

**PUBLIC JOINT STOCK COMPANY  
“ACRON”**

**Consolidated Financial Statements  
for the year ended 31 December 2020  
and Independent Auditors' Report**

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Independent Auditors' report

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# Independent Auditors' Report

## To the Shareholders and Board of Directors of Public Joint Stock Company "Acron"

### Opinion

We have audited the consolidated financial statements of PJSC "Acron" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

### Key Audit Matters

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

Audited entity: PJSC "Acron".

Registration No. in the Unified State Register of Legal Entities  
1025300786610.

Veliky Novgorod, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited ("KPMG International"), a private English company limited by guarantee.

Registration number in the Unified State Register of Legal Entities: No. 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Principal registration number of the entry in the Register of Auditors and Audit Organizations: No. 12006020351

### Fair value of derivative financial instruments

Please refer to the Notes 10, 12, 27 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group has derivative financial instruments - call and put options for ordinary shares of JSC Verkhnekamsk Potash Company, a subsidiary of the Group that holds a license to develop a potash deposit.</p> <p>The primary input for determining the fair value of the options recognised in the Group's consolidated financial statements is the fair value of the underlying asset - shares of JSC Verkhnekamsk Potash Company, which is estimated using the discounted cash flow model.</p> <p>We focused our attention on the issue of assessing the fair value of options due to the following:</p> <ul style="list-style-type: none"> <li>— there is an inherent risk of uncertainty in forecasting and discounting future cash flows;</li> <li>— the use of significant unobservable valuation inputs increases the degree of uncertainty in the calculations;</li> <li>— financial model includes specific parameters and subjective estimates, requiring management to apply significant professional judgment.</li> </ul>	<p>We have gained an understanding of the Group's internal controls over the valuation process.</p> <p>We assessed independence and professional competence of the appraiser engaged by the Group to perform fair value calculation of the underlying asset.</p> <p>We involved our valuation specialists and conducted a critical analysis of the key assumptions underlying the discounted cash flow forecast used to determine the fair value of JSC Verkhnekamsk Potash Company's shares by comparing them to external industry, economic and financial data and other available information.</p> <p>We checked the mathematical accuracy of the calculations.</p> <p>We assessed whether the applied methodology is in line with the specific conditions of the Group, as well as the generally accepted valuation practice.</p> <p>We checked the accuracy and completeness of the relevant disclosures in the consolidated financial statements.</p>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of PJSC "Acron" but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.



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

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

### **Responsibilities of Management and 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.

### **Auditors' 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 auditors' 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 auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 engagement partner on the audit resulting in this independent auditors' report is:

Andrei V. Ryazantsev

JSC "KPMG"

Moscow, Russia

17 March 2021





	Note	31 December 2020	31 December 2019
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	110,601	102,157
Subsoil licences and related costs	10	42,614	39,502
Investment in equity instruments measured at fair value through other comprehensive income	11	11,264	9,784
Long-term derivative financial instruments	12	2,030	-
Right-of-use assets	17	2,302	2,690
Deferred tax assets	24	179	201
Other non-current assets		3,540	3,224
<b>Total non-current assets</b>		<b>172,530</b>	<b>157,558</b>
<b>Current assets</b>			
Inventories	8	19,301	16,378
Accounts receivable	7	12,438	10,878
Cash and cash equivalents	6	15,537	11,356
Short-term derivative financial instruments	12	-	3,093
Other current assets		283	1,092
<b>Total current assets</b>		<b>47,559</b>	<b>42,797</b>
<b>TOTAL ASSETS</b>		<b>220,089</b>	<b>200,355</b>
<b>EQUITY</b>			
Share capital	15	3,046	3,046
Treasury shares		(17)	(8)
Retained earnings		57,910	73,157
Revaluation reserve		(14,663)	(16,083)
Other reserves		(13,030)	(5,291)
Cumulative currency translation difference		9,457	6,180
<b>Equity attributable to the Company's owners</b>		<b>42,703</b>	<b>61,001</b>
Non-controlling interests	16	26,100	20,964
<b>TOTAL EQUITY</b>		<b>68,803</b>	<b>81,965</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	14	78,205	73,253
Long-term derivative financial instruments	12	1,560	-
Long-term lease liabilities	17	2,249	2,047
Deferred tax liabilities	24	8,467	8,658
Other non-current liabilities		1,402	743
<b>Total non-current liabilities</b>		<b>91,883</b>	<b>84,701</b>
<b>Current liabilities</b>			
Accounts payable	13	12,230	10,517
Short-term derivative financial instruments	12	-	679
Short-term borrowings	14	36,911	13,288
Advances received		7,850	6,968
Short-term lease liabilities	17	456	547
Other current liabilities		1,956	1,690
<b>Total current liabilities</b>		<b>59,403</b>	<b>33,689</b>
<b>TOTAL LIABILITIES</b>		<b>151,286</b>	<b>118,390</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>220,089</b>	<b>200,355</b>

The Consolidated Financial Statements were approved for issue on 17 March 2021.

V.Y. Kunitskiy  
President



A.V. Milenkov  
Finance Director

**Public Joint Stock Company “Acron”**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 31 December 2020**



(in millions of Russian Roubles, except for per share amounts)

	Note	2020	2019
Revenue	4	119,864	114,835
Cost of sales	18	(65,817)	(59,784)
<b>Gross profit</b>		<b>54,047</b>	<b>55,051</b>
Transportation expenses	20	(21,642)	(21,516)
Selling, general and administrative expenses	19	(9,048)	(8,560)
Profit on sale of potash leases	10	891	-
Other operating income/(expenses), net	22	1,781	(1,574)
<b>Operating profit</b>		<b>26,029</b>	<b>23,401</b>
Finance (expenses)/income, net	21	(12,936)	7,236
Interest expense		(3,285)	(1,115)
(Loss)/gain on derivatives, net		(4,398)	1,445
<b>Profit before taxation</b>		<b>5,410</b>	<b>30,967</b>
Income tax expense	24	(1,574)	(6,181)
<b>Profit for the year</b>		<b>3,836</b>	<b>24,786</b>
<i>Other comprehensive income/(loss) on items that will not be reclassified to profit or loss:</i>			
<i>Investment in equity instruments measured at fair value through other comprehensive income:</i>			
- Gain/(loss) arising during the year	11	1,420	(1,946)
<i>Other comprehensive income/(loss) on items that are or may be reclassified to profit or loss</i>			
Currency translation differences		3,439	(1,236)
<b>Other comprehensive income/(loss) for the year</b>		<b>4,859</b>	<b>(3,182)</b>
<b>Total comprehensive income for the year</b>		<b>8,695</b>	<b>21,604</b>
<b>Profit is attributable to:</b>			
Owners of the Company		3,310	24,219
Non-controlling interests		526	567
<b>Profit for the year</b>		<b>3,836</b>	<b>24,786</b>
<b>Total comprehensive income is attributable to:</b>			
Owners of the Company		8,007	21,053
Non-controlling interests		688	551
<b>Total comprehensive income for the year</b>		<b>8,695</b>	<b>21,604</b>
<b>Earnings per share</b>			
Basic (expressed in Russian Roubles)	23	87.71	619.83
Diluted (expressed in Russian Roubles)	23	87.68	618.40



**Public Joint Stock Company “Acron”**  
**Consolidated Statement of Cash Flows for the year ended 31 December 2020**  
*(in millions of Russian Roubles)*



	Note	2020	2019
<b>Cash flows from operating activities</b>			
Profit for the period		3,836	24,786
<i>Adjustments for:</i>			
Income tax expense	24	1,574	6,181
Depreciation and amortisation	9	12,106	11,344
Provision for inventory obsolescence		5	181
Provision for impairment of accounts receivable		-	24
Loss on disposal of property, plant and equipment	22	251	205
Interest expense		3,285	1,115
Interest income	21	(107)	(92)
Loss/(gain) on derivatives, net		4,398	(1,445)
Dividend income	21	(4)	-
Profit on sale of potash leases	10	(891)	-
Unrealised foreign exchange effect on non-operating balances		10,355	(6,812)
<b>Operating cash flows before working capital changes</b>		<b>34,808</b>	<b>35,487</b>
(Increase)/decrease in gross trade receivables		(3,089)	404
(Increase)/decrease in advances to suppliers		(155)	1,017
Decrease/(increase) in other receivables		1,544	(1,141)
(Increase)/decrease in inventories		(3,125)	86
Increase in other current assets		-	(166)
Increase in trade payables		596	3,000
Increase/(decrease) in other payables		685	(677)
Increase in advances from customers		882	1,231
Increase/(decrease) in other current liabilities		476	(1,670)
<b>Cash generated from operations</b>		<b>32,622</b>	<b>37,571</b>
Income taxes paid		(1,802)	(4,949)
Interest paid		(4,630)	(4,344)
<b>Net cash from operating activities</b>		<b>26,190</b>	<b>28,278</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(17,946)	(19,030)
Proceeds from sale of potash leases		1,108	-
Interest received		29	64
Dividend received		4	-
Purchase of investment in equity instruments measured at fair value through other comprehensive income		(60)	(60)
Net change in other non-current assets and liabilities		(316)	(28)
<b>Net cash used in investing activities</b>		<b>(17,181)</b>	<b>(19,054)</b>
<b>Cash flows from financing activities</b>			
Acquisition of non-controlling interest		(84)	(13)
Purchase of shares of subsidiary	16	(8,105)	-
Proceeds from sale of shares of subsidiary	16	11,883	-
Extension of options on shares of subsidiary		(776)	-
Acquisition and redemption of treasury shares		(9,465)	(1,330)
Contribution of non-controlling shareholder		86	141
Dividend paid to shareholders		(16,448)	(14,313)
Dividend paid to non-controlling shareholders		(354)	(179)
Proceeds from borrowings	14	39,235	23,803
Repayment of borrowings	14	(22,757)	(14,963)
Payment of lease liabilities	17	(607)	(474)
<b>Net cash used in financing activities</b>		<b>(7,392)</b>	<b>(7,328)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,617</b>	<b>1,896</b>
Cash and cash equivalents at 1 January		11,356	10,460
Effect of movements in exchange rates on cash and cash equivalents		2,564	(1,000)
<b>Cash and cash equivalents at 31 December</b>	<b>6</b>	<b>15,537</b>	<b>11,356</b>



