandemic on the global economy, global financial markets, the Russian economy and economies of jurisdictions in which the Group operates, management believes it would be impractical to quantify the potential impact of the current economic environment on the Group.

Exchange rates of major foreign currencies as at 31 December 2020 were RUB 73.8757 = USD 1.00 (RUB 61.9057 as at 31 December 2019) and RUB 90.6824 = EUR 1.00 (RUB 69.3406 as at 31 December 2019).

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective for the Group from 1 January 2020, but did not have any material impact on the Group:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020) The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

4. NEW AMENDMENTS AND ACCOUNTING PRONOUNCEMENTS

Certain new amendments and standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. According to the Group's management, the new standard is not expected to affect significantly its consolidated financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies an optional temporary exemption to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. According to the Group's management, the new standard is not expected to affect significantly its consolidated financial statements.

Classification of Liabilities as Current and Non-Current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. According to the Group's management, the new amendments are not expected to affect its consolidated financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

4. NEW AMENDMENTS AND ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of ‘costs to fulfil a contract’. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent’s consolidated financial statements, based on the parent’s date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. According to the Group’s management, the new amendments are not expected to affect its consolidated financial statements.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (revised) has been postponed by two years. The standard should apply to annual reporting periods beginning on or after 1 January 2023. The fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services:* Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an ‘investment-return service’ under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

4. NEW AMENDMENTS AND ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments*: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition relief and other minor amendments.

According to the Group's management, the new amendments are not expected to affect its consolidated financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non- contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group is currently assessing the impact of the amendments on its financial statements.

4. NEW AMENDMENTS AND ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, after they become effective, the new standards and interpretations, are not expected to affect significantly the Group's consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation of consolidated financial statements

The Group operates in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group have been prepared under the historical cost convention, except for financial instruments initially recognised at fair value and financial assets measured at fair value through profit and loss in accordance with IFRS 9 "Financial Instruments".

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in the consolidated financial statements, unless otherwise stated (Note 3).

Basis of consolidation

Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases. Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered.

When preparing the consolidated financial statements, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in compliance with those applied by the Group.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates.

Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded separately within profit or loss for the year in the consolidated statement of the comprehensive income, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately in the consolidated statement of comprehensive income.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates (continued)

Losses of associates are initially recognised in the consolidated financial statements as long as investments in associates are not written down to nil. Then losses are recorded in the consolidated financial statements to the extent the Group has assumed obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries or associates

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value as stated at the date of control loss, with the change in carrying value recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, value added taxes, export duties and excise tax.

Product sales

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of damage and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

If a party to the contract has fulfilled any of its obligations under the contract, the Group recognises the contract in the consolidated statement of financial position either as a contract asset or as a contract liability, depending on the ratio between the Group's fulfilment of its obligations under the contract and the buyer's payments.

The Group separately presents unconditional rights to reimbursement as a receivable. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

No element of financing is deemed present as the sales are made on a pre-paid basis or with a credit term of no more than 90 days, which is consistent with market practice. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule.

If the Group provides any additional services to the customer after control over goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision of services

The Group provides services under fixed-price contracts. Revenue from services is recognised in the reporting period in which they are rendered and as they are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. The Group mainly provides transportation services.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.
Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. The line item "Interest income" of the consolidated statement of comprehensive income is intended for recognising interest income on financial assets carried at amortised cost, such as loans issued, promissory notes receivable, deposits and trade and other receivables accounted for using the effective interest rate.

Right-of-use assets

The Group leases land plots. The Group allocates contractual consideration based on relative stand-alone transaction prices.

Assets arising from leases are measured at cost at the lease commencement date, which includes the following:

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives.

Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Estimated useful life (number of years)
Land *	3 to 5

** Although the useful life of the land is unlimited, the useful life of the right-of-use asset is limited by the term of the contract. Therefore, the asset in the form of the right to use land is depreciated.*

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease liabilities (continued)

Extension and termination options are included in a number of leases of land, buildings and structures, equipment and vehicles across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group’s operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group’s incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Short-term lease payments for land plots are recognised on a straight-line basis as expenses within profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Operating lease

Where the Group is a lessor in a lease which does not transfers substantially all the risks and rewards incidental to ownership to the lessee (i.e. operating lease), lease payments from operating leases are recognised as revenue on a straight-line basis.

Foreign exchange differences

The stand-alone financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of all Group entities is the Russian Rouble (“RUB”). The Russian Rouble has also been selected as the presentation currency for the Group’s consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates of the Central Bank of the Russian Federation (“CBRF”) effective at the date of the transactions.

Exchange differences arising from foreign currency transactions and translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of comprehensive income separately from other income or expenses.

Interest expense

Interest expenses recorded in the line “Interest expense” the consolidated statement of comprehensive income include interest expense incurred on finance lease agreements, interest expense on long-term employee benefits and expenses arising on recognition of financial assets at fair value.

Employee benefits

Short-term benefits to employees in respect of services rendered during a reporting period are recognised as an expense in that reporting period.

They include, in addition to wages and other similar benefits payable directly to employees, payments to employees when recipients of the funds are third parties, such as: voluntary health insurance, transfer of employees from home to place of work and back, compensation payments related to the acquisition of housing by employees.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension and other post-employment benefits

The Group makes mandatory insurance contributions to the State Pension Fund. In the Russian Federation, contributions to the Russian Federation State Pension Fund are calculated by applying a regressive rate to the annual gross remuneration of each employee, where the regressive rate is determined based on the current legislation.

Moreover, the Company have signed agreements with non-government pension funds on additional pension schemes for which the Company has recognised the construction obligation.

Under collective agreements between the Group's company and its employees, the Group has a number of long-term benefit liabilities: jubilee benefits, lump sum benefit on retirement and regular fixed payments to non-working pensioners.

Liabilities on lump-sum retirement benefits and fixed payments to non-working pensioners are treated by the Group as post-employment benefit liabilities. The Group classifies these obligations as defined benefit plans. There are no assets on these plans. The Group uses the Projected Unit Credit Method to determine the discounted value of its defined benefit plan liabilities and related current service cost as well as past service cost, where applicable.

Jubilee benefits are classified and recorded by the Group as other long-term benefits.

When calculating post employment and other long-term benefits, the Group uses such assumptions as expected minimum wage growth, staff turnover, average life expectancy and discount rate equivalent to interest rates on top-quality government bonds with a currency and maturity similar to that of the defined benefit plan.

