Public Joint Stock Company “Chelyabinsk Pipe Plant”

Interim Condensed Consolidated
Financial Statements
For the Six Months Ended 30 June 2019
(unaudited)

PJSC "CHELYABINSK PIPE PLANT"

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company") and its subsidiaries (the "Group") at 30 June 2019, and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in compliance with IAS 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 were approved by management:

Boris Kovalenkov	**Valery Borisov**
Chief Executive Officer	Chief Financial Officer

16 August 2019

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To Shareholders and Board of Directors of PJSC "Chelyabinsk Pipe Plant":

Introduction

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Shvetsov Andrey Viktorovich,
Partner

16 August 2019

The Company: PJSC "Chelyabinsk Pipe Plant"

Certificate of state registration: № 27-31, issued by the Administration of Leninskiy district of Chelyabinsk on 21.10.1992.

Primary State Registration Number: 1027402694186.

Certificate of registration in the Unified State Register: 1027402694186, issued by Tax Inspection of Leninskiy District of Chelyabinsk of the Russian Ministry of Taxation on 19.07.2002.

Address: 21 Mashinostroiteley str., Chelyabinsk, Russia, 454129.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444.

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019 (UNAUDITED)

(millions of Russian Roubles, unless otherwise stated)

	Notes	30 June 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment		46,278	47,628
Advances for capital construction and intangible assets		873	834
Intangible assets		2,646	2,642
Right-of-use assets	6	2,156	-
Goodwill	7	7,577	8,332
Investments in associates and joint ventures		111	111
Other financial assets	23	3,380	3,294
Loans receivable		788	565
Deferred tax assets		1,167	949
Trade and other receivables	9	156	144
Other non-current assets		99	110
Total non-current assets		**65,231**	**64,609**
Current assets			
Inventory	8	33,310	25,716
Trade and other receivables	9	34,409	27,999
Current income tax prepayment		680	948
Loans receivable		1,190	1,248
Cash and cash equivalents		15,530	21,554
Total current assets		**85,119**	**77,465**
TOTAL ASSETS		**150,350**	**142,074**
EQUITY AND LIABILITIES			
Share capital	10	1,616	2,498
Legal reserve		71	71
Translation reserve		1,751	2,077
Treasury shares	10	-	(19,309)
Actuarial gains reserve		332	335
(Accumulated deficit)/retained earnings		(942)	17,952
Equity attributable to owners of the Company		**2,828**	**3,624**
Non-controlling interests		187	187
Total equity		**3,015**	**3,811**
Non-current liabilities			
Borrowings	11	60,382	72,275
Accounts payable and accrued expenses	12	430	60
Deferred revenue		256	280
Retirement benefit obligations		227	216
Deferred tax liabilities		1,213	1,333
Total non-current liabilities		**62,508**	**74,164**
Current liabilities			
Borrowings	11	28,857	17,700
Accounts payable and accrued expenses	12	40,777	36,322
Advances from customers		11,852	6,955
Income tax payable		21	48
Other taxes payable		3,320	3,074
Total current liabilities		**84,827**	**64,099**
Total liabilities		**147,335**	**138,263**
TOTAL EQUITY AND LIABILITIES		**150,350**	**142,074**

PJSC "CHELYABINSK PIPE PLANT"

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)
(millions of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	13	85,838	94,941
Cost of sales	14	(62,550)	(71,464)
Gross profit		**23,288**	**23,477**
Distribution costs	15	(5,104)	(4,669)
General and administrative expenses	16	(6,449)	(5,811)
(Loss)/gain on disposal of property, plant and equipment and intangible assets		(15)	53
Impairment of assets	17	(867)	(850)
Operating profit		**10,853**	**12,200**
Finance income	18	219	226
Finance costs	18	(4,701)	(4,698)
Dividend income		-	12
Foreign exchange loss, net		(487)	(200)
Share of gain of associates and joint ventures		4	2
Profit before income tax		**5,888**	**7,542**
Income tax	19	(1,709)	(1,921)
PROFIT FOR THE PERIOD		**4,179**	**5,621**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on retirement benefits		(3)	2
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income		69	(114)
Exchange rate (loss)/income on translating of foreign operations		(326)	165
Other comprehensive (loss)/income		**(260)**	**53**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3,919**	**5,674**
Profit/(loss) for the period attributable to:			
Owners of the Company		4,174	5,655
Non-controlling interests		5	(34)
		4,179	**5,621**
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		3,914	5,685
Non-controlling interests		5	(11)
		3,919	**5,674**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	20	13.65	18.67