**Public Joint Stock Company “Acron”**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2020**  
*(in millions of Russian Roubles)*

	Capital and reserves attributable to the Company's owners							Total equity
	Share capital	Treasury shares	Retained earnings	Revaluation reserve	Other reserves	Cumulative currency translation difference	Non-controlling interests	
<b>Balance at 1 January 2019</b>	<b>3,046</b>	<b>(6)</b>	<b>65,253</b>	<b>(14,137)</b>	<b>(3,963)</b>	<b>7,400</b>	<b>20,572</b>	<b>78,165</b>
<b>Total comprehensive income</b>								
Profit for the year	-	-	24,219	-	-	-	567	24,786
<i>Other comprehensive loss</i>								
Loss on investment in equity instruments measured at fair value through other comprehensive income (Note 11)	-	-	-	(1,946)	-	-	-	(1,946)
Currency translation differences	-	-	-	-	-	(1,220)	(16)	(1,236)
<b>Total other comprehensive loss</b>	-	-	-	<b>(1,946)</b>	-	<b>(1,220)</b>	<b>(16)</b>	<b>(3,182)</b>
<b>Total comprehensive income for the year</b>	-	-	<b>24,219</b>	<b>(1,946)</b>	-	<b>(1,220)</b>	<b>551</b>	<b>21,604</b>
Acquisition of non-controlling interest	-	-	48	-	-	-	(4)	44
Acquisition and redemption of treasury shares	-	(2)	-	-	(1 328)	-	-	(1,330)
Contribution of non-controlling shareholder	-	-	-	-	-	-	141	141
Dividend declared	-	-	(14,313)	-	-	-	(296)	(14,609)
Provision for previous years obligations	-	-	(1,150)	-	-	-	-	(1,150)
Other	-	-	(900)	-	-	-	-	(900)
<b>Total transactions with Company's owners</b>	-	<b>(2)</b>	<b>(16,315)</b>	-	<b>(1,328)</b>	-	<b>(159)</b>	<b>(17,804)</b>
<b>Balance at 31 December 2019</b>	<b>3,046</b>	<b>(8)</b>	<b>73,157</b>	<b>(16,083)</b>	<b>(5,291)</b>	<b>6,180</b>	<b>20,964</b>	<b>81,965</b>
<b>Balance at 1 January 2020</b>	<b>3,046</b>	<b>(8)</b>	<b>73,157</b>	<b>(16,083)</b>	<b>(5,291)</b>	<b>6,180</b>	<b>20,964</b>	<b>81,965</b>
<b>Total comprehensive income</b>								
Profit for the year	-	-	3,310	-	-	-	526	3,836
<i>Other comprehensive income</i>								
Gain on investment in equity instruments measured at fair value through other comprehensive income (Note 11)	-	-	-	1,420	-	-	-	1,420
Currency translation differences	-	-	-	-	-	3,277	162	3,439
<b>Total other comprehensive income</b>	-	-	-	<b>1,420</b>	-	<b>3,277</b>	<b>162</b>	<b>4,859</b>
<b>Total comprehensive income for the year</b>	-	-	<b>3,310</b>	<b>1,420</b>	-	<b>3,277</b>	<b>688</b>	<b>8,695</b>
Dividend declared	-	-	(16,363)	-	-	-	(372)	(16,735)
Acquisition of treasury shares	-	(9)	-	-	(9,456)	-	-	(9,465)
Sale of non-controlling interest (Note 16)	-	-	2,203	-	1,717	-	4,812	8,732
Acquisition of non-controlling interest (Note 16)	-	-	(3,276)	-	-	-	-	(3,276)
Provision for previous years obligations	-	-	(892)	-	-	-	-	(892)
Other	-	-	(229)	-	-	-	8	(221)
<b>Total transactions with Company's owners</b>	-	<b>(9)</b>	<b>(18,557)</b>	-	<b>(7,739)</b>	-	<b>4,448</b>	<b>(21,857)</b>
<b>Balance at 31 December 2020</b>	<b>3,046</b>	<b>(17)</b>	<b>57,910</b>	<b>(14,663)</b>	<b>(13,030)</b>	<b>9,457</b>	<b>26,100</b>	<b>68,803</b>



## 1 Acron Group and its Operations

These consolidated financial statements for the year ended 31 December 2020 comprise Public Joint Stock Company “Acron” (the “Company” or “Acron”) and its subsidiaries (together referred to as the “Group” or “Acron Group”). The Company’s shares are traded on the Moscow and London Stock Exchange.

The Group’s principal activities include the manufacture, distribution and sale of chemical fertilisers and related mineral primary and by-products. The Group’s manufacturing facilities are primarily based in the Novgorodskaya, Smolenskaya, and Murmanskaya regions of Russia.

The Company’s registered office is at Veliky Novgorod, Russian Federation, 173012.

As at 31 December 2020, the Group’s immediate parent company is JSC Acron Group (Russian Federation) (until February 2021, called JSC Acronagroservice, Note 30). Until November 2020, the Group’s immediate parent company was Redbrick Investments S.a.r.l. (Luxembourg). The Group’s ultimate parent is Terasta Enterprises Limited (The Republic of Cyprus). In 2020 and 2019, the Group is ultimately controlled by Mr. Viatcheslav Kantor.

## 2 Basis of accounting

**Basis of preparation.** These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”) under the historical cost convention except as modified by the fair value revaluation of derivative financial instruments, investments in equity instruments measured at fair value through other comprehensive income.

**Functional and presentation currency.** Functional currency of the Group’s consolidated financial statements is the currency of the primary economic environment in which the Group operates. Company’s functional currency and presentation currency is the national currency of the Russian Federation - Russian Rouble (RUB).

Unless otherwise indicated, all financial information presented in these consolidated financial statements are presented in millions of Russian Roubles (RUB). These consolidated financial statements have been prepared based on the statutory records, with adjustments and reclassifications recorded for the fair presentation in accordance with IFRS.

## 3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

**Evaluation of put/call options for JSC Verkhnekamsk potash company (JSC VPC) shares.** The fair value of stock options is estimated based on Black–Scholes Option Pricing Model which was developed for use in estimating the fair value of options on quoted shares. Option pricing method requires use of subjective inputs and assumptions including expected volatility of the share price and share spot price at the date of valuation. Since JSC VPC shares are not publicly traded, expected volatility was determined based on historical stock quotes of companies in the same industry and estimates. The estimate of the current fair value price of the shares was made on the basis of discounted cash flows attributable to JSC VPC adjusted for non-controlling discount (Notes 12 and 27).

**Accounting treatment for put options, that will be settled by the Company’s shares.** In 2017, 2018, and 2020, the Group sold shares of JSC VPC to the non-controlling shareholders linked to put options, which gave the right to the non-controlling shareholders to sell their shares back to the Group in exchange for the variable amount of shares in PJSC Acron. Because at the option exercise date the Group does not have obligation to deliver cash or another financial asset, the subsidiary’s shares that are held by non-controlling interest holders were presented in equity as non-controlling interests and the put options were recognised as derivative financial liabilities (Note 16).

**Impairment of subsoil licences and related costs.** The Group performed annual impairment test of mining licence and related costs of JSC VPC. The recoverable amount of the cash-generating unit (CGU) was determined based on value in use calculations as at 31 December 2020. These calculations used cash flow projections based on financial budgets approved by management and incorporating expected market prices for key fertilisers for the same period according to leading industry publications. The growth rate did not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used reflected the risks inherent in this CGU, as further disclosed in Note 10.

**Capitalisation of borrowing costs for subsoil licences.** Subsoil licences represent part of investment projects for development of mineral deposits that necessarily take a substantial time to get ready for intended use. Accordingly, management considers exploration rights as qualifying assets for capitalisation of borrowing costs. Management



assesses whether capitalisation of borrowing costs shall be continued during periods when active development is interrupted while substantial design or technical work is carried out (Note 10).

**Functional currency of foreign operation.** Operations of related foreign legal entities registered in Luxembourg and Cyprus in substance represent a passive activity related to holding investment portfolio within the economic environment of the Company. With regard to the above, management concluded that the functional currency of these entities should be the Russian Rouble.

#### 4 Segment Information

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that capable to earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker(s) (“CODM”) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group:

- Acron – representing manufacturing and distribution of chemical fertilisers by PJSC Acron;
- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by PJSC Dorogobuzh;
- Logistics – representing transportation and logistic services rendered by Estonian ports of the Group and some minor transportation companies in Russia. Comprises such entities as AS DBT, LLC Andrex. Constitutes an aggregation of a number of operating segments;
- Trading – representing overseas & domestic distribution companies of the Group;
- Mining NWPC – representing production of apatite-nepheline ore and subsequent processing in apatite concentrate;
- Mining excluding NWPC - comprise mining entities JSC VPC, JSC Mining Company Partomchorr, North Atlantic Potash Inc., and other assets in Canada being at the stage of development, exploration and evaluation;
- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit has significant business and risk profile.

Segment financial information is presented and reviewed by the CODM based on the IFRS and includes revenues from sales and EBITDA.

The CODM evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA). Since this term is not a standard IFRS measure Acron Group's definition of EBITDA may differ from that of other companies.

Information for the reportable segments for the year ended 31 December 2020 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	66,469	(59,136)	7,333	20,110
Dorogobuzh	26,617	(25,545)	1,072	6,144
Logistics	3,233	(3,026)	207	951
Trading	114,059	(4,487)	109,572	4,451
Mining NWPC	11,302	(11,248)	54	2,948
Other	2,600	(974)	1,626	707
<b>Total</b>	<b>224,280</b>	<b>(104,416)</b>	<b>119,864</b>	<b>35,311</b>

Information for the reportable segments for the year ended 31 December 2019 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	67,112	(58,109)	9,003	25,944
Dorogobuzh	21,629	(19,669)	1,960	3,922
Logistics	4,772	(3,767)	1,005	2,221
Trading	105,533	(3,418)	102,115	1,190
Mining NWPC	11,003	(10,948)	55	2,543
Other	1,670	(973)	697	(71)
<b>Total</b>	<b>211,719</b>	<b>(96,884)</b>	<b>114,835</b>	<b>35,749</b>



Reconciliation of EBITDA to Profit Before Tax:

	2020	2019
<b>Operating Profit</b>	<b>26,029</b>	<b>23,401</b>
Depreciation and amortisation	12,106	11,344
Foreign currency (profit)/ loss on operating transactions, net	(2,184)	799
Profit on sale of potash leases	(891)	-
Loss on disposal of property, plant and equipment	251	205
<b>Total consolidated EBITDA</b>	<b>35,311</b>	<b>35,749</b>

Information about geographical areas:

The geographic information below analyses the Group's revenue on external sales and non-current assets. In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

	2020	2019
<b>Revenue</b>		
Latin America	38,036	28,547
Russia	23,939	17,179
European Union	16,071	22,707
USA and Canada	13,256	17,395
Asia (excluding PRC)	12,791	12,373
PRC	7,743	7,133
Other regions	6,316	6,271
Commonwealth of Independent States	1,712	3,230
<b>Total</b>	<b>119,864</b>	<b>114,835</b>

	2020	2019
<b>Non-current assets</b>		
Russia	146,579	136,765
Canada	5,604	4,657
Estonia	5,607	4,885
<b>Total</b>	<b>157,790</b>	<b>146,307</b>

Non-current assets represent non-current assets other than financial instruments and deferred tax assets.