Gains/losses from revaluation on pension plans are fully recognised in the consolidated statement of comprehensive income within other comprehensive income. Gains/losses from revaluation related to other long-term benefits are recognised in the consolidated statement of comprehensive income as a component of cost of sales and selling, general and administrative expenses within labour costs.

Income taxes

Income tax has been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted at the reporting date. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it relates to transactions that are recognised in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying values for consolidated financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates, which are expected to be applied to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. In accordance with the Tax Code of the Russian Federation, up to 31 December 2021, no more than 50% of taxable profit can be reduced by tax losses carried forward from previous periods. From 1 January 2022, all taxable profit can be reduced by tax losses carried forward from previous periods. Tax losses can be carried forward until they are fully recognised, without time limits.

When deciding on the necessity to recognise a deferred tax on temporary differences related to taxes accrued on dividends from subsidiaries payable out of the subsidiaries' retained earnings, the Group takes into consideration income tax rate which applies to such dividends under the effective legislation and existence of control over ability to reverse those temporary differences.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity of the Group. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Uncertain income tax positions

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

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses.

Depreciation is computed under the straight-line method over the estimated useful lives of the assets, which are:

Buildings and facilities	10 to 85 years
Plant and machinery	5 to 30 years
Transportation and other assets	5 to 40 years

Land plots are not depreciated.

Gain or loss arising on the disposals are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income in line "Other operating income/(expenses), net".

Construction in progress

Construction in progress comprises costs directly related to construction of property, plant and equipment. Depreciation commences from the time the assets are ready for use, i.e. when its location and condition allow for its operation as intended by the management. Construction in progress includes prepayments for capital construction and purchase of equipment, net of VAT.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

The Group's intangible assets have definite useful lives and are amortised on a straight-line basis over their expected useful lives.

Software products	1 to 5 years
Licences	1 to 10 years
Patents	9 to 18 years
Trademarks	5 to 10 years

Costs incurred on the development, implementation and enhancement of software are capitalised and amortised over its expected useful life. Software costs relating to the existing software operation are recognised as an expense in the period in which they occur.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are recorded at the lower of cost and net realisable value. When inventory is released to production or disposed of otherwise it is valued on the weighted average basis. Cost of finished goods and products work in progress comprises raw material, direct labour, other direct costs and relevant variable costs but excludes other costs directly not related to production.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Work in progress is measured at net production cost per unit.

Inventories are recorded in the consolidated statement of financial position within current assets (line “Inventories”) if they are consumed in the next reporting period or non-current assets (line “Other non-current assets”) if they are consumed not earlier than in 12 months after the balance sheet date.

Value-added tax

Output value added tax (“VAT”) related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to customers. Input VAT on goods and services is offset against output VAT subject to certain limitations.

Excise tax

The amount of excise tax deductible or recoverable from the budget is recorded within line “Other prepaid and recoverable taxes” in the consolidated statement of financial position.

In connection with changes in the Russian tax legislation and reduced custom duties on oil and certain types of oil products which resulted in the growth of feedstock prices for entities involved in the feedstock further processing, and introduction of excise taxes for a number of petrochemical products, the Russian Government developed a compensation mechanism for these entities represented by a mark-up factor applied to excise amounts in accordance with paras 15, 20 and 27, Articles 200 and 201 of the Russian Tax Code.

The excess of excise tax deductions over excise accruals due to application of an index prescribed by the Russian law is recorded by the Group as government assistance in the consolidated financial statements similar to government grants. The above amount (as a partial compensation for the cost of raw materials for products sold) is recorded, subject to all the necessary conditions for the products sold, as a decrease of the amount in line "Cost" (under the article "Raw and other materials") of the consolidated statement of comprehensive income; for unsold products the above amount decreases the amount in line "Inventories” of the consolidated statement of financial position.

Prepayments

In the consolidated financial statements prepayments are carried at cost less provision for impairment and VAT on prepayments. Prepayments are classified as non-current when the goods or services relating to these prepayments are expected to be obtained after one year, or when these prepayments relate to an asset, which will itself be classified as non-current at initial recognition.

If there is an indication that the assets (for example, goods or services) relating to prepayments will not be received, the carrying value of these prepayments is written down accordingly and a corresponding impairment loss is recognised in the consolidated statement of comprehensive income in line item “Other operating income/(expenses), net".

Advances received

Advances received are recognised in the consolidated financial statements at cost less VAT. Advances received are liabilities under contracts in accordance with IFRS 15 “Revenue from Contracts with Customers”.

Advances received recognised at the end of prior reporting period are recorded within revenue for the reporting period in the consolidated statements of comprehensive income.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets other than financial assets

The Group reviews the carrying values of its non-current non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit and loss.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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 main (or most profitable) market at the measurement date. The best evidence of fair value is the quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Amortised cost ("AC") is the amount at which the financial instrument was measured at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses (directly or through allowance account). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Financial instruments – initial recognition.

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. Upon initial recognition of financial assets at amortised cost, expected credit loss allowance is recognised that results in recognition of accounting loss immediately after initial recognition of the asset.

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets – classification and subsequent measurement – measurement categories

Financial assets of the Group are classified into the following categories:

- financial assets at fair value through profit or loss;
- financial assets at amortised cost.

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

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

Financial assets– reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – allowance for expected credit losses

Under IFRS 9 "Financial Instruments", the Group determined two approaches to the measurement of allowance for expected credit losses:

- General model; and
- Simplified model.

The general model is applied to the Group's financial assets, such as loans issued, promissory notes receivable, deposits, cash and cash equivalents, all other receivables and long-term trade accounts receivable.

The Group measures ECL and recognises an allowance for credit losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information about past events and current conditions available at the reporting date.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets impairment – allowance for expected credit losses (continued)

Debt instruments measured at amortized cost are presented in the consolidated statement of financial position less estimated provisions for expected credit losses. Changes in the amortised cost of debt instruments are recognised in profit or loss.

Under the general model, the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition (as evidenced by indicators such as, for example: the financial asset is past due for 30 to 90 days, the credit rating has decreased by 2 levels against the previous reporting date), the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired (as evidenced by indicators such as, for example: the payment is past for more than 90 days, the counterparty has a default level of long-term credit rating, the group filed a lawsuit against the counterparty for the return of funds, the counterparty is in crisis), the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

For short-term trade receivables, if an asset is assessed not to be impaired individually, a group of similar assets may be assessed using a simplified model (on a collective basis).

The allowance for expected credit losses for receivables may depend on the Group's past experience of non-collection of payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Changes in ECL allowance for receivables are recognised in the consolidated statement of comprehensive income in line "Loss from the change in allowance for expected credit losses".