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)
(millions of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2019	2018
Operating activities			
Profit before income tax		5,888	7,542
Adjustments for:			
Depreciation and amortisation	14,15,16	3,967	3,444
Changes in pension and payroll accruals		144	49
Changes in allowance for inventory	14	(41)	(72)
Impairment of assets	17	867	850
Loss/(gain) on disposals of property, plant and equipment and intangible assets		15	(53)
Share of gain of associates and joint ventures		(4)	(2)
Finance income	18	(219)	(226)
Finance costs	18	4,701	4,698
Dividend income		-	(12)
Foreign exchange loss, net		487	200
Other		(6)	18
Operating cash flows before working capital changes		**15,799**	**16,436**
Movements in working capital			
(Increase)/decrease in accounts receivable and prepayments		(6,536)	2,455
(Increase)/decrease in inventories		(7,554)	2,470
Increase/(decrease) in trade and other payables		4,884	(13,251)
Cash generated from operations		**6,593**	**8,110**
Income tax paid		(1,473)	(2,365)
Interest paid		(4,740)	(4,607)
Interest received		152	168
Net cash generated from operating activities		**532**	**1,306**
Investing activities			
Purchase of property, plant and equipment		(2,271)	(2,017)
Purchase of intangible assets		(352)	(354)
Proceeds from sale of property, plant and equipment		40	19
Dividends received		4	12
Purchase of other non-current assets		-	(11)
Proceeds from loans repaid		180	191
Loans given		(525)	(81)
Net cash used in investing activities		**(2,924)**	**(2,241)**
Financing activities			
Proceeds from borrowings		10,934	15,449
Repayment of borrowings		(12,879)	(16,267)
Payment of lease obligations		(406)	(65)
Dividends paid		(9)	(3,722)
Proceeds from government grant		-	214
Return of advance received for sale of treasury shares		-	(1,190)
Cash paid to acquire non-controlling interest		-	(162)
Net cash used in financing activities		**(2,360)**	**(5,743)**
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		(1,272)	872
Net decrease in cash and cash equivalents		**(6,024)**	**(5,806)**
Cash and cash equivalents at the beginning of the period		21,554	19,094
Cash and cash equivalents at the end of the period		**15,530**	**13,288**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)
(millions of Russian Roubles, unless otherwise stated)

	Equity attributable to owners of the Company								
	Share capital	**Legal reserve**	**Translation reserve**	**Treasury shares**	**Actuarial gains reserve**	**Retained earnings/ (accumulated deficit)**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018	**2,498**	**71**	**1,610**	**(19,608)**	**310**	**15,278**	**159**	**4,787**	**4,946**
Profit/(loss) for the period	-	-	-	-	-	5,655	5,655	(34)	5,621
Other comprehensive income/(loss)	-	-	142	-	2	(114)	30	23	53
Total comprehensive income/(loss) for the period	-	-	**142**	-	**2**	**5,541**	**5,685**	**(11)**	**5,674**
Dividends (Note 10)	-	-	-	-	-	(3,756)	(3,756)	-	(3,756)
Contribution to non-controlling interests	-	-	-	-	-	(898)	(898)	898	-
Acquisition of non-controlling interests	-	-	-	-	-	4	4	(166)	(162)
Balance at 30 June 2018	**2,498**	**71**	**1,752**	**(19,608)**	**312**	**16,169**	**1,194**	**5,508**	**6,702**
Balance at 1 January 2019	**2,498**	**71**	**2,077**	**(19,309)**	**335**	**17,952**	**3,624**	**187**	**3,811**
Profit for the period	-	-	-	-	-	4,174	4,174	5	4,179
Other comprehensive (loss)/income	-	-	(326)	-	(3)	69	(260)	-	(260)
Total comprehensive (loss)/income for the period	-	-	**(326)**	-	**(3)**	**4,243**	**3,914**	**5**	**3,919**
Acquisition of treasury shares (Note 10)	-	-	-	(2)	-	-	(2)	-	(2)
Share capital reduction and cancellation of treasury shares (Note 10)	(882)	-	-	19,311	-	(18,435)	(6)	-	(6)
Dividends (Note 10)	-	-	-	-	-	(4,702)	(4,702)	(5)	(4,707)
Balance at 30 June 2019	**1,616**	**71**	**1,751**	**-**	**332**	**(942)**	**2,828**	**187**	**3,015**