For 2020, revenues from logistics activities representing a separate performance obligation under IFRS 15 amounted to RUB 8,499 (2019: RUB 6,491). Adjustment associated with price changes under IFRS 15 amounted to RUB 12 (2019: RUB (45)).

This revenue was accounted for as part of the Trading in Information for the reportable segments for the year ended 31 December 2020.

In the reporting period, there is one individual export customer in Trading segment in European Union contributing 10% to the total revenue (2019: 14%).

## 5 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2020 or 2019 are detailed below.

The following turnovers and balances arise from transactions with related parties:

### i Balances with related parties

Statement of financial position caption	Note	Relationship	2020	2019
Trade receivables, gross	7	Companies under common control	3	5
Trade payables	13	Companies under common control	(5)	(8)

### ii Transactions with related parties

	Note	Relationship	2020	2019
Sales of chemical fertilisers	4	Companies under common control	8	14
Purchases of raw materials		Companies under common control	(77)	(90)
Charity expenses	22	Companies under common control	-	(70)



### iii Key management personnel compensation

Total key management personnel compensation in the amount of RUB 1,317 (2019: RUB 1,147) was recorded in general and administrative expenses. Related state social and pension costs included in this amount equalled to RUB 203 (2019: RUB 179).

## 6 Cash and Cash Equivalents

	2020	2019
Cash on hand and bank balances denominated in RUB	3,841	2,157
Bank balances denominated in USD	9,513	5,570
Bank balances denominated in EUR	1,455	3,291
Bank balances denominated in CNY	548	143
Bank balances denominated in other foreign currencies	180	195
<b>Total cash and cash equivalents</b>	<b>15,537</b>	<b>11,356</b>

Cash and cash equivalents include term deposits of RUB 2,591 (2019: RUB 3,338).

The fair value of cash and cash equivalents is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	2020	2019
A to AAA* rated	4,748	3,310
BBB- to BBB+* rated	7,478	7,226
BBB-*** rated	1,522	-
Baa3**	678	490
Ba2**	540	5
Unrated	571	273
BB- to BB+* rated	-	52
<b>Total</b>	<b>15,537</b>	<b>11,356</b>

\* Based on the credit ratings of Fitch Ratings, an independent rating agency.

\*\* Based on the credit ratings of Moody's, an independent rating agency.

\*\*\* Based on the credit ratings of Standard & Poor's, an independent rating agency.

## 7 Accounts Receivable

	2020	2019
Trade accounts receivable	6,240	3,151
Notes receivable	307	262
Other accounts receivable	168	378
Impairment provision	(39)	(39)
<b>Total financial assets</b>	<b>6,676</b>	<b>3,752</b>
Advances to suppliers	1,609	1,454
Value-added tax recoverable	3,212	4,194
Income tax prepayments	432	722
Other taxes receivable	540	787
Impairment provision	(31)	(31)
<b>Total accounts receivable</b>	<b>12,438</b>	<b>10,878</b>

The fair value of accounts receivable does not differ significantly from their carrying amounts.

As at 31 December 2020, trade and other accounts receivable of RUB 39 (31 December 2019: RUB 39) were individually impaired and an impairment provision was recognised. Not past due receivables are not credit-impaired under IFRS 9. Exposure to credit risk is minimal due to high turnover.

The aging of trade and other accounts receivable is as follows:

	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Not past due	6,348	-	3,471	-
Past due for less than 3 months	-	-	-	-
Past due from 3 to 9 months	21	(3)	17	(1)
Past due from 9 to 12 months	5	(5)	4	(4)
Past due over 12 months	34	(31)	37	(34)
<b>Total</b>	<b>6,408</b>	<b>(39)</b>	<b>3,529</b>	<b>(39)</b>



The movements in the provision for impairment of trade and other accounts receivable are as follows:

	<b>2020</b>	<b>2019</b>
<b>Provision for impairment at 1 January</b>	<b>(39)</b>	<b>(43)</b>
Provision for impairment	(5)	(2)
Provision used	5	6
<b>Provision for impairment at 31 December</b>	<b>(39)</b>	<b>(39)</b>

As at 31 December 2020 and 2019, the Group hold no collateral as security for trade receivable.

Besides trade accounts receivable and advances to suppliers, the other classes within accounts receivable do not contain impaired assets.

## **8 Inventories**

	<b>2020</b>	<b>2019</b>
Raw materials and spare parts	10,289	8,560
Work in progress	510	779
Finished products	8,502	7,039
	<b>19,301</b>	<b>16,378</b>

Raw materials are shown net of obsolescence provision of RUB 285 (2019: RUB 280). No inventory was pledged as security at 31 December 2020 and 2019.



## 9 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under construction	Assets under construction	Total
<b>Cost</b>									
<b>Balance at 1 January 2020</b>	<b>44,365</b>	<b>50,201</b>	<b>4,893</b>	<b>3,522</b>	<b>2,633</b>	<b>39,162</b>	<b>17,252</b>	<b>13,029</b>	<b>175,057</b>
Additions	-	-	-	-	-	-	7,597	11,405	<b>19,002</b>
Reclassification	2,942	9,336	41	228	15	6,116	(6,116)	(12,562)	-
Disposals	(29)	(315)	(23)	(25)	(119)	(200)	-	-	<b>(711)</b>
Translation difference	1,534	900	59	31	-	-	-	-	<b>2,524</b>
<b>Balance at 31 December 2020</b>	<b>48,812</b>	<b>60,122</b>	<b>4,970</b>	<b>3,756</b>	<b>2,529</b>	<b>45,078</b>	<b>18,733</b>	<b>11,872</b>	<b>195,872</b>
<b>Accumulated Depreciation</b>									
<b>Balance at 1 January 2020</b>	<b>22,700</b>	<b>31,181</b>	<b>2,485</b>	<b>1,782</b>	-	<b>14,752</b>	-	-	<b>72,900</b>
Depreciation charge	2,626	5,268	237	231	-	2,992	-	-	<b>11,354</b>
Disposals	(27)	(249)	(16)	(12)	-	(156)	-	-	<b>(460)</b>
Translation difference	728	670	52	27	-	-	-	-	<b>1,477</b>
<b>Balance at 31 December 2020</b>	<b>26,027</b>	<b>36,870</b>	<b>2,758</b>	<b>2,028</b>	-	<b>17,588</b>	-	-	<b>85,271</b>
<b>Net Book Value</b>									
<b>Balance at 1 January 2020</b>	<b>21,665</b>	<b>19,020</b>	<b>2,408</b>	<b>1,740</b>	<b>2,633</b>	<b>24,410</b>	<b>17,252</b>	<b>13,029</b>	<b>102,157</b>
<b>Balance at 31 December 2020</b>	<b>22,785</b>	<b>23,252</b>	<b>2,212</b>	<b>1,728</b>	<b>2,529</b>	<b>27,490</b>	<b>18,733</b>	<b>11,872</b>	<b>110,601</b>





	Buildings and constructions	Plant and equipment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under construction	Assets under construction	Total
<b>Cost</b>									
<b>Balance at 1 January 2019</b>	<b>41,904</b>	<b>46,665</b>	<b>4,826</b>	<b>3,096</b>	<b>2,614</b>	<b>35,050</b>	<b>13,352</b>	<b>9,244</b>	<b>156,751</b>
Additions	-	-	-	-	-	-	8,241	11,918	<b>20,159</b>
Reclassification	3,195	4,148	178	515	94	4,341	(4,341)	(8,130)	-
Disposals	(17)	(187)	(81)	(75)	(75)	(229)	-	-	<b>(664)</b>
Translation difference	(717)	(425)	(30)	(14)	-	-	-	(3)	<b>(1,189)</b>
<b>Balance at 31 December 2019</b>	<b>44,365</b>	<b>50,201</b>	<b>4,893</b>	<b>3,522</b>	<b>2,633</b>	<b>39,162</b>	<b>17,252</b>	<b>13,029</b>	<b>175,057</b>
<b>Accumulated Depreciation</b>									
<b>Balance at 1 January 2019</b>	<b>20,355</b>	<b>27,465</b>	<b>2,341</b>	<b>1,571</b>	-	<b>11,487</b>	-	-	<b>63,219</b>
Depreciation charge	2,682	4,199	241	233	-	3,445	-	-	<b>10,800</b>
Disposals	(16)	(183)	(70)	(10)	-	(180)	-	-	<b>(459)</b>
Translation difference	(321)	(300)	(27)	(12)	-	-	-	-	<b>(660)</b>
<b>Balance at 31 December 2019</b>	<b>22,700</b>	<b>31,181</b>	<b>2,485</b>	<b>1,782</b>	-	<b>14,752</b>	-	-	<b>72,900</b>
<b>Net Book Value</b>									
<b>Balance at 1 January 2019</b>	<b>21,549</b>	<b>19,200</b>	<b>2,485</b>	<b>1,525</b>	<b>2,614</b>	<b>23,563</b>	<b>13,352</b>	<b>9,244</b>	<b>93,532</b>
<b>Balance at 31 December 2019</b>	<b>21,665</b>	<b>19,020</b>	<b>2,408</b>	<b>1,740</b>	<b>2,633</b>	<b>24,410</b>	<b>17,252</b>	<b>13,029</b>	<b>102,157</b>



Included in the 2020 additions to assets under constructions and mining assets under construction, related to JSC VPC and JSC NWPC, is approximately RUB 1,427 of capitalised borrowing costs in accordance with IAS 23, Borrowing costs (2019: RUB 1,525) at the borrowing rate from 4.84% to 8.0% (2019: from 5.25% to 10.2%).