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Uncollectible assets are written off against the related ECL allowance after all the necessary procedures to recover the asset, in full or in part, have been completed and the final amount of the loss has been determined. Subsequent reversal of the amounts previously written off is credited to profit for the year.

Financial assets measured at fair value through profit or loss

Equity securities. Equity securities that are not quoted in an active market are recorded at fair value based on the approach applied in equity accounting method using necessary adjustments.

Fair value calculations for investments in credit institutions also use a market multiplier for net assets of similar companies. Gains or losses arising from changes in fair value of equity instruments are recognised in profit or loss.

Dividends on equity securities are recognised in profit and loss when the Group's right to receive the dividends is established.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets measured at amortised cost

Loans issued, promissory notes receivable and receivables. Loans issued, promissory notes receivable, trade and other receivables are initially recognised at fair value and subsequently carried at cost amortised at the effective interest rate net of allowance for expected credit losses.

Losses on initial recognition of loans granted to employees at rates below market, are recorded in the consolidated statement of comprehensive income as labour costs within cost of sales, selling, general and administrative expenses depending on staff categories.

Losses on the initial recognition of loans issued, promissory notes receivable, trade and other receivables, arising from difference between the contractual and the fair value are recognised in the consolidated statement of comprehensive income in line “Interest expense”.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, bank deposits and other highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and exposed to an insignificant risk of changes in value. However, in accordance with IFRS 9 “Financial Instruments” calculates expected credit losses on cash held with banks and cash equivalents (expected credit losses on cash balances are not calculated).

As to cash on settlement accounts, the ratings of banks in which these accounts are opened are analysed according to international or national scales. If: (i) the ratings have not deteriorated against the previous reporting period and also (ii) the bank’s rating is at the lowest level of investment grade or above and (iii) there are no signs of payment default, no ECL allowance for cash in settlement accounts is created. If: (i) the counterparty’s rating has deteriorated against the previous reporting period, or (ii) the counterparty was assigned a grade falling under the range of “highly speculative” and below, and/or (iii) there are indicators of payment default, ECL allowance for expected credit losses for cash on settlement accounts is created. The allowance is calculated in accordance with the Group's methodology for creating provisions for impairment of financial assets.

For bank deposits and highly liquid financial investments with a maturity of up to three months, classified as cash equivalents, the allowance for expected credit losses is calculated taking into account the PD ratio (Probability of Defolt - the probability of default), determined based on the ratings assigned to counterparty banks by national or international rating agencies.

Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Deposits. Cash placed on deposits with a maturity of more than three months and received upon their closing is recognised in the consolidated statement of cash flows on a gross basis (net basis approach is not applied).

Financial liabilities

Financial liabilities, including trade and other payables, dividends payable and lease liabilities, are initially measured at fair value, net of transaction costs. Subsequently, financial liabilities are carried at amortised cost using the effective interest method.

Trade and other payables

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

Financial liabilities – derecognition

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) in the event of default and (c) in the event of insolvency or bankruptcy.

Share capital

Ordinary shares and preference shares are recognised in line “Share capital” within equity in the consolidated statement of financial position.

Dividends

Dividends payable and related taxation thereon are recognised in the period in which they have been declared and become legally payable under the Russian law.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the Russian legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may significantly differ from the amounts calculated on the basis of IFRS. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Estimated liabilities for future expenses and charges

Estimated liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as an estimated liability is the best estimate of payments required to settle obligations at the reporting date, taking into account obligation related risks and uncertainties. Where a provision is measured using the cash flows required to settle the obligation, its carrying value is the present value of those cash flows.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company adjusted by dividends after-tax attributable to preference shareholders, by the weighted average number of ordinary shares outstanding during the reporting year.

Segment reporting

The Group reports its business activities as one operating and reportable segment as the majority of the Group’s business operations are located in the Russian Federation and relate primarily to the production and marketing of organic and inorganic chemical products (mainly polyethylene) and derivatives thereof. Such an approach is consistent with the internal reporting provided to the Group’s chief operating decision maker (the Company's Executive Board). Information about geographic segments and dependence of the Group on main customers is disclosed in Note 8.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Due to uncertainties in business operations only estimates instead of accurate amounts can be determined for certain line items of consolidated financial statements. An estimate requires that the Group management make assumptions, which are based on the most recent reliable information available. Estimates may affect the reported amounts of assets and liabilities at the reporting date, income and expenses for the reporting period, as well as disclosure of contingent assets and liabilities in the consolidated financial statements.

Estimates are based on subjective factors and depend on experience, current and expected economic conditions and other information available to the Group's management. Judgements that have the most significant effect on the amounts reported in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below. Actual results may differ from those estimates.

Useful lives of property, plant and equipment

Management regularly reviews the appropriateness of asset useful lives exercising professional judgement as to the estimated period during which they will continue to bring economic benefits to the Group. The effect of any changes in estimates is accounted for on a prospective basis (Note 14).

Impairment of non-financial assets

Management of the Group regularly test tangible and intangible assets of the Group for any indication of impairment. Management apply their judgement in estimating the timing and value of cash flows within the recoverable amount calculation for the assets. When calculating cash flows and assumptions, all information available at the end of the year about future changes in operating activities is considered. In the future, estimates may differ from actual data. Key assumptions in management's analysis relate to the pre-tax discount rate, sales volume, the rate of increase in selling prices and the rate of increase in cash flows.

Environmental obligations

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group pays fees for the negative impact on the environment and the right to discharge pollutants or other waste, within legal norms, and recognises such payments within current period expenses. Management believes these fees cover all environmental obligations; therefore, the Group has no provision for environmental obligations (Note 31).

7. CHANGES IN COMPARATIVE INFORMATION

The Group changed classification in certain line items of the consolidated statement of comprehensive income, related to comparative information. The Group believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change was made retrospectively and comparatives have been restated accordingly.

Income and expenses associated with assets rented out, which were previously reported within other operating (expenses)/income, were reclassified to revenue and cost of sales, respectively, to ensure more accurate disclosure of the economic substance of these transactions.

The Group decided to reclassify costs of service business units such as taxes, energy expenses, maintenance, salaries and other expenses, which were previously reported within other operating (expenses)/income to selling, general and administrative expenses.