(millions of Russian Roubles, unless otherwise stated)

1. GENERAL INFORMATION

Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company" or "Chelpipe") was established as a state owned enterprise in 1942 and was incorporated as an open joint stock company on 21 October 1992 as part of and in accordance with the Russian government's privatisation programme. The Company's registered address is 21 Mashinostroiteley str., Chelyabinsk, 454129, Russia. Hereinafter, the Company together with its subsidiaries are referred to as the Group.

At 30 June 2019, Mr. A.I. Komarov is the ultimate controlling party of the Group and the immediate shareholder of the Company, who owns 77.2638% of the Company's issued share capital.

The Group has four reportable segments, namely steel pipe production ("SPP"), oilfield services ("OFS"), trunk pipeline systems ("TPS") and scrap procurement ("Scrap"). For more detailed description of activity of each segment refer to Note 5. The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group is one of the largest pipe producers in Russia holding significant domestic market share in welded large diameter pipes, oilfield tubular and stainless seamless pipes.

2. BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the information contained in its audited annual consolidated financial statements for 2018 prepared in accordance with IFRS.

The same accounting policies, presentation and methods of computation are followed in these interim condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for 2018, except for the impact of the adoption of the Standards and Interpretations described in Note 3.

Going concern

These interim condensed consolidated financial statements have been prepared by management on the assumption that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realize its assets and discharge its liabilities in the normal course of business.

Exchange rates

Exchange rates for currency in which the Group had significant transactions are as follows:

	30 June 2019	31 December 2018
Exchange rates at the end of the period (Russian Roubles)		
1 U.S. Dollar	63.0756	69.4706
1 Euro	71.8179	79.4605
1 Czech Koruna	2.8237	3.0883

	Six months ended 30 June	
	2019	**2018**
Average exchange rates for the period (Russian Roubles)		
1 U.S. Dollar	65.3384	59.3536
1 Euro	73.8389	71.8223
1 Czech Koruna	2.8748	2.8148

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new standards, amendments to standards or interpretations were adopted by the Group in these interim condensed consolidated financial statements:

- IFRS 16 "Leases";
- Improvements to IFRS 3 "Business Combinations";
- Improvements to IFRS 11 "Joint Arrangements";
- Improvements to IAS 12 "Income Taxes" – tax implications of payments on financial instruments classified as equity;
- Improvements to IAS 23 "Borrowing Costs" – borrowing costs allowed for capitalization;
- IFRIC 23 "Uncertainty over Income Tax Treatments";
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation";
- Amendments to IAS 28 "Long-term interests in associates and joint ventures";
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement".

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2019 had no material effect on the interim condensed consolidated financial statements of the Group, except for effect of application of IFRS 16 "Leases". The effect of the new standard is described below.

IFRS 16 "Leases"

In 2019, the Group adopted IFRS 16 "Leases" ("IFRS 16"). The standard requires lessees to recognize assets and liabilities of the lease contracts in the statement of financial position. The standard also includes a new definition of a lease and requirements for its presentation in financial reporting, and new requirements for leaseback transaction.