At 31 December 2020 and 2019, no pledges over property, plant and equipment.

No impairment loss in respect of individual assets was recognised in 2020 and 2019.

**Non-current assets impairment test.** Cash-generating units (CGUs) represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

Management concluded that there were no impairment indicators for CGUs as at on 31 December 2020, except for JSC VPC (Note 10), where development phase determines the necessity to perform impairment testing.

## 10 Subsoil Licences and Related Costs

### **Licence of JSC Verkhnekamsk potash company (JSC VPC)**

In May 2008, the Group’s subsidiary, JSC VPC, following an auction process, acquired a licence for the exploration and development of the Talitsky section of the Verkhnekamsk potash deposit, located in Perm region, Russian Federation. The licence expires in April 2053. In 2016 JSC VPC agreed on a technical project for the development of the Talitsky section. In accordance with the amended conditions of the licence changed in 2016 JSC VPC has the commitment that no later than 2028 the mine output shall be brought to a designed capacity levels.

In 2018 the Group resumed active construction of the mining and processing enterprise JSC VPC. Therefore capitalised borrowing costs in amount of RUB 1,972 (2019: RUB 2,892) in the reporting period and applied borrowing rate of 8.0% (2019: 10,2%). Mining assets under construction related to JSC VPC also include capitalised borrowing costs in amount of RUB 860 (2019: RUB 974).

### **Exploration Licences in Canada**

In 2020, the Group continued exploration of potash deposits in the Canadian province of Saskatchewan. The term of permits expired in 2016, and the Group exercised the pre-emptive right for registration of exploration licences. In May 2020, the Group sold potash leases in the Canadian province of Saskatchewan with carrying amount of RUB 217 resulting profit on sale in the amount of RUB 891. As of 31 December 2020, the Group holds 11 exploration licences on potash deposits for RUB 5,604 (31 December 2019: RUB 4,657).

	<b>2020</b>	<b>2019</b>
<b>Cost</b>		
<b>Balance at 1 January</b>	<b>40,690</b>	<b>37,733</b>
Additions	2,343	3,288
Disposal	(217)	-
Currency translation difference	998	(331)
<b>Balance at 31 December</b>	<b>43,814</b>	<b>40,690</b>
<b>Accumulated Amortisation and Impairment Loss</b>		
<b>Balance at 1 January</b>	<b>(1,188)</b>	<b>(1,176)</b>
Amortisation charge	(12)	(12)
<b>Balance at 31 December</b>	<b>(1,200)</b>	<b>(1,188)</b>
<b>Net Book Value</b>		
<b>Balance at 1 January</b>	<b>39,502</b>	<b>36,557</b>
<b>Balance at 31 December</b>	<b>42,614</b>	<b>39,502</b>

Subsoil licences and related costs comprise of:

	<b>2020</b>	<b>2019</b>
Apatite-nepheline deposits (production/development stage)	788	800
Potash deposits (development stage)	34,580	32,608
Exploration licences	5,604	4,657
Licence and expenditure on deposit in exploration and evaluation stage	1,287	1,134
Asset related to the discharge of licence obligations	355	303
	<b>42,614</b>	<b>39,502</b>

### **Impairment test of JSC VPC**

Since the assets of JSC VPC are under development, Management of the Group performed an annual testing of this cash-generating unit (CGU) for impairment as at 31 December 2020.

The recoverable amount of each CGU is determined as the highest of the fair value less costs to sell and value in use. The management of the Group attracted an independent appraiser JSC NEO Center to determine the fair value of JSC VPC shares as of 31 December 2020. These calculations used cash flow forecast prepared in nominal terms,



based on financial budgets approved by management. Growth rates do not exceed the long-term average growth rates projected for the sector of the economy in which the CGU operates.

Based on these estimates, management of the Group concluded that no impairment charge is required. The main assumptions for calculating the value in use are presented below:

	<b>31 December 2020</b>	<b>31 December 2019</b>
EBITDA margin range over the forecast period after reaching the designed capacity	79-81%	77-81%
Revenue growth rate beyond forecast period	3.1%	3.6%
Start of production	2025	2023
Discount rate	12.2-12.6%	12.7-13.2%

Management determined the target EBITDA based on its most realistic expectations regarding market development. The weighted average growth rates used in the calculations are in line with the forecast calculations in industry reports. Discount rates used are post-tax rates reflecting the specific risks inherent in the CGU and estimated on the basis of the weighted average cost of capital.

The estimated recoverable amount of the CGU exceeded its carrying value by approximately RUB 53,662. Management identified that the recoverable amount strongly depends on changes in export prices expressed in roubles and discount rates. Decrease of over 24% in the export prices or increase by 4.0 percentage points in the discount rate used would have caused the recoverable amount to equal the carrying amount.

## **11 Investment in Equity Instruments Measured at Fair Value through Other Comprehensive Income**

	<b>2020</b>	<b>2019</b>
<b>Balance at 1 January</b>	<b>9,784</b>	<b>11,670</b>
Fair value gain/(loss) recognised directly in OCI	1,420	(1,946)
Additions	60	60
<b>Balance at 31 December</b>	<b>11,264</b>	<b>9,784</b>

The Group has investments in the following companies:

<b>Name</b>	<b>Activity</b>	<b>Country of registration</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Non-current</b>				
Grupa Azoty S.A.	Fertilisers manufacture	Poland	10,796	9,376
Other		Russia	468	408
<b>Total non-current</b>			<b>11,264</b>	<b>9,784</b>
<b>Total</b>			<b>11,264</b>	<b>9,784</b>

The fair value of investment in Grupa Azoty S.A. was determined by reference to their quoted market prices as at the reporting date. As at 31 December 2020, the share price of Grupa Azoty S.A. on Warsaw Stock Exchange was RUB 549.21 (31 December 2019: RUB 475.44).

## **12 Derivative Financial Assets and Liabilities**

In June and September 2020, it was decided to extend the term of Sberbank Investments LLC participation in the potash project. At the same time, the Group compensated the partner for the accumulated profitability. The effect from the extension was recognised in the statement of profit or loss as (Loss)/gain on derivatives.

In June 2020, the Group also sold 10.1% stake in JSC VPC to OTKRITIE Asset Management Ltd. setting up a number of option agreements with conditions similar to existing option agreements. The effect from initial recognition of the options and the effect from the sale of related share were recognised in equity.

In September 2020, in accordance with the option agreement, the Group bought back 10% of the shares of JSC VPC from Sberbank Investments LLC. The Group sold this stake to VTB Bank (Europe) SE, having entered into a number of option agreements on the same terms as the current options. The effect of the initial recognition of options, as well as the effects of the buyback and resale of interest, are reflected in equity.

Options for the purchase and sale of shares are recognised as part of a transaction to sell shares of JSC VPC to holders of non-controlling interests. The net assets as at 31 December 2020 are represented by four call options, which give to the Group the right to purchase from non-controlling shareholders the 30% stakes in JSC VPC up to June 2023, 10% - September 2024, 9.99% - September 2025 and four put options that give non-controlling shareholders the right to sell to the Group their stakes of interest in JSC VPC in the period from June 2023 to September 2025.



	31 December 2020			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on JSC VPC shares	2,030	-	(1,560)	-
	<b>2,030</b>	<b>-</b>	<b>(1,560)</b>	<b>-</b>

	31 December 2019			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on JSC VPC shares	-	3,093	-	(679)
	<b>-</b>	<b>3,093</b>	<b>-</b>	<b>(679)</b>

### 13 Accounts Payable

	2020	2019
Trade accounts payable	7,619	7,023
Dividend payable	121	188
<b>Total financial payables</b>	<b>7,740</b>	<b>7,211</b>
Payables to employees	1,869	1,419
Accrued liabilities and other creditors	966	984
Other taxes payable	1,655	903
<b>Total accounts payable and accrued expenses</b>	<b>12,230</b>	<b>10,517</b>

### 14 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2020	2019
Bonds issued	23,266	23,772
Credit lines	19,976	3,185
Term loans	73,081	59,584
	<b>116,323</b>	<b>86,541</b>

The Group's borrowings mature as follows:

	2020	2019
Borrowings due:		
- within 1 year	36,911	13,288
- between 1 and 5 years	79,412	73,037
- after 5 years	-	216
	<b>116,323</b>	<b>86,541</b>

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

	2020	2019
Borrowings denominated in:		
- RUB	41,956	28,510
- EUR	11,794	8,325
- USD	62,573	49,706
	<b>116,323</b>	<b>86,541</b>

The Group did not enter into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2020, unused credit lines available under the long-term loan facilities were RUB 100,847 (31 December 2019: RUB 54,706). The terms and conditions of unused credit lines are consistent with other borrowings.