The effect of reclassifications on presentation of the consolidated statement of comprehensive income was as follows:

	As originally presented for 2019	**Reclas-sification**	**As reclassified for 2019**
Revenue	72,570	9	72,579
Cost of sales	(50,125)	(7)	(50,132)
Gross profit	**22,445**	**2**	**22,447**
Selling, general and administrative expenses	(6,040)	(413)	(6,453)
Other operating (expenses)/income, net	(785)	411	(374)
Operating profit	**15,619**	**-**	**15,619**

Since the amount of changes is immaterial, no information about the impact on disclosures in individual notes is presented.

8. REVENUE

The Group derives revenue from the sale of goods and provision of services over time and at a point in time.

	2020	2019
Revenue from sales of products (recognised at a certain point in time)	61,837	71,927
Revenue from services rendered (recognised over the period)	1,068	629
Total revenue from contracts with customers	**62,905**	**72,556**
Rental income	30	23
Total revenue	**62,935**	**72,579**

Revenue from contracts with customers is as follows (based on the country of registration of the consignee):

	2020	2019
Russian Federation	50,880	60,638
Exports	12,025	11,918
Total	**62,905**	**72,556**

The Group exports its products mainly to Europe and Asia.

The table below outlines the analysis of revenues by major buyers (customers) who account for 10% or more of sales revenue each:

	2020	2019
Two major buyers (2019: two major buyers)	13,604	16,680
Other customers	49,331	55,899
Total	**62,935**	**72,579**

Revenues from external customers for each group of similar products are as follows:

	2020	2019
Sales of petrochemical products, including:	**61,646**	**71,746**
plastics	56,049	64,913
other petrochemicals	5,597	6,833
Other products	**191**	**181**
Total	**61,837**	**71,927**

The sale of other petrochemicals includes the sale of bisphenol A, ethylene glycol, mono ethanolamine, acetone and other petrochemical products.

The Group applies a practical expedient provided in IFRS 15.121 “Revenue from Contracts with Customers” and does not include disclosure of outstanding performance obligations at the reporting date that are part of contracts with original expected lifetime of one year or less.

9. COST OF SALES

	2020	2019
Raw and other materials	28,690	34,362
Electricity and water	6,892	6,749
Labour costs	5,993	5,523
Depreciation	2,931	2,928
Transportation costs	708	465
Maintenance and repairs	654	711
Other	173	214
	46,041	**50,952**
Changes in work in progress and finished products	653	(820)
Total	**46,694**	**50,132**

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Labour costs	2,677	2,322
Advertising and other services	1,047	1,261
Taxes other than income tax	572	570
Depreciation	485	474
Maintenance and repairs	362	417
Material costs	286	338
Transportation costs	89	331
Banking services	48	43
Insurance	10	60
Other administrative and selling expenses	604	637
Total	**6,180**	**6,453**

11. OTHER OPERATING EXPENSES/(INCOME), NET

	2020	2019
Income from disposal of materials	(217)	(145)
Result from sale of currencies	(28)	(3)
Penalties on contracts	(26)	(10)
Income from recovery of unclaimed prior year dividend	(20)	(13)
Other income	(13)	(11)
Loss on disposal of property, plant and equipment	116	273
Social policy expenditures and charity	61	200
Maintenance of social infrastructure	30	26
Impairment of property, plant and equipment	2	46
Other expenses	4	11
Total	**(91)**	**374**

Maintenance of social infrastructure primarily comprises operating costs of social infrastructure such as recreational facilities.

12. FOREIGN EXCHANGE GAIN/(LOSS), NET

	2020	2019
Foreign exchange loss on deposits	-	(1,002)
Foreign exchange gain/(loss) on translation of cash and cash equivalents denominated in foreign currencies	688	(418)
Foreign exchange (loss)/gain on other operations	(65)	24
Foreign exchange gain/(loss), net	**623**	**(1,396)**

13. INCOME TAXES

Income tax expenses include the following components:

	2020	2019
Current income tax	2,349	2,708
Deferred income tax	(80)	468
Income tax expense	**2,269**	**3,176**

The income tax rate applicable to the Group’s taxable profits for 2020 and 2019 is 20%.

The following table presents a reconciliation of the estimated income tax charge to the amount of actual income tax expense recorded in the consolidated statement of comprehensive income:

	2020	2019
Profit before income tax	**10,700**	**15,058**
Estimated income tax expense	2,140	3,012
Tax effect of non-taxable income and non-deductible expenses	129	164
Income tax expense	**2,269**	**3,176**

13. INCOME TAXES (CONTINUED)

Temporary differences between the Russian statutory tax calculations and the amounts recorded in these consolidated financial statements give rise to deferred tax liabilities. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% at 31 December 2020, 31 December 2019 and 31 December 2018.

	31 December 2020	Charged/ (credited)/ to profit or loss	31 December 2019	Charged/ (credited)/ to profit or loss	31 December 2018
Property, plant and equipment	1,966	18	1,948	343	1,605
Financial assets	115	(44)	159	85	74
Trade and other receivables	12	3	9	5	4
Inventories	99	(41)	140	49	91
Other, net	(155)	(16)	(139)	(14)	(125)
Net deferred income tax liabilities	**2,037**	**(80)**	**2,117**	**468**	**1,649**

14. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and facilities	Plant and machinery	Transport and other PPE	Construction in progress	Total
Cost					
At 1 January 2019	**30,483**	**37,344**	**7,177**	**13,646**	**88,650**
Additions	-	163	452	10,136	**10,751**
Disposals	(120)	(182)	(58)	(88)	**(448)**
Transfers from construction in progress	1,561	5,805	927	(8,293)	**-**
Reclassification	2	(22)	20	-	**-**
At 31 December 2019	**31,926**	**43,108**	**8,518**	**15,401**	**98,953**
Additions	34	116	365	6,358	**6,873**
Disposals	(92)	(317)	(44)	(96)	**(549)**
Transfers from construction in progress	736	1,847	453	(3,036)	**-**
At 31 December 2020	**32,604**	**44,754**	**9,292**	**18,627**	**105,277**
Accumulated depreciation and impairment					
At 1 January 2019	**(13,336)**	**(26,865)**	**(3,978)**	**(235)**	**(44,414)**
Charge for the period	(1,079)	(1,648)	(514)	-	**(3,241)**
Written off on disposal	21	163	52	-	**236**
Impairment	-	-	-	(46)	**(46)**
Reclassification	-	(1)	1	-	**-**
At 31 December 2019	**(14,394)**	**(28,351)**	**(4,439)**	**(281)**	**(47,465)**
Charge for the period	(1,094)	(1,651)	(538)	-	**(3,283)**
Written off on disposal	37	292	37	-	**366**
Impairment	-	-	-	(2)	**(2)**
At 31 December 2020	**(15,451)**	**(29,710)**	**(4,940)**	**(283)**	**(50,384)**
Net carrying value					
At 31 December 2019	**17,532**	**14,757**	**4,079**	**15,120**	**51,488**
At 31 December 2020	**17,153**	**15,044**	**4,352**	**18,344**	**54,893**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2020, the carrying value of land included in "Land, buildings and facilities" was RUB 429 million (31 December 2019: RUB 417 million).