Accounting policy principles

The Group recognizes right-of-use assets and corresponding lease liabilities for all lease agreements, according to which the Group has the right to control the use of identifiable assets for a certain period of time in exchange for consideration, except for short-term contracts (the lease term does not exceed 12 months) and contracts with identifiable low-value assets. The Group identifies lease components within the contract as a lease separately from non-lease components of the contract. If non-lease components of the contract are not subject to a reliable estimate or their value is insignificant, the components of the contract are taken into account together.

The initial recognition of the lease liability is measured at the present value of the lease payments that were not paid at the commencement date, using the lessee's incremental borrowing rate. Lease payments include:

- Fixed payments under the contract;
- Variable lease payments that depend on the index or rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase option if the lessee is reasonably certain to exercise that option;
- Payments for early termination of the lease, if there is reasonable certainty that the contract will be terminated before the end of the lease term.

Variable lease payments that are not fixed are not taken into account when estimating lease liabilities and are recognized as the expenses in the period (for example, if the lease payment depends on revenue).

Lease liabilities are reassessed when future lease payments change as a result of change of index/rate, change of the amounts payable by the lessee under guaranteed residual value, exercise or non-exercise of purchase options, or extension/termination of lease contract. Change of the lease liability is recognized as an adjustment to the value of the right-of-use asset or as an expense if the value of the asset is reduced to zero.

The initial valuation of the right-of-use asset includes:

- The amount of the initial measurement of the lease liability;
- Any initial direct costs incurred be the lessee;
- An estimate of costs to be incurred by lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset.

Right-of-use assets are depreciated on a straight-line basis. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In assessment of the lease term, the Group takes into account the following factors:

- Contractual terms and conditions for the optional periods compared with market rates;
- Costs relating to the termination of the lease;
- Intended use of identifiable assets;
- The importance of that underlying asset to the Group's operations.

The Group applies IAS 36 "Impairment of assets" to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

IFRS 16 first adoption

The Group applied the modified retrospective method with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group recognised:

- Lease liabilities for those leases previously classified as operating leases applying IAS 17 "Leases" ("IAS 17"). The lease liabilities were calculated based on the present value of the remaining lease payments, discounted using the incremental borrowing rates at the date of initial application;
- Right-of-use assets for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The Group used the following practical expedients permitted by the standard when applying IFRS 16 for the first time:

- Usage of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Usage of hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- Exclusion of lease contracts maturing within 12 months of the date of initial application.

As a result of the application of IFRS 16, the Group has recognised lease liabilities and right-of-use assets in the amount of 2,493 in the consolidated statement of financial position. On initial application the balance relating to leased equipment previously included in property, plant and equipment was reclassified to "Right-of-use assets" in the consolidated statement of financial position. The corresponding lease obligations were included in "Borrowings" in the consolidated statement of financial position.

(millions of Russian Roubles, unless otherwise stated)

The Group applied the following borrowing rates to discount its lease liabilities under the contracts:

- For liabilities denominated in Russian roubles – from 9.21% to 10.40%;
- For liabilities denominated in U.S. Dollar – from 5.05% to 6.27%.

The groups of right-of-use assets are depreciated over the following periods:

	Depreciation period, years
Plant and equipment	1-16
Buildings	1-5
Land	5-47
Infrastructure	1-8
Other	1-10

The effects of IFRS 16 first adoption on the Group's interim condensed consolidated statement of financial position are presented below:

	1 January 2019
Assets	
Property, plant and equipment	(96)
Right-of-use assets	2,493
Advances for capital construction and intangible assets	(18)
Trade and other receivables	(33)
	2,346
Liabilities	
Non-current borrowings	1,544
Current borrowings	802
	2,346

The adoption of new standard had an effect on interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2019. The Group recognised 480 of depreciation charges and 91 of interest expense from these leases.

The adoption of new standard had an effect on interim condensed consolidated statement of cash flows for the six months ended 30 June 2019. Cash flows from leases classified earlier as operating leases according to IAS 17 were included into cash flows from operating activities. On the implementation of IFRS 16 cash flows from operating leases in the amount of 384 were included into the cash flows from financing activities, except for the interest paid in the amount of 91, which was included in operating cash flows.