The details of the significant short-term loan balances are summarised below:

	2020	2019
<b>Short-term borrowings</b>		
<b>RUB</b>		
Bonds with fixed interest rate from 6.5% to 8.6% (2019: from 9.55% to 10.2%) per annum	8,772	8,772
Loans with floating interest rates from 90% of the key rate of the Bank of Russia+1.8% to 90% of the key rate of the Bank of Russia+2% (2019: from 90% of the key rate of the Bank of Russia+1.8% to 90% of the key rate of the Bank of Russia+2.275%) per annum	715	343
Loans with fixed interest rates from 7.35% to 8.34% per annum	5,950	-
<b>EUR</b>		
Loans with floating interest rates from 6M EURIBOR+0.65% to 6M EURIBOR+1.9% per annum	473	361
Loans with floating interest rate of 3M EURIBOR+1.25% (2019: 3M EURIBOR+1.7%) per annum	7,799	1,026
Loans with fixed interest rate of 0.99% per annum	2,720	-
<b>USD</b>		
Loans with floating interest rate of 1M LIBOR+2.5% (2019: 1M LIBOR+2.1%) per annum	10,482	2,786
<b>Total short-term borrowings</b>	<b>36,911</b>	<b>13,288</b>
<b>Bank commission</b>	-	-
<b>Total short-term liabilities</b>	<b>36,911</b>	<b>13,288</b>

The details of the significant long-term loan balances are summarised below:

	2020	2019
<b>Long-term borrowings</b>		
<b>RUB</b>		
Bonds with fixed interest rates from 5.9% to 7.25% (2019: from 7.25% to 8.6%) per annum	14,494	15,000
Loans with floating interest rate: from the key rate of the Bank of Russia +1.35% to the key rate of the Bank of Russia +2% (2019: : the key rate of the Bank of Russia +2%) per annum	12,025	1,445
Loans with fixed interest rate of 7.35% per annum	-	2,950
<b>EUR</b>		
Loans with floating interest rates from 6M EURIBOR+0.65% to 6M EURIBOR+1.9% per annum	802	975
Loans with floating interest rates from 3M EURIBOR+1.25% to 3M EURIBOR+1.7% per annum	-	5,963
<b>USD</b>		
Loans with floating interest rates from 1M LIBOR+2.5% to 1M LIBOR+4.5% (2019: from 1M LIBOR+2% to 1M LIBOR+4.5%) per annum	49,136	46,920
Loans with fixed interest rate of 2.6% per annum	2,955	-
<b>Total long-term borrowings</b>	<b>79,412</b>	<b>73,253</b>
<b>Bank commission</b>	<b>(1,207)</b>	-
<b>Total long-term liabilities</b>	<b>78,205</b>	<b>73,253</b>

In May 2011, the Group placed through an offering to the public under an open subscription RUB non-convertible bonds with a face value of RUB 7,500 to be redeemed in May 2021. In 2012, the Group redeemed bonds in the amount of RUB 3,377. The holders of this bond issue were granted an option to redeem the bonds in May 2015 and May 2016 which resulted in early redemption of bonds for RUB 1,354. The Group further placed the bonds of this issue for RUB 1,354. At 31 December 2020, the Group's subsidiary PJSC Drogobuzh held bonds in the amount of RUB 351.

In October 2016, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 5,000 to be redeemed in September 2026. The bonds were placed at 9.55% per annum with the option of early redemption in October 2020 which resulted in early redemption of bonds for RUB 506.

In June 2017, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 5,000 to be redeemed in May 2027. The bonds were placed at 8.6% per annum with the option of early redemption in December 2021.

In October 2019, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 10,000 to be redeemed in April 2023. The bonds were placed at 7.25% per annum without the option of early redemption.

All of the above bonds were admitted to the quotation list B and are traded on Moscow Stock Exchange. The fair value of the outstanding bonds as at 31 December 2020 was RUB 23,942 with reference to Moscow Stock Exchange quotations as of this date (31 December 2019: RUB 24,506).



Significant loan agreements contain certain covenants including those which require the Group and the Group entities to maintain a minimum level of net assets, net debt/EBITDA ratio, and EBITDA/interest expense ratio. One of the loan agreements provides for the borrower's obligation to maintain the required level of inflows through the accounts opened with the lending banks. The loan agreements also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on significant transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the loans. The Group is in compliance with these covenants.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Loans	Bonds	Total
<b>Balance at 1 January 2020</b>	<b>62,769</b>	<b>23,772</b>	<b>86,541</b>
<b>Changes from financing cash flows</b>			
Proceeds from borrowings	39,235	-	<b>39,235</b>
Repayment of borrowings	(22,251)	(506)	<b>(22,757)</b>
<b>Total changes from financing cash flows</b>	<b>79,753</b>	<b>23,266</b>	<b>103,019</b>
<b>The effect of changes in foreign exchange rates</b>	<b>13,304</b>	-	<b>13,304</b>
<b>Bank commission</b>	<b>(1,207)</b>	-	<b>(1,207)</b>
<b>Balance at 31 December 2020</b>	<b>91,850</b>	<b>23,266</b>	<b>115,116</b>

## 15 Capital and Reserves

The total authorised number of ordinary shares is 40,534,000 shares (31 December 2019: 40,534,000) with a par value of RUB 5 per share. All authorised shares have been issued and fully paid.

Total number of outstanding shares comprises (par value is expressed in roubles per one share):

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
<b>At 1 January 2019</b>	<b>40,534,000</b>	<b>(1,285,800)</b>	<b>3,046</b>	<b>(6)</b>	<b>3,040</b>
Redemption of treasury shares	-	91,662	-	-	-
Acquisition of treasury shares	-	(382,792)	-	(2)	(2)
<b>At 31 December 2019</b>	<b>40,534,000</b>	<b>(1,576,930)</b>	<b>3,046</b>	<b>(8)</b>	<b>3,038</b>
Acquisition of treasury shares	-	(1,741,398)	-	(9)	(9)
<b>At 31 December 2020</b>	<b>40,534,000</b>	<b>(3,318,328)</b>	<b>3,046</b>	<b>(17)</b>	<b>3,029</b>

In April 2020, the Group declared and paid dividend for previous years in the amount of RUB 157 per ordinary share.

In May 2020, the Group declared and paid dividend for 2019 in the amount of RUB 275 per ordinary share.

### **Shares issue to non-controlling interest**

In accordance with the agreements with the banks the Group has unconditional right to discharge of obligations by transferring to option holders Company's own shares (ordinary shares of PJSC Acron) in amount, calculated based on the total amount of obligation and own shares fair value to be transferred at a future date. As at 31 December 2020, related financing received by the Group was recorded in the Group's equity as non-controlling interest in amount of RUB 24,031 (31 December 2019: RUB 18,873).

Derivative financial instruments related to above share issues are disclosed in Note 12.



## 16 Non-controlling Interests

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra group eliminations.

As at 31 December 2020

	JSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
<b>Non-controlling interest percentage</b>	<b>49.9%</b>	<b>3.27%</b>			
Non-current assets	50 330	32 355			
Current assets	443	16 092			
Long-term liabilities	(2 251)	(10 713)			
Current liabilities	(363)	(4 182)			
<b>Net assets</b>	<b>48 159</b>	<b>33 552</b>			
Carrying amount of non-control interests	24 031	1 097	972	-	26 100
Revenue	-	26,617			
Profit and total comprehensive income	859	5,018			
Profit attributed to non-controlling interest	400	164	(38)	-	526
Cash flows (used in)/from operating activities	(128)	7 939			
Cash flows used in investment activities	(83)	(1 988)			
Cash flows used in financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 372)	-	(7 450)			
Net increase in cash and cash equivalents	(211)	(1 499)			
Effect of exchange rate changes	9	425			



## As at 31 December 2019

	JSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
<b>Non-controlling interest percentage</b>	<b>39.9%</b>	<b>3.27%</b>			
Non-current assets	48,685	20,101			
Current assets	1,329	27,687			
Long-term liabilities	(2,044)	(516)			
Current liabilities	(670)	(6,531)			
<b>Net assets</b>	<b>47,300</b>	<b>40,741</b>			
Carrying amount of non-control interests	18,873	1,332	759	-	20,964
Revenue	-	21,629			
Profit and total comprehensive income	1,245	3,680	-	-	
Profit attributed to non-controlling interest	497	120	(50)	-	567
Cash flows (used in)/from operating activities	(182)	5,305			
Cash flows from investment activities	296	6,261			
Cash flows used in financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 296)	-	(8,998)			
Net decrease in cash and cash equivalents	114	2,568			
Effect of exchange rate changes	(8)	(178)			

## Changes in Non-controlling Interests

In June 2020, the Group sold 10.1% in JSC VPC, reducing its stake from 60.1% to 50% + 1 share. The Group recognised an increase in non-controlling interest of RUB 4,774 and an increase in retained earnings in the amount of RUB 968 in the line «Sale of non-controlling interest».

In September 2020, the Group bought out 10% in JSC VPC and sold it in the same period, accordingly, the Group's share did not change at the reporting date. The Group recognized a decrease in retained earnings in the line «Acquisition of non-controlling interest» in the amount of RUB 3,276, as well as an increase in the line «Sale of non-controlling interest» in the amount of RUB 1,273.

Below is a summary of the impact of changes in the Group's share in JSC VPC, which did not result in the loss of control, on the capital attributable to the Group:

	<b>2020</b>
<b>The Group's share at 1 January</b>	<b>28,427</b>
Net effect of Group's share decrease	(4,774)
Share in comprehensive income	475
<b>The Group's share at 31 December</b>	<b>24,128</b>

Changes in non-controlling interests in other companies of the Group in the amount of RUB 38 are also reflected in the line «Sale of non-controlling interest».





## 17 Lease

### (i) Leases as a lessee

The Group leases warehouse and factory facilities. The leases typically run for a period of 10 years, with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under IAS 17.

### (ii) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented in consolidated statement of financial position separate from other assets.

	Buildings and construction	Land	Total
<b>2020</b>			
Balance at 1 January	1,352	1,338	2,690
Depreciation charge for the year	(484)	(59)	(543)
Cumulative currency translation difference	-	155	155
<b>Balance at 31 December</b>	<b>868</b>	<b>1,434</b>	<b>2,302</b>

### (iii) Lease liability

	2020	2019
<b>Short-term lease liabilities</b>		
In RUB with interest rate of 9%	123	139
In EUR with interest rate from 1.4% to 7%	124	80
In USD with interest rate from 4.2% to 7%	199	289
In other currency with interest rate from 1.5% to 3.35%	10	39
<b>Total short-term lease liabilities</b>	<b>456</b>	<b>547</b>

	2020	2019
<b>Long-term lease liabilities</b>		
In RUB with interest rate of 9%	421	550
In EUR with interest rate from 1.4% to 7%	1,512	1,159
In USD with interest rate from 4.2% to 7%	272	226
In other currency with interest rate from 1.5% to 3.35%	44	112
<b>Total long-term lease liabilities</b>	<b>2,249</b>	<b>2,047</b>

### (iv) Amounts recognised in profit or loss

	2020	2019
Interest on lease liabilities	177	125
Depreciation charge for the year	543	453

### (v) Amounts recognised in statement of cash flows

	2020	2019
<b>Total cash outflow for leases</b>	<b>(607)</b>	<b>(474)</b>

### (vi) Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of RUB 377.



## 18 Cost of Sales

	2020	2019
Natural gas	16,304	15,550
Depreciation and amortisation	12,106	11,344
Fuel and energy	8,637	8,661
Staff costs	7,554	7,309
Other materials and components	7,165	4,018
Potash used in production	7,062	6,925
Repairs and maintenance	3,639	2,993
Services	960	840
Drilling and blasting	925	857
Social expenditure	777	629
Production overheads	688	658
	<b>65,817</b>	<b>59,784</b>