Additions were primarily associated with projects for upgrading Ethylene plant, Isopropylbenzene production facility and enhancing the capacity of Polycarbonate production plant.

At 31 December 2020, property, plant and equipment includes assets, which are fully depreciated but are still in use, with historical cost of RUB 9,011 million (31 December 2019: RUB 9,036 million).

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2020 would be to increase it by RUB 365 million or decrease it by RUB 298 million (2019: increase by RUB 360 million or decrease by RUB 294 million).

At 31 December 2020, construction in progress includes advances issued for capital construction and purchase of equipment in the amount of RUB 2,822 million (31 December 2019: RUB 3,152 million).

The Group's management has analysed impairment indicators for the Group's non-current assets as at 31 December 2020. In a context of the COVID-19 spread, heightened volatility of the markets triggering by decline in prices for certain types of finished products and raw materials became a reason for testing a part of the Group's cash generating units for impairment that resulted in a need to calculate the recoverable amount of the assets using income approach as at 31 December 2020. Based on the test performed, no impairment loss or recovery gains on the Group's non-current assets was identified other than previously recognised.

15. FINANCIAL ASSETS

	Level of fair value hierarchy	31 December 2020	31 December 2019
Non-current			
Financial assets at fair value through profit or loss			
Equity securities	3	815	945
Financial assets at amortised cost			
Promissory notes receivable	2	400	-
Loans issued	3	131	139
Total		**1,346**	**1,084**
Current			
Financial assets at amortised cost			
Promissory notes receivable	2	-	521
Loans issued	3	14	10
Total		**14**	**531**

Non-current equity securities include shares of the following companies:

	% of ownership				
	31 December 2020	**31 December 2019**	**Level of fair value hierarchy**	**31 December 2020**	**31 December 2019**
OAO Tatneftekhiminvest-holding	7	7	3	793	923
Other	-	-	3	22	22
Total				**815**	**945**

Sensitivity of financial assets' fair value measurement to changes in key assumptions is presented in the table below:

	Fair value	Valuation technique	Changes	Sensitivity of fair value measurements
at 31 December 2020	815	net assets of considered companies	±10%	82
at 31 December 2019	945		±10%	94

15. FINANCIAL ASSETS (CONTINEUD)

The movements in the carrying value of financial assets measured at fair value are as follows:

	2020	2019
Carrying value at the beginning of the period	**945**	**698**
Purchase of investments	-	1
Reclassification to investments in associates	-	(35)
Revaluation reported in profit or loss	(130)	281
Carrying value at the end of the period	**815**	**945**

There were no changes in valuation technique for recurring fair value measurements during the year ended 31 December 2020.

16. OTHER NON-CURRENT ASSETS

	31 December 2020	31 December 2019
Long-term prepayments	394	21
Catalysts	372	313
Other non-current assets	72	94
Total	**838**	**428**

17. INVENTORIES

	31 December 2020	31 December 2019
Raw and other materials	6,384	5,962
Work in progress	851	994
Finished products	617	1,127
Total	**7,852**	**8,083**

During 2020, the Group reversed RUB 4 million (2019: RUB 3 million) of the previous inventory write-down. The Group sold (used in production) all the goods that had been previously written down for approximately their net carrying value. The amount reversed has been included in cost of sales in profit or loss for the year.

In 2020, the Group recognised RUB 5 million (2019: RUB 3 million) of the inventories write-down to their net realisable value as an expense.

18. TRADE AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
Trade receivables	436	129
Other receivables	135	360
Allowance for expected credit losses	(10)	(16)
Total	**561**	**473**

The Group applies two approaches to measuring expected credit losses provided under IFRS 9: i) simplified model; and ii) general model. Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

To minimise credit risk, the Group has established credit risk policies. When entering into new contracts the Group companies follow internal guidelines that include consideration and review by the relevant Group departments of the terms and conditions of the draft contracts. The review is generally held by departments responsible for financial, commercial and legal matters as well as economic security. Management believe that fair value of receivables does not differ significantly from their carrying value.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following table explains the changes in the allowance for expected credit losses:

	2020		2019	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Balance at the beginning of the period	**1**	**15**	**2**	**14**
Newly recorded allowance	4	1	1	1
Recovery of unused allowance	(3)	(2)	(1)	-
Financial assets derecognised during the period	-	(6)	(1)	-
Balance at the end of the period	**2**	**8**	**1**	**15**

19. OTHER PREPAID AND RECOVERABLE TAXES

	31 December 2020	31 December 2019
Excise tax recoverable	111	101
Value added tax recoverable	10	865
Other taxes	3	2
Total	**124**	**968**

20. PREPAYMENTS

	31 December 2020	31 December 2019
Prepayments to suppliers	1,295	1,115
Impairment provision	(10)	(13)
Total	**1,285**	**1,102**

21. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 019
Current accounts:		
- in Roubles	1,216	478
- in foreign currency	311	862
Deposits:		
- in Roubles	1,800	3,000
- in foreign currency	4,359	3,714
Cash on hand	2	2
Total	**7,688**	**8,056**

22. SHARE CAPITAL

	31 December 2020 thousands of shares	31 December 2019 thousands of shares
Authorised number of shares		
Ordinary shares at par value of RUB 1 each	26,785,114	26,785,114
Preferred shares at par value of RUB 1 each	119,596	119,596
Total authorised number of shares	**26,904,710**	**26,904,710**

Issued and fully paid shares	thousands of shares	thousands of shares
Ordinary shares at par value of RUB 1 each	1,785,114	1,785,114
Preferred shares at par value of RUB 1 each	119,596	119,596
Total issued and fully paid number of shares	**1,904,710**	**1,904,710**

Ordinary shareholders are entitled to one vote per share. Preferred shares are non-voting. All ordinary and preferred shares are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations.

22. SHARE CAPITAL (CONTINUED)

Holders of preferred shares have priority right to dividends amounting to 25% of their nominal value provided the payment of dividends on Company shares is recommended by the Company's Board of Directors and the relevant decision is approved by the General Shareholders' Meeting.