4. SUBSIDIARIES

Principal subsidiaries included into the interim condensed consolidated financial statements of The Company and the Company's effective ownership interest of principal subsidiaries are as follows:

				Effective ownership, %	
Subsidiary	**Country of incorporation**	**Activities**	**Operating segment**	**30 June 2019**	**31 December 2018**
JSC Pervouralsk Pipe Plant	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House	Russia	Pipe distribution	SPP	100.00%	100.00%
LLC Meta	Russia	Scrap procurement	Scrap	100.00%	100.00%
LLC Meta-Invest	Russia	Rent of property	Scrap	100.00%	100.00%
JSC Pipeline Bends	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s.	Czech Republic	Manufacturing and distribution of pipeline valves	TPS	100.00%	100.00%
LLC ETERNO	Russia	Manufacturing and distribution of pressed and welded components of pipelines	TPS	100.00%	100.00%
OOO ALNAS	Russia	Oilfield services	OFS	100.00%	100.00%
PJSC Izhneftemash*	Russia	Oilfield services	OFS	88.38%	88.38%
LLC RIMERA-Service	Russia	Oilfield services	OFS	100.00%	100.00%

* Adjusted for preferred shares that belong to non-controlling interests.

5. SEGMENT REPORTING

The Group has identified the following segments based upon reports used by the chief operating decision maker ("CODM"):

- Steel pipe production ("SPP") – representing manufacturing and distribution of pipes and other related products, including activities related to the procurement of scrap and its further utilisation as raw materials in manufacturing of steel billets used in seamless pipe production;
- Oilfield services ("OFS") – representing equipment manufacturing and support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development;
- Trunk pipeline systems ("TPS") – representing production of highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs; and
- Scrap procurement ("Scrap") – representing procurement, storage, recycling of ferrous and non-ferrous scrap metal including collection, sorting, shredding, processing, etc. with further selling of scrap metal.

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Impairment loss provisions relate only to those charges made against allocated assets.

The CODM assesses the financial performance of each segment separately for the purpose of making decisions about resource allocation and performance evaluation. Segment performance is estimated based on the Adjusted EBITDA.

Adjusted EBITDA is determined as profit/loss for the period adjusted by finance income and costs, income tax, depreciation and amortization, foreign exchange gain/loss, change in fair value of derivatives, gain/loss on disposal of subsidiaries, gain/loss on disposal of property plant and equipment and intangible assets, impairment of loans and interest receivable, impairment of assets (property plant and equipment, intangible assets, advances for capital construction and intangible assets), impairment of goodwill, social and charity expenses not related to operating activities. Adjusted EBITDA is not defined in the IFRS, therefore the Group's definition may differ from that of other companies.

The segment information presented is based on the information reviewed by the CODM, which differs from the IFRS figures. In these interim condensed consolidated statements reconciliations are provided for the differences between this information and the information included in the interim condensed consolidated statements. Key differences are comprised of interdivisional consolidation adjustments made in the IFRS accounting and adjustments made from the date of preparation of information for analysis by management to the date of signing of the IFRS statements.

Segment revenue reviewed by CODM and disclosed in this note may differ from revenue streams disclosed in Note 13 as some companies in specific operating segment could have a minor sale transactions of non-core products which are included in different line in Note 13.