## 19 Selling, General and Administrative Expenses

	2020	2019
Staff costs	5,522	4,697
Taxes other than income tax	868	822
Other expenses	556	324
Audit, legal and consulting services	484	448
Security	391	384
Representation expenses	340	537
Buildings maintenance and rent	267	245
Commission fees	194	434
Marketing services	117	144
Insurance	96	107
Bank services	74	49
Business trip expenses	73	267
Telecommunication costs	64	74
Change in provision for bad debts	2	28
	<b>9,048</b>	<b>8,560</b>

## 20 Transportation Expenses

	2020	2019
Ocean freight	7,192	6,955
Handling of goods	5,067	5,068
Railway tariff	4,073	4,205
Container transportation	2,174	1,908
Railcar lease	1,826	1,892
Other	771	646
Maintenance of rolling stock	539	842
	<b>21,642</b>	<b>21,516</b>

## 21 Finance (Expenses) / Income, net

	2020	2019
Foreign exchange (loss)/gain on financial transactions, net	(12,919)	7,812
Commission expense	(115)	(476)
Other finance costs	(13)	(192)
Interest income from loans provided and term deposits	107	92
Dividend income	4	-
	<b>(12,936)</b>	<b>7,236</b>

## 22 Other Operating Income / (Expenses), net

	2020	2019
Foreign exchange gain/(loss) on operating transactions, net	2,184	(799)
Charity expenses	(589)	(386)
Loss on disposal of property, plant and equipment	(251)	(205)
Other operating income/(costs)	437	(184)
	<b>1,781</b>	<b>(1,574)</b>



## 23 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. As at 31 December 2020 and 2019, ordinary shares of the Company have a potential dilutive effect associated with the right to exercise obligations under the redemption put-options by transferring its own ordinary shares (Note 15).

	2020	2019
Weighted average number of shares outstanding	40,534,000	40,534,000
Adjusted for weighted average number of treasury shares	(2,794,876)	(1,460,177)
<b>Weighted average number of shares outstanding (basic)</b>	<b>37,739,124</b>	<b>39,073,823</b>
Effect of right to settle in own ordinary shares	9,994	90,406
<b>Weighted average number of shares outstanding (diluted)</b>	<b>37,749,118</b>	<b>39,164,229</b>
Profit attributable to the equity holders of the Company	3,310	24,219
<b>Basic (in Russian Roubles)</b>	<b>87.71</b>	<b>619.83</b>
<b>Diluted (in Russian Roubles)</b>	<b>87.68</b>	<b>618.40</b>

## 24 Income Tax

	2020	2019
Income tax expense – current	1,743	4,511
Deferred tax charge – origination and reversal of temporary differences	(169)	1,670
<b>Income tax charge</b>	<b>1,574</b>	<b>6,181</b>

Profit before taxation for financial reporting purposes is reconciled to tax charge as follows:

	2020	2020	2019	2019
<b>Profit before taxation</b>	<b>5,410</b>	<b>100%</b>	<b>30,967</b>	<b>100%</b>
Theoretical tax charge at statutory rate of 20%	1,082	20%	6,193	20%
Effects of different tax rates	61	1%	131	0%
Tax effect of items which are not deductible or assessable for taxation purposes	424	8%	(35)	0%
Change in unrecognised deductible temporary differences	7	0%	(108)	0%
<b>Income tax charge</b>	<b>1,574</b>	<b>29%</b>	<b>6,181</b>	<b>20%</b>

In the context of the Group's current structure, tax losses and current tax assets of different group subsidiaries may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2019: 20%).

### **Unrecognised deferred tax liabilities**

At 31 December 2020, a deferred tax liability of RUB 11,703 (31 December 2019: RUB 13,212) for temporary differences of RUB 58,513 (31 December 2019: RUB 66,059) related to an investment in a subsidiary was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

### **Unrecognised deferred tax assets**

At 31 December 2020, a deferred tax asset of RUB 1,147 (31 December 2019: RUB 0) for recognised tax losses of RUB 5,736 (31 December 2019: RUB 0) related to the sale of shares in a subsidiary was not recognised because that it is not probable that future tax profits will be available from which the Group could use these tax benefits. Deductible temporary differences do not expire under applicable tax laws.



**Movement in deferred tax balances**

	<b>1 January 2019</b>	<b>Charged to profit or loss</b>	<b>31 December 2019</b>	<b>Charged to profit or loss</b>	<b>31 December 2020</b>
Property, plant and equipment	2,965	35	3,000	116	3,116
Subsoil licences and related costs	4,741	866	5,607	837	6,444
Inventory	(676)	561	(115)	(167)	(282)
Financial instruments	189	289	478	(879)	(401)
Tax loss carry-forwards	(215)	(82)	(297)	16	(281)
Accounts receivable	43	32	75	(175)	(100)
Accounts payable	(103)	(4)	(107)	(58)	(165)
Staff costs payable	(30)	-	(30)	-	(30)
Other temporary differences	(127)	(27)	(154)	141	(13)
<b>Net deferred tax (asset)/liability</b>	<b>6,787</b>	<b>1,670</b>	<b>8,457</b>	<b>(169)</b>	<b>8,288</b>
Recognised deferred tax asset	(164)	(37)	(201)	22	(179)
Recognised deferred tax liability	6,951	1,707	8,658	(191)	8,467
<b>Net deferred tax (asset)/liability</b>	<b>6,787</b>	<b>1,670</b>	<b>8,457</b>	<b>(169)</b>	<b>8,288</b>

Substantially all deferred assets and liabilities presented in the consolidated statement of financial position are expected to be realised after more than 12 months from the reporting date.



## **25 Contingencies, Commitments and Operating Risks**

### **i Contractual commitments and guarantees**

As at 31 December 2020, the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 9,333 (31 December 2019: RUB 11,220).

In accordance with the conditions of the exploration licences the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by licence agreements (Note 10).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2020 and 2019, the Group had no issued guarantees.

### **ii Legal proceedings**

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

### **iii Business environment**

The Group's operations are primarily located in the Russian Federation, also the Group has distribution companies in the countries of European Union, USA, Asia and Latin America. Consequently, the Group is exposed not only to the economic and financial markets of the Russian Federation which display characteristics of an emerging market, but also is exposed both to macroeconomic indicators and specific requirements of local regulators in other countries where the Group operates.

The legal, tax and regulatory frameworks in the Russian Federation continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

In the current period the global market has experienced significant turmoil triggered by the outbreak of coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil prices, the stock market indices, foreign exchange rates of Russian Rubble and overall decrease of prices on mineral fertilizers. These developments are further increasing the level of uncertainty in the Russian business environment and may have a potential negative effect on the availability and cost of borrowed funds, as well as on the volatility of assets and liabilities measured at fair value. The situation with the spread of coronavirus and quarantine measures taken by countries does not yet have a significant impact on fertilizer demand. Management believes that if the situation worsens, the need for food security will support the demand for mineral fertilisers worldwide. According to the management estimate, current situation does not have significant impact on the Group's ability to continue as a going concern and meet its obligations in the foreseeable future. At the moment the impact on accounts receivable and its turnover also have not been revealed. The Group does not expect further deterioration triggered by the outbreak of coronavirus.

The Group's approach to liquidity risk management remains unchanged and is to maintain sufficient reserves of quick cash to meet liquidity requirements at all times. At 31 December 2020, unused credit lines available under the loan facilities were RUB 100,847 (31 December 2019: RUB 54,706).



The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

#### **iv Taxation contingencies in Russian Federation**

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

The tax authorities have the power to impose fines and penalties for tax arrears. A tax year is generally open for review by the tax authorities during three subsequent calendar years. Currently the tax authorities are taking a more assertive and substance-based approach to their interpretation and enforcement of tax legislation.

Current Russian transfer pricing legislation requires transfer pricing analysis for the majority of cross-border intercompany and major domestic intercompany transactions. Starting from 2020, transfer pricing control, as a general rule, is applied to domestic transactions only if both criteria are met: the parties apply different tax rates, and the annual turnover of transactions between them exceeds RUB 1 billion.

The Russian transfer pricing rules are close to OECD guidelines, but have certain differences that create uncertainty in practical application of tax legislation in specific circumstances. A very limited number of publicly available transfer pricing court cases in Russia does not provide enough certainty as to the approach to applying transfer pricing rules in Russia. The impact of any transfer pricing assessment may be material to financial statements of the Group, however, the probability of such impact cannot be reliably assessed.

Russian tax authorities may review prices used in intra-group transactions, in addition to transfer pricing audits. They may assess additional taxes if they conclude that taxpayers have received unjustified tax benefits as a result of those transactions.

Russian tax authorities continue to exchange transfer pricing as well as other tax related information with tax authorities of other countries. This information may be used by the tax authorities to identify transactions for additional in-depth analysis.

In addition, changes aimed at regulating tax consequences of transactions with foreign companies have been introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group's tax position and create additional tax risks.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for the tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts could differ and the effect on these consolidated financial statements, if the tax authorities are successful in enforcing their interpretations, could be significant, but will not exceed 1% of Revenue.

The amount of possible tax liabilities related to uncertainties in practical application of legislation could be material, but cannot be determined with sufficient reliability. However, management believes that its interpretation of the relevant legislation is generally appropriate, and the Group's tax, currency and customs positions will be sustained. Management believes that all necessary provisions in respect of probable tax risks were recognised as liabilities.