The Republic of Tatarstan applies in respect of the Company a special right to participate in the Company's management ('Golden Share'), which carries the right to veto certain decisions taken at the General Shareholders' Meetings or Board of Directors' meetings. Decisions subject to veto include: charter capital increase or decrease, amendments and supplements to the Company's charter, liquidation or reorganisation of the Company and major deals and related party transactions. The term of the special right ('Golden Share') was extended indefinitely in 1998 by a decree of the President of the Republic of Tatarstan.

The ultimate controlling party and ultimate parent is AO TAIF ("TAIF"), which controls OOO Telecom-Management which owns over 50% of the Group's shares.

The statutory accounting reports of the Company are the basis for profit distribution. Russian legislation identifies the basis of distribution as the net profit. For 2020, the net statutory profit of the Company as reported in the published statutory financial statements in accordance with Russian statutory accounting regulations was RUB 8,607 million (2019: RUB 11,638 million). Information on the ownership interest of the major shareholders in the share capital at the date of compiling a list of persons eligible for participation in the General Shareholders' Meeting is disclosed in the quarterly issuer's report.

23. EARNINGS PER SHARE

Basic earnings per share:

	2020	2019
Number of ordinary shares outstanding (thousands)	1,785,114	1,785,114
Weighted average number of ordinary shares (thousands)	1,785 114	1,785 114
Profit for the period attributable to the Group's shareholders (RUB million)	8,431	11,882
Less after-tax amount of preferred dividends (RUB million)	(28)	(28)
Basic and diluted earnings per share (RUB)	**4.71**	**6.64**

The Group does not have shares with diluting effect.

24. OTHER NON-CURRENT LIABILITIES

	31 December 2020	31 December 2019
Post-employment benefit obligations	264	224
Other employee benefit obligations	72	63
Lease liabilities	25	-
Trade payables	10	-
Total other non-current liabilities	**371**	**287**

The Group's post-employment benefit obligations and other long-term employee benefit obligations and actuarial assumptions used in their determination are described below.

The amounts disclosed in the consolidated financial statements are as follows:

Post-employment benefit obligations

	2020	2019
Obligation at the beginning of the period	**224**	**158**
Expenses charged to profit or loss, including:		
Current service cost	18	17
Interest expense	14	14
Benefits paid	(47)	(40)
Expenses charged to other comprehensive income, including:		
Actuarial losses resulting from changes in financial assumptions	55	75
Obligations at the end of the period	**264**	**224**

24. OTHER NON-CURRENT LIABILITIES (CONTINUED)

Changes in demographic assumptions did not have a significant impact on actuarial losses.

Other non-current employee benefit obligations

	2020	2019
Obligation at the beginning of the period	**63**	**50**
Current service cost	7	6
Interest expense	4	5
Benefits paid	(8)	(7)
Losses from revaluation	6	9
Obligations at the end of the period	**72**	**63**

Principal actuarial assumptions:

	2020	2019
Discount rate	6.27%	6.41%
Minimum wage growth rate	3.5%	3.5%

Due to the existing post-employment benefit obligations, the Group is exposed to various risks. The most significant risks are described below:

1) Interest rate risk. Lower yield of state bonds will result in higher long-term employee benefit obligations.
2) Inflation risk. As a part of the Group's post-employment benefit obligations is adjusted based on the consumer price index, the pension plan is exposed to the inflation risk. Higher inflation rate will result in higher post-employment benefit obligations.

Sensitivity analysis of the post-employment benefit obligation to changes in significant actuarial assumptions is set out in the table below. The table below includes estimated increase in the post-employment benefit obligation with a 1% change in the actuarial assumption, in absolute terms, and other assumptions unchanged.

	2020	2019
Discount rate – 1% lower	32	24
Minimum wage growth rate – 1% higher	2	1

In the next year, the Group plans to settle its post-employment benefit obligations of RUB 16 million.

The average term of the post-employment benefit obligations is 9 years at 31 December 2020 (31 December 2019: 9 years).

In 2020, the Group made contributions to the Russian Federation State Pension Fund of RUB 1,550 million (2019: RUB 1,412 million). These contributions are included in labour costs.

25. TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
Trade payables	2,287	1,922
Other payables	68	16
Lease liabilities	11	-
Total	**2,366**	**1,938**

25. TRADE AND OTHER PAYABLES (CONTINUED)

No interest is charged on the outstanding trade and other payables balance. The Group has financial risk management policies in place to ensure that payables are settled within the appropriate timeframe.

The table below summarises the maturity profile of the Group's trade and other payables based on contractual undiscounted payments:

	31 December 2020	31 December 2019
Within three months	2,322	1,836
From three months to one year	33	102
Total	**2,355**	**1,938**

26. ADVANCES RECEIVED AND ACCRUED LIABILITIES

	31 December 2020	31 December 2019
Advances received	2,736	1,558
Estimated short-term employee benefit obligations	806	750
Short-term employee benefit obligations	287	287
Total	**3,829**	**2,595**

27. OTHER TAXES PAYABLE

	31 December 2020	31 December 2019
Value-added tax	170	4
Insurance contributions	161	158
Property tax	75	77
Land tax	61	60
Other taxes	60	60
Total	**527**	**359**

28. DIVIDENDS

	2020	2019
Dividends declared for the year ended 31 December 2018:		
- ordinary shares (RUB 7.792 per share)	-	13,909
- preferred shares (RUB 0.25 per share)	-	30
Dividends declared for the year ended 31 December 2019:		
- ordinary shares (RUB 4.5468 per share)	8,116	-
- preferred shares (RUB 0.25 per share)	30	-
Total	**8,146**	**13,939**

29. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions and also key management personnel according to IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related party transactions were performed on the terms identical to those applied to transactions between unrelated parties provided that amounts of such transactions were comparable.

29. RELATED PARTY TRANSACTIONS (CONTINUED)

The Group has the following transactions for the period and balances with related parties. Other related parties primarily include entities under common control:

	Trade and other receivables and prepayments	Trade and other payables and advances received
31 December 2020		
- shareholders	3	-
- other related parties	338	292
Total	**341**	**292**
31 December 2019		
- other related parties	291	334
Total	**291**	**334**

	Revenue	Purchases of materials and services	Purchases of property, plant and equipment	Other (income)/ expense
2020				
- shareholders	2	7	-	(1)
- other related parties	1,666	14,590	100	(34)
Total	**1,668**	**14,597**	**100**	**(35)**
2019				
- shareholders	2	13	-	(1)
- other related parties	2,237	16,647	166	(32)
Total	**2,239**	**16,660**	**166**	**(33)**

The remuneration paid to key management personnel for 2020 in the form of salaries and other benefits amounted to RUB 123 million (2019: RUB 176 million).