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's interim condensed consolidated statements of comprehensive income for the six months ended 30 June 2019 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Total**
Revenue from external customers	72,616	6,390	1,903	4,929	-	85,838
Inter-segment revenue	1,421	648	1,027	9,725	(12,821)	-
Cost of sales	(52,916)	(5,592)	(2,607)	(14,249)	12,814	(62,550)
Distribution costs	(4,610)	(151)	(183)	(177)	17	(5,104)
General and administrative expenses	(4,958)	(819)	(325)	(338)	(9)	(6,449)
Impairment of assets	(198)	(75)	(502)	(92)	-	(867)
Share of gain of associates	-	4	-	-	-	4
Less impairment of property, plant and equipment	243	6	-	-	-	249
Less impairment of intangible assets	32	-	-	-	-	32
Less (reversal of impairment)/impairment of advances for capital construction and intangible assets	(1)	1	-	-	-	-
Less impairment of loans receivable	47	32	-	28	-	107
Less impairment of interest receivable	-	-	-	7	-	7
Less impairment of goodwill	-	-	493	-	-	493
Less social and charity expenses	84	-	-	-	-	84
Less depreciation and amortisation	2,248	1,019	324	376	-	3,967
Adjusted EBITDA	**14,008**	**1,463**	**130**	**209**	**1**	**15,811**
Depreciation and amortisation	(2,248)	(1,019)	(324)	(376)	-	(3,967)
Impairment of property, plant and equipment	(243)	(6)	-	-	-	(249)
Impairment of intangible assets	(32)	-	-	-	-	(32)
Reversal of impairment/(impairment) of advances for capital construction and intangible assets	1	(1)	-	-	-	-
Impairment of loans receivable	(47)	(32)	-	(28)	-	(107)
Impairment of interest receivable	-	-	-	(7)	-	(7)
Impairment of goodwill	-	-	(493)	-	-	(493)
Social and charity expenses	(84)	-	-	-	-	(84)
Finance income	166	17	27	19	(10)	219
Finance costs	(4,495)	(116)	(11)	(89)	10	(4,701)
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(13)	(16)	-	14	-	(15)
Foreign exchange (loss)/gain, net	(502)	5	11	(1)	-	(487)
Income tax	(1,637)	(108)	(8)	44	-	(1,709)
Profit/(loss) for the period	**4,874**	**187**	**(668)**	**(215)**	**1**	**4,179**

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Total**
Revenue from external customers	81,793	5,844	1,680	5,378	246	94,941
Inter-segment revenue	1,499	551	1,582	8,906	(12,538)	-
Cost of sales	(62,550)	(5,056)	(2,707)	(13,784)	12,633	(71,464)
Distribution costs	(3,943)	(156)	(159)	(185)	(226)	(4,669)
General and administrative expenses	(4,230)	(848)	(339)	(287)	(107)	(5,811)
(Impairment)/reversal of impairment of assets	(250)	17	1	(66)	(552)	(850)
Dividend income	9	-	-	-	3	12
Share of gain of associates	-	-	-	-	2	2
Less impairment of property, plant and equipment	52	-	-	-	469	521
Less impairment of advances for capital construction and intangible assets	24	-	-	-	-	24
Less social and charity expenses	85	3	-	-	-	88
Less depreciation and amortisation	2,092	930	342	59	21	3,444
Adjusted EBITDA	**14,581**	**1,285**	**400**	**21**	**(49)**	**16,238**
Depreciation and amortisation	(2,092)	(930)	(342)	(59)	(21)	(3,444)
Impairment of property, plant and equipment	(52)	-	-	-	(469)	(521)
Impairment of advances for capital construction and intangible assets	(24)	-	-	-	-	(24)
Social and charity expenses	(85)	(3)	-	-	-	(88)
Finance income	269	19	26	17	(105)	226
Finance costs	(4,611)	(165)	(6)	(23)	107	(4,698)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	25	32	(2)	4	(6)	53
Foreign exchange loss, net	(173)	(26)	(3)	-	2	(200)
Income tax	(1,773)	(67)	(65)	(70)	54	(1,921)
Profit/(loss) for the period	**6,065**	**145**	**8**	**(110)**	**(487)**	**5,621**

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's interim condensed consolidated statement of financial position at 30 June 2019 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Total**
Non-current assets	81,156	9,594	12,788	3,056	(41,363)	65,231
Current assets	76,371	5,706	5,378	2,880	(5,216)	85,119
Total assets	**157,527**	**15,300**	**18,166**	**5,936**	**(46,579)**	**150,350**
Non-current liabilities	59,816	1,626	212	852	2	62,508
Current liabilities	78,563	5,809	2,692	2,828	(5,065)	84,827
Total liabilities	**138,379**	**7,435**	**2,904**	**3,680**	**(5,063)**	**147,335**