#### **v Environmental matters**

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



## 26 Financial and Capital Risk Management

### 26.1. Financial risk management

#### Presentation of Financial Instruments by Measurement Category

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2020:

	Financial assets at amortised cost	Fair value through other comprehensive income - equity instruments	Fair value through profit or loss	Total
<b>Assets</b>				
<b>Cash and cash equivalents (Note 6)</b>				
- Cash on hand and bank balances	15,537	-	-	15,537
<b>Trade and other receivables (Note 7)</b>				
- Trade receivables, net of provision	6,201	-	-	6,201
- Notes receivable	307	-	-	307
- Other financial receivables	168	-	-	168
<b>Investments in equity instruments (Note 11)</b>				
- Corporate shares	-	11,264	-	11,264
<b>Derivative financial instruments (Note 12)</b>				
	-	-	2,030	2,030
<b>Total financial assets</b>	<b>22,213</b>	<b>11,264</b>	<b>2,030</b>	<b>35,507</b>

All of the Group's financial liabilities except for derivatives are carried at amortised cost.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2019:

	Financial assets at amortised cost	Fair value through other comprehensive income - equity instruments	Fair value through profit or loss	Total
<b>Assets</b>				
<b>Cash and cash equivalents (Note 6)</b>				
- Cash on hand and bank balances	11,356	-	-	11,356
<b>Trade and other receivables (Note 7)</b>				
- Trade receivables, net of provision	3,112	-	-	3,112
- Notes receivable	262	-	-	262
- Other financial receivables	378	-	-	378
<b>Investments in equity instruments (Note 11)</b>				
- Corporate shares	-	9,784	-	9,784
<b>Derivative financial instruments (Note 12)</b>				
	-	-	5,783	5,783
<b>Total financial assets</b>	<b>15,108</b>	<b>9,784</b>	<b>5,783</b>	<b>30,675</b>

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

#### (a) Market risk

##### (i) Foreign currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities.

The Group relies on export sales to generate foreign currency earnings. As the Group sells approximately 84% of its production outside the Russian Federation, it is exposed to foreign currency risk arising primarily on volatility of USD rate. Since the Group's major operational expenses are denominated in Russian Roubles the benefit from the weak Rouble exchange rate is partially offset by the growth of borrowing costs and foreign exchange differences on the Group's loans which presumably denominated in USD.



Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian Rouble. Credit lines denominated in various currencies allow the Group to be flexible in reaction to foreign currency rate shocks and minimise foreign currency exposure.

The tables below summarise the Group's exposure to foreign currency exchange rate risk at the reporting date:

<b>At 31 December 2020</b>	<b>USD</b>	<b>EUR</b>	<b>CNY</b>
<b>Financial assets:</b>			
Cash and cash equivalents	9,513	1,455	548
Accounts receivable	5,476	240	106
	<b>14,989</b>	<b>1,695</b>	<b>654</b>
<b>Financial liabilities:</b>			
Accounts payable and other liabilities	(351)	(466)	(5)
Borrowings and notes payable	(62,573)	(11,794)	-
	<b>(62,924)</b>	<b>(12,260)</b>	<b>(5)</b>
<b>Net position</b>	<b>(47,935)</b>	<b>(10,565)</b>	<b>649</b>
<b>At 31 December 2019</b>			
<b>Financial assets:</b>			
Cash and cash equivalents	5,570	3,291	143
Accounts receivable	2,507	231	91
	<b>8,077</b>	<b>3,522</b>	<b>234</b>
<b>Financial liabilities:</b>			
Accounts payable and other liabilities	(473)	(658)	(3)
Borrowings and notes payable	(49,706)	(8,325)	-
	<b>(50,179)</b>	<b>(8,983)</b>	<b>(3)</b>
<b>Net position</b>	<b>(42,102)</b>	<b>(5,461)</b>	<b>231</b>

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from accounts receivable, cash and cash equivalents, borrowings, accounts payable, derivative financial assets and liabilities denominated in US dollars.

	<b>2020</b>	<b>2019</b>
<i>Impact on post-tax profit and on equity of:</i>		
USD strengthening by 20%	(7 670)	(6 736)
USD weakening by 20%	7 670	6 736

Since the Group does not hold any foreign currency denominated equity securities and other financial instruments revalued through equity, the effect of a change in the exchange rate on equity would be the same as that on the post-tax profit.

### **(ii) Interest rate risk**

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans. Generally, the same concept is adopted for deposits of cash generated by the units.

Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate treasury and corporate finance functions as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2020 and 2019 borrowings at variable rates amounted to RUB 81,432 and RUB 59,819 respectively (Note 14).

At 31 December 2020, if interest rates at that date had been 5 percentage points higher with all other variables held constant, profit for the year would have been RUB 4,575 (2019: RUB 3,340) lower, mainly as a result of higher interest expense on variable interest liabilities. The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.

### **(iii) Price risk**

From time to time the Group makes investments in entities with high upside market potential. Investments are assessed by corporate treasury department and accepted provided that internal rate of return for investment exceeds current weighted average cost of capital.





The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

**(b) Credit risk**

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk of RUB 22,213 (2019: RUB 15,108) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents. The amount does not include equity investments disclosed in Note 26.1.

As at 31 December 2020, cash and cash equivalents in the amount RUB 1,522 were held in Russian bank with credit rating BBB- based on the credit ratings of Standard & Poor's (2019: RUB 0) and RUB 989 were held in Russian banks with credit rating BBB- based on the credit ratings of Fitch Ratings (2019: RUB 485), RUB 678 was held in Russian bank with credit rating Baa3 (2019: RUB 490), and RUB 573 were held in bank without credit rating (2019: RUB 273). The Group has no significant concentrations of credit risk for other financial assets.

**Cash and cash equivalents.** Cash and short-term deposits are placed in major multinational and Russian banks with independent credit ratings and Chinese banks with top internal credit ratings. All bank balances and term deposits are neither past due nor impaired. See analysis by credit quality of bank balances and term deposits in Note 6.

**Trade receivables.** Trade receivables and loans receivable are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers or borrowers. The credit quality of each new customer is analysed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analysed before the Group provides it with the loan. The credit quality of customers and borrowers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2020, the Group has 1 counterparty with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances (2019: 1 counterparty).

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 provision already recorded (Note 7).

**(c) Liquidity risk**

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 6), investment in equity instruments measured at fair value through other comprehensive income (Note 11). Management estimates that the liquidity portfolio can be realised in cash within a day in order to meet unforeseen liquidity requirements.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.



	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>As at 31 December 2020</b>							
Bonds issued*	23,266	411	9,841	5,421	10,220	-	<b>25,893</b>
Credit lines*	19,976	3,213	6,287	8,746	2,971	-	<b>21,217</b>
Term loans*	73,081	721	20,436	23,035	32,228	-	<b>76,420</b>
Lease liabilities	2,705	137	319	346	759	1,144	<b>2,705</b>
Trade payables	10,575	10,575	-	-	-	-	<b>10,575</b>
Derivatives	1,560	-	-	-	1,560	-	<b>1,560</b>
<b>Total</b>	<b>131,163</b>	<b>15,057</b>	<b>36,883</b>	<b>37,548</b>	<b>47,738</b>	<b>1,144</b>	<b>138,370</b>

	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>As at 31 December 2019</b>							
Bonds issued*	23,772	496	9,945	6,122	10,945	-	<b>27,508</b>
Credit lines*	3,185	289	164	3,003	-	-	<b>3,456</b>
Term loans*	59,584	600	5,611	17,499	41,076	218	<b>65,004</b>
Lease liabilities	2,594	141	406	395	775	877	<b>2,594</b>
Trade payables	9,614	9,614	-	-	-	-	<b>9,614</b>
Derivatives	679	-	679	-	-	-	<b>679</b>
<b>Total</b>	<b>99,428</b>	<b>11,140</b>	<b>16,805</b>	<b>27,019</b>	<b>52,796</b>	<b>1,095</b>	<b>108,855</b>

\* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2020 and 31 December 2019, respectively.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group. Such cash balances are represented by current cash balances on bank accounts and bank deposits. Group's policy for financing its working capital is aimed at maximum reliance on own operating cash flows, availability of short-term bank and other external financing to maintain sufficient liquidity.

At 31 December 2020, the Group's current liabilities exceed current assets by RUB 11,844.

At 31 December 2020, the Group has the following sources of financing to meet its current obligations:

- unused credit lines available under long-term loan facilities were RUB 100,847 (2019: RUB 54,706);
- expected positive cash flows from operating activities in 2021;
- the Group's management believes that in the event of a need for additional financing, it can be attracted from external sources.

## 26.2. Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company's statutory financial (accounting) reports. In 2020, the Group's strategy, as in 2019, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as at 31 December 2020 and 31 December 2019 is shown in the table below:

	2020	2019
Long-term borrowings	78,205	73,252
Short-term borrowings	36,911	13,288
<b>Total debt</b>	<b>115,116</b>	<b>86,541</b>
<b>Shareholders' equity</b>	<b>68,803</b>	<b>81,965</b>
<b>Gearing ratio, %</b>	<b>167%</b>	<b>106%</b>

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio.

In 2020, the Group's strategy, which was unchanged from 2010, was to maintain EBITDA/net interest expense ratio at the level not lower than 3.5:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and



amortisation adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (Note 14).

The ratios of EBITDA over net interest expense are shown in the table below:

	2020	2019
<b>EBITDA</b>	<b>35,311</b>	<b>35,749</b>
Interest income (Note 21)	(107)	(92)
Interest expense	3,285	1,115
Interest expense capitalised (Notes 9 and 10)	2,049	3,423
<b>Net interest expense</b>	<b>5,227</b>	<b>4,446</b>
<b>EBITDA/Net interest expense</b>	<b>6.8:1</b>	<b>8:1</b>

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 14) and imposed by the statutory legislation of the Russian Federation and Estonia. Since EBITDA is not standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

## 27 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market.

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 Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Investment in equity instruments measured at fair value through other comprehensive income, and derivatives are carried in the consolidated statement of financial position at their fair value.

This Group discloses the value of financial instruments that are measured in the consolidated statement of financial position at fair value by three levels in accordance with IFRS 13, Fair values.

The level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

- Level 1: quoted price in an active market;
- Level 2: valuation technique with inputs observable in markets;
- Level 3: valuation technique with significant non-observable inputs.

Investment in equity instruments was included in level 1 category in the amount of RUB 10,796 (31 December 2019: RUB 9,376).

All liabilities on bonds issued were included in level 1 category in the amount of RUB 23,266 (31 December 2019: RUB 23,772).

The fair value of the call/put options on shares of JSC VPC was determined based on the Black–Scholes Option Pricing Model with the adjustments and using of unobservable inputs, and included in level 3.

The spot price of JSC VPC is one of the inputs to the valuation using Black–Scholes Option Pricing Model. Since the shares are not quoted, management applied discounted cash flows method attracting an independent appraiser. The appraisal model provides for the calculation of the present value of the JSC

VPC CGU using the risk-adjusted discount rate. The calculation was based on the cash flow forecast prepared in nominal terms and derived from financial budgets.