Transactions with Russian government entities and state companies

The Group is under significant influence of the Republic of Tatarstan.
In the course of its business operations, the Group enters into transactions with other entities controlled or significantly influenced by the Republic of Tatarstan or the Russian Federation, including industrial undertakings, financial institutions and various governmental agencies. To a significant extent, related party operations are carried at arm's length or at regulated tariffs.

The following transactions account for the major part of the Group's transactions with these entities:

	2020	2019
Sale of goods and services	(695)	(792)
Purchase of goods and services	9,976	11,842
Other (income)/expenses, net	(9)	139

Balances on the above transactions are as follows:

	31 December 2020	31 December 2019
Trade and other receivables and prepayments	279	421
Trade and other payables	41	29

Transactions with the Republic of Tatarstan and Russian Federation also include tax settlements disclosed in Notes 13, 19 and 27.

At 31 December 2020 and 31 December 2019, the Group has contractual commitments to purchase or supply goods or services to its related parties in subsequent periods. Since prices and volumes in these agreements are not fixed, value estimates of these liabilities cannot be made.

30. COMMITMENTS

Capital expenditure commitments

Contractual commitments for future purchases of property, plant and equipment amounted to RUB 23,650 million at 31 December 2020 (31 December 2019: RUB 19,716 million). The Group expects to fund capital commitments using its own cash resources and borrowings.

Social commitments

The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group’s social sphere programmes, as well as local social programmes, bring benefits to the community at large and are not normally restricted to the Group's employees. These contributions are expensed in the period during which they are incurred.

31. CONTINGENCIES

Litigation

During the year, the Group was involved in a number of court proceedings (both as a defendant and a plaintiff) arising in the ordinary course of business of the Group.

Management believes that neither of the above claims, individually or in the aggregate with other claims, will have a material adverse effect on the Group.

Tax contingencies in the Russian Federation

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods. To ensure compliance with the tax legislation management of the Group implemented internal control system, including controls over prices. Management believes that entities of the Group have no need to determine and disclose contingent tax liabilities in their financial statements.

Environmental matters

The Group is subject to extensive controls and regulations from federal, regional and local government bodies relating to environmental protection. The Group's operations involve the discharge of contaminants into the environment and can potentially have an impact on flora and fauna and give rise to other environmental concerns.

The Group's management believes that its production technologies are in compliance with all the applicable environmental legislation in the Russian Federation and the Group does not have any significant environmental liabilities. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise its equipment to meet more stringent standards.

32. FINANCIAL RISK AND CAPITAL MANAGEMENT

Management of capital

The Group manages its capital structure to achieve the optimum structure of equity and debt capital in order to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders. The Group’s management regularly reviews financial indicators related to return on equity, long-term financial sustainability and financial leverage based on profit and credit portfolio information received from the Group’s companies.

When necessary, the Group’s companies prepare a forecast balance sheet. This practice allows controlling the fulfilment of requirements to debt and equity ratio.

The Group’s overall capital management strategy remains unchanged from 2019.

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

The Group's entities are in strict compliance with the capital requirements established by the legislation of the Russian Federation:

- The minimum required share capital for a public company is RUB 100,000. The minimum required charter capital for a non-public company is RUB 10,000.
- If the value of the company's net assets remains lower than its share capital at the end of the reporting year following the second reporting year or each consecutive reporting year, subsequent to which the company's net assets value fell below its charter capital, then the company shall, no later than six months after the end of the corresponding reporting year, be required to take one of the following decisions:
  - reduce its share capital to the amount that would not exceed its net assets;
  - liquidate the company.

The share capital of the Group's entities is in line with the regulatory criteria established by the Russian Law.

Major classes of financial instruments

The Group's principal financial liabilities comprise trade and other payables (Notes 24 and 25). The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables (Note 18), cash and cash equivalents (Note 21) and financial assets (Note 15).

	Note	31 December 2020	31 December 2019
Financial assets			
Financial assets at amortised cost			
Cash and cash equivalents	21	7,688	8,056
Promissory notes receivable	15	400	521
Loans issued	15	145	149
Trade and other receivables	18	561	473
Total assets at amortised cost		**8,794**	**9,199**
Financial assets at fair value through profit or loss			
Equity securities	15	815	945
Total financial assets		**9,609**	**10,144**
Financial liabilities at amortised cost			
Trade and other payables	24,25	2,365	1,938
Lease liabilities	24,25	36	-
Dividends payable		68	72
Total financial liabilities		**2,469**	**2,010**

Key financial risk factors and risk management system

The Group's activities expose it to the following financial risks: market risk (including interest rate and currency risks), credit risk, liquidity risk and operational risk.

The Group's management monitors and assesses potential risks based on management information which is regularly received from entities of the Group and contains both planned and actual data. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's operations.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group is not affected by this kind of risk since it has no loans and borrowings.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group performs transactions denominated in foreign currencies. Hence, exposures of financial results to exchange rate fluctuations arise. The Group does not use any derivative financial instruments to manage its currency risk. The Group mitigates its currency risk exposure through the diversification of sales between external and domestic markets and diversified rouble and foreign currency borrowings, based on foreign exchange rate movements.

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Currency risk (continued)

The carrying value of financial monetary assets and liabilities of the Group denominated in foreign currency at the reporting date was as follows:

	31 December 2020	31 December 2019
Assets		
Cash and cash equivalents	**4,670**	**4,576**
- US Dollar	4,375	4,310
- Euro	295	266
Total assets	**4,670**	**4,576**
Liabilities		
Trade and other payables	**82**	**15**
- US Dollar	11	5
- Euro	71	10
Total liability	**82**	**15**
Total net position	**4,588**	**4,561**
- US Dollar	4,364	4,305
- Euro	224	256

At 31 December 2020, had the US Dollar and Euro strengthened or weakened by 20% (31 December 2019: 20%) against the Russian Rouble, with all other variables held constant, the profit (net of income tax) and equity as of the end of the reporting period would have been lower/higher by the following:

	Profit/loss (after taxation) and equity	
Changes in exchange rate:	**2020**	**2019**
US Dollar	698	689
Euro	36	41
Total	**734**	**730**

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk is managed at the Group level. The Group is exposed to the credit risk in relation to its operating activities (primarily, trade receivables) and financing activities, including deposits with banks and financial assets. 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 ECL allowance already recorded. The Group is not economically dependent on a limited number of customers because of the existence of a liquid market.