Significant unobservable inputs	Inter-relationship between significant unobservable inputs data and fair value measurement
<ul style="list-style-type: none"> <li>• Forecast annual revenue growth rate: 3.1%.</li> <li>• Forecast EBITDA margin after reaching the designed capacity: 79-81%.</li> <li>• Risk-adjusted discount rate: 12.2-12.6%.</li> <li>• Production start year: 2025.</li> <li>• Non-controlling discount: 16.58%.</li> </ul>	<p>The estimated fair value of the shares of JSC VPC would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• The annual revenue growth rate were higher (lower);</li> <li>• The EBITDA margin were higher (lower); or</li> <li>• risk-adjusted discount rate were lower (higher) ; or</li> <li>• production began earlier (later); or</li> <li>• non-controlling discount were lower (higher).</li> </ul> <p>Generally, EBITDA margin follows any changes in the trend set by the annual revenue growth rate.</p>

Significant unobservable inputs of Black–Scholes Option Pricing Model are shown in the following table:

Financial instrument	Significant unobservable inputs	Inter-relationship between significant unobservable inputs data and estimate of fair value
Put option on shares of JSC VPC (liability)	<ul style="list-style-type: none"> <li>• The current fair value of the shares (calculated as above)</li> <li>• Volatility: 38.6%.</li> <li>• Risk-free rate of return: (0.46)%.</li> <li>• No dividend assumed</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• current fair value of the shares were lower (higher);</li> <li>• volatility were higher (lower); or</li> <li>• the risk-free rate of return were lower (higher).</li> </ul>

**Financial assets carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. 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. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

**Liabilities carried at amortised cost.** The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2020, the fair value of borrowings was RUB 669 higher than their carrying amounts. At 31 December 2019, the fair value of borrowings was RUB 136 higher than their carrying amounts.

The fair value of payables does not differ significantly from their carrying amounts.

## 28 Significant Accounting Policies

### 28.1. Group accounting

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence of possibility when the Group has existing rights that give it the current ability to direct the relevant activities of other entity, i.e. the activities that significantly affect the other entity’s returns, is considered when assessing whether the Group controls another entity. The Group can have power over other entity even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as the result of the business combinations under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.



The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

**Purchases of non-controlling interests.** The Group applies economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as capital transaction directly in equity.

**Purchases of subsidiaries from parties under common control.** Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. The consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

**Investments in 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 by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred 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, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently 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 recycled 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 are reclassified to profit or loss where appropriate.

## **28.2. Discontinued operations**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.



### **28.3. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

### **28.4. Trade and other receivables**

Trade and other receivables are carried at amortised cost using the effective interest method. A trade receivable without a significant financing component is initially measured at the transaction price.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses (ECLs). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. ECLs are a probability-weighted estimate. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The Group takes into account credit risk of each debtor based on data that is determined to be predictive of the risk of loss (including external ratings) applying experienced credit judgement and actual credit loss experience.

Loss allowances for trade and other receivables are deducted from the gross carrying amount of the assets.

### **28.5. Value added tax**

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

### **28.6. Inventories**

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

### **28.7. Property, plant and equipment**

Property, plant and equipment are recorded at cost, restated where applicable to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of profit or loss and other comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	<b>Number of years</b>
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

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

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



Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

## **28.8. Leases**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

### **(i) As a lessee**

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options, the assessment of whether the Group is reasonably certain to exercise, such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

In determining the enforceable period (i.e. the maximum lease term), the Group considers whether both it and the lessor has a right to terminate the lease without permission from the other party and, if so, whether that termination would result in more than an insignificantly penalty. If a more than insignificant penalty exists, then the enforceable period extends until the point at which a no more than an insignificant penalty exists.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Group has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.



The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(ii) As a lessor**

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

**28.9. Amortisation of exploration and evaluation licences and expenditure**

Exploration and evaluation licences and expenditure are amortised on a straight-line basis over expected term of site development, commencing upon readiness of processing facilities to produce ore usable for production of complex mineral fertilizers or for external sale.

**28.10. Borrowings**

**Borrowings** are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

**Capitalisation of borrowing costs.** Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. Foreign exchange differences regarded as an adjustment to interest costs are included in borrowing costs capitalised in the qualifying asset. The adjustment includes the amount of additional interest that would have been incurred on a borrowing with identical terms in the entity’s functional currency.

**28.11. Income tax**

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current income tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. 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 amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the





transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

### **28.12. Foreign currency transactions**

**Foreign currency translation.** For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective ends of the reporting periods. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Foreign exchange gains and losses on operating items are presented within other operating expenses, foreign exchange gain and losses on finance items are presented within net finance income.

**Translation from functional to presentation currency.** The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified from other comprehensive income to profit or loss.

At 31 December 2020 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 73.8757, USD 1 = CNY 6.5249, EUR 1 = RUB 90.6824 (31 December 2019: USD 1 = RUB 61.9057, USD 1 = CNY 6.9762, EUR 1 = RUB 69.3406). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

### **28.13. Provisions for liabilities and charges**

Provisions 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 will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each end of the reporting period.

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



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

#### **28.14. Shareholders' equity**

**Share capital.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

**Treasury shares.** Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

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

**Accounting treatment for put options to be settled in shares of Company.** The subsidiaries sell to non-controlling shareholders own shares linked to put option. This gives to non-controlling shareholders the right to sell the Group those shares in exchange for a variable number of Company's shares. If at the option exercise date the Group has no obligation to deliver cash or another financial asset, the subsidiary's shares that are held by non-controlling interest holders are presented as equity and the put options are recognised as derivative financial liabilities. Such options are accounted at fair value with changes recognised in profit or loss for the period in accordance with IAS 39.

On initial recognition of the liability, the debit entry is to other equity. The interests of non-controlling shareholders that hold the written put options or forwards (in respect of those shares) are not derecognised when the financial liability is recognised.

**Accounting treatment for call options over subsidiary shares.** The Group buys the call options issued by third parties, which entitle to buy (from this third party) the shares in a subsidiary. Initially the call option is recognised in capital of the owner's of the Company for credit side and on as a derivative financial asset for debit side. Further it is accounted at fair value with changes are recognised in profit or loss in accordance with IAS 39.

#### **28.15. Revenue recognition**

Revenues from sales of chemical fertilisers and related by-products are recognised at the point when control of the goods passes to the customer. Control passes to the customer at the point of transfer of risks and rewards of ownership of the goods normally when the goods are shipped.

Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

##### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). The effect of initially applying this standard at the date of initial application (i.e. 1 January 2018) is estimated as inconsequential. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The Group assessed the impact of the new standard on the Group's performance and financial position. The Group identified that under contract conditions related to significant portion of fertilisers sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognised revenue for such services and associated costs in full immediately after loading as revenue from trading activities. Under IFRS 15 such revenue is expected to be a separate performance obligation and shall be recognised over time of shipping as revenue from logistic services. However, the Group recognises revenue from logistic services at a point in time at the end of shipping due to the fact that potential impact was calculated and estimated as inconsequential.

The Group has also assessed the impact of the new standard on revenue disclosures. The Group concluded that existing disclosures are consistent with the new requirements. The Group will continue monitoring the impact of treating logistic services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.



## 28.16. Mutual cancellations

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements or other non-cash settlements are recognised based on the estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the consolidated cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

## 28.17. Employee benefits

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

**Social costs.** The Group incurs significant costs on social activities. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and other staff and, accordingly, have been charged to operating expenses.

**Pension costs.** In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognises these contributions as part of labour costs.

## 28.18. Financial assets and liabilities

**Recognition and initial measurement.** Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

**Classification and subsequent measurement.** On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

### **Financial assets – Subsequent measurement and gains and losses**

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
<b>Financial assets at amortised cost</b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss



on derecognition is recognised in profit or loss.

**Debt investments at FVOCI** These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

**Equity investments at FVOCI** These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

**Financial liabilities – Classification, subsequent measurement and gains and losses.** Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### **Derecognition**

**Financial assets.** The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities.** The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**Derivative financial instruments.** As part of its financing activities the Group is also party to derivative financial instruments including foreign currency and interest rate swap contracts and put/call option on shares. The Group's policy is to measure these instruments at fair value with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group has no derivatives accounted for as hedges.

#### **28.19. Earnings per share**

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share repurchase option.

#### **28.20. Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Operating segments which external and inter-segment sales, assets, profit and loss are 10% or more from appropriate operational segments measure are reported separately.

#### **28.21. Exploration and evaluation expenditure**

Exploration and evaluation costs are capitalized. Capitalized costs are directly related to exploration and evaluation activities in the relevant area of interest and include acquisition of rights to explore, including cost related to compliance with licence terms; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and



sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, Plant and Equipment, after initial recognition. Exploration assets are not depreciated until the production phase.

The stripping costs associated with future production are capitalized prior to the start of the production stage.

The Group tests exploration and evaluation assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

## **28.22. Development expenditure**

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in “mining assets under construction” category and separately disclosed in Note 9. Costs incurred are tested for impairment upon commencement of development phase.

Development expenditure is reclassified as a “Mining and primary ore dressing assets” at the end of the commissioning phase, when the mine and surface infrastructure are capable of operating in the manner intended by management. No depreciation is recognised in respect of development expenditures until they are reclassified as “Mining and primary ore dressing assets”.

## **29 New Standards and Interpretations not yet adopted**

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

### ***Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)***

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Group has determined that all contracts existing at 31 December 2020 will be completed before the amendments become effective.

### ***Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)***

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

The Group is in the process of assessing the effect of the new standard on its financial performance and financial position.

The amendments will require the Group to disclose additional information about the entity’s exposure to risks arising from interest rate benchmark reform and related risk management activities.

The Group plans to apply the amendments commencing with the condensed interim financial information for the six months ended 30 June 2021. Application will not affect amounts reported for 2020 or prior periods

### ***Other standards***

The following new and amended standards are not expected to have a significant impact on the Group’s consolidated financial statements.

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts.



Although new or amended standards that will have no or no material effect on the financial statements need not be provided, the Group has included all new or amended standards and their possible impact on the consolidated financial statements for illustrative purposes only.

### **30 Subsequent Events**

JSC Acronagroservice holding 55% of PJSC Acron shares has changed its name to JSC Acron Group.