The management believes that the Group has no significant concentrations of credit risk.

For the purpose of measurement of expected credit losses ("ECL") on loans issued, receivables and similar assets, the Group can use supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. As most of the financial assets are short-term, the Group does not use forward-looking information.

The Group applies two approaches allowed by IFRS 9 to assessment of its ECL allowance: i) the general model is applied to loans issued, promissory notes, deposits, long-term trade receivables and all other short-term receivables; ii) the simplified model is applied to short-term trade receivables.

The general model has three options for assessing expected credit losses depending on the impairment stage: (i) internal rating system; (ii) external rating system; (iii) professional judgement. Risk assessment using the option of the internal rating system takes into account counterparty reliability depending on the payment history (delay periods), SPARK indices and other indications (legal proceedings, change of management, beneficiaries). The internal rating is not applied to individuals.

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk (continued)

When external ratings are used to determine the credit risk, the Group uses statistical data on the probability of default, published by national and international agencies (such as Standard & Poor's [S&P], Fitch, Moody's etc). When neither of the rating systems (neither internal not external) allows assessing credit risks, then professional judgement is applied.

The simplified model is used to determine at each reporting date whether it is necessary to recognise impairment of short-term trade receivables. The model involves using the matrix of allowances for assessing expected credit losses. The Probability of Default (PD) values are defined as the ratio of the trade receivable amount in default to the total outstanding amount, depending on the number of days overdue; and the calculation is made separately for the domestic market (counterparties from the Russian Federation) and the external one.

Expected credit losses (ECL) are calculated by multiplying the probability of default (PD), exposure at default (EAD) and loss given default (LGD). For the group, LGD is deemed 100%. The percentage of probability of default (PD) is determined as described above.

At the reporting date, the maximum exposure to credit risk by classes of financial assets is the carrying amount of each class of financial assets.

The Group's exposure to credit risk for financial assets is shown below:

General model:

Days overdue	Short-term other receivables (EAD)	% of credit losses (PD)	Expected credit losses (ECL)
At 31 December 2020			
Current (not past due)	127	0.001%	-
More than 90 days	8	100%	8
Total	**135**		**8**
At 31 December 2019			
Current (not past due)	335	0.001%	-
From 30 to 60 days	11	10%	1
More than 90 days	14	100%	14
Total	**360**		**15**

Simplified model:

Days overdue	Short-term trade receivables (EAD)	% of credit losses (PD)	Expected credit losses (ECL)
At 31 December 2020			
Current (not past due)	434	-	-
More than 90 days	2	100%	2
Total	**436**		**2**
At 31 December 2019			
Current (not past due)	128	-	-
More than 90 days	1	100%	1
Total	**129**		**1**

For some financial assets such as equity securities, loans issued, promissory notes receivable and receivables, the Group assigns ratings to counterparties under an internal rating system based on the length of their business relationship and the presence of insolvency indicators:

- Rating A – over one-year history of business relations, no creditworthiness difficulties;
- Rating B – over one-year history of business relations, potential creditworthiness difficulties are anticipated;
- Rating C - other organisations, significant credit worthiness difficulties are possible.

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk (continued)

At 31 December 2020 and 31 December 2019, all financial assets, except for cash and cash equivalents, equity securities are A-rated.

The analysis of credit quality of banks, where the Group has account balances, is presented below and is based on rating agencies' data.

		31 December 2020	31 December 2019
Rating	**Rating agency**	**Cash and cash equivalents**	**Cash and cash equivalents**
A(RU)	ACRA	7,669	-
ruA-	Expert RA	-	8,043
Baa3	Moody's	16	10
ruAA	Expert RA	1	1
	Total	**7,686**	**8,054**
Cash on hand		2	2
	Total	**7,688**	**8,056**

Liquidity risk

The liquidity risk is the risk that the Group will not be able to repay all its maturing financial liabilities. Note 25 analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity date. The amounts disclosed in the notes are the contractual undiscounted cash flows. The Group controls its liquidity position. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate resources available to meet its payment obligations.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents.

The Group maintains insurance cover for major production assets including insurance cover for damage related to explosion or environmental damage arising from accidents at the Group's property or related to the Group's operations. The Group does not have coverage for business interruption. Management believes that the existing level of insurance coverage addresses all major risks which could have a material negative effect on the Group's operations and consolidated financial position. The Group developed an insurance programme that reduces the following risks related to production activities of the Group:

- risk of possible damage to the key production equipment directly involved in the technological process, buildings and structures in case of fire or natural disaster, as well as risk of breakages and accidents to key equipment of the Group;
- risk of loss or damage to domestic and export deliveries of semi-finished and finished goods and imported stores and materials.

To reduce adverse effect of the above risks, the Group enters into agreements with insurance companies only meeting certain criteria, including certain requirements to reinsurance quality.

In accordance with statutory requirements the Group insures third party liability for potential claims that can result from accidents at the Group's production facilities.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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, judgement is necessarily required to interpret market data to determine the estimated fair value. The management has used all available market information in estimating the fair value of financial instruments.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements are analysed by level in the fair value hierarchy as follows: level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and level three measurements are valuations not based on observable market data (that is, unobservable inputs). If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level three measurement.

Recurring fair value measurements are those that the international accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The Group does not use non-recurring fair value measurements.

Financial instruments carried at fair value. Equity securities are recorded in the consolidated statement of financial position at the fair value through profit or loss and included in level 3 of the fair value hierarchy (Note 15).

Financial assets recognised at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The carrying value of financial assets at amortised cost approximates their fair values and belongs to level 2 and 3 of the fair value hierarchy (Notes 15 and 18).

Financial liabilities carried at amortised cost. The carrying value of trade payables approximates their fair values and belongs to level 3 of the fair value hierarchy (Note 25).

34. INVESTMENTS IN SUBSIDIARIES

The Company's ownership interest in one consolidated entity is as follows:

		% of ownership	
	Nature of business	**31 December 2020**	**31 December 2019**
Incorporated in the Russian Federation (Kazan)			
LLC DK Khimikov	Entertainment	100	100

35. EVENTS AFTER THE REPORTING DATE

In February 2021, the Company entered into a long-term loan agreement with Deutsche Bank AG for a total of EUR 147 308 thousand. Proceeds from this loan will be used to finance construction of PGU-250 Power Generator.

The Board of Directors held on March 16, 2021 has recommended dividends to be paid in the amount of RUB 3.36 per share for the year ended 31 December, 2020. This decision requires the approval at the Annual Shareholders' Meeting on April 23, 2021.