Segment information related to the Group's consolidated statement of financial position at 31 December 2018 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Scrap procurement**	**Adjustments**	**Total**
Non-current assets	81,522	9,112	13,971	1,607	(41,603)	64,609
Current assets	67,662	5,859	5,623	3,150	(4,829)	77,465
Total assets	**149,184**	**14,971**	**19,594**	**4,757**	**(46,432)**	**142,074**
Non-current liabilities	72,511	1,484	228	19	(78)	74,164
Current liabilities	58,224	5,779	2,611	2,138	(4,653)	64,099
Total liabilities	**130,735**	**7,263**	**2,839**	**2,157**	**(4,731)**	**138,263**

Group's revenue: geographical segments

The Group operates in three main geographical areas. Sales are based on the country in which the customer is located. The geographical distribution of the Group's sales is presented in the table below:

	Six months ended 30 June	
	2019	**2018**
Russian Federation	67,570	72,623
Other countries of the Commonwealth of Independent States	10,459	5,177
Foreign countries	7,809	17,141
Total revenue from external customers	**85,838**	**94,941**

Group revenue: major customers

The Group's sales to major customers are set out in the table below:

	Six months ended 30 June	
	2019	**2018**
Customer 1	9,830	17,064
Customer 2	6,710	14,896
Customer 3	6,453	10,330
Total	**22,993**	**42,290**

(millions of Russian Roubles, unless otherwise stated)

6. RIGHT-OF-USE ASSETS

Movements in the carrying amount of the right-of-use assets were as follows.

	Plant and equipment	Buildings	Land	Infra-structure	Other	Total
Cost at 1 January 2019	1,028	743	117	11	676	2,575
Accumulated depreciation at 1 January 2019	(77)	-	-	-	(5)	(82)
Carrying amount at 1 January 2019	**951**	**743**	**117**	**11**	**671**	**2,493**
Additions	133	4	18	-	-	155
Effect of translating from functional to presentation currency (cost)	(6)	-	-	-	-	(6)
Depreciation charge	(188)	(181)	(11)	(1)	(110)	(491)
Effect of translating from functional to presentation currency (depreciation)	5	-	-	-	-	5
Cost at 30 June 2019	1,155	747	135	11	676	2,724
Accumulated depreciation at 30 June 2019	(260)	(181)	(11)	(1)	(115)	(568)
Carrying amount at 30 June 2019	**895**	**566**	**124**	**10**	**561**	**2,156**

Interest expense on lease liabilities for the six months ended 30 June 2019 amounted to 96. These expenses were included into finance costs of the interim condensed consolidated statement of comprehensive income.

For the six months ended 30 June 2019, the Group recognised expenses for short-term leases in the amount of 35, leases for which the underlying asset is of low value in the amount of 36 and leases with variable lease payments in the amount of 48. These expenses were included in the cost of sales, distribution costs or general and administrative expenses of the interim condensed consolidated statement of comprehensive income, depending on the intended use of an asset.

7. GOODWILL

Movements of goodwill allocated by CGUs are presented in the table below:

	2019	2018
At 1 January	**8,332**	**7,942**
Cost	17,086	16,696
Accumulated impairment	(8,754)	(8,754)
Goodwill impairment		
CGU TPS	(493)	-
Effect of translating from functional to presentation currency (cost)		
CGU TPS	(262)	122
At 30 June	**7,577**	**8,064**
Cost	16,824	16,818
Accumulated impairment	(9,247)	(8,754)

(millions of Russian Roubles, unless otherwise stated)

The goodwill allocation to the Group's cash generating units is presented in the table below:

	30 June 2019	31 December 2018
TPS	6,175	6,930
Scrap	733	733
OFS	669	669
Total	**7,577**	**8,332**

Goodwill impairment test

The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business in which the CGUs operate.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to CGU.

For the six months ended 30 June 2019, there was a decrease in observable average selling prices of the TPS CGU output. Regarding this fact as indication of impairment, management updated financial budgets, used in the goodwill impairment model of CGU TPS. Key assumptions used in the updated model are presented below:

	Used assumptions
EBITDA margin	19%-22%
Discount rate	13.83%
Terminal growth rate	2.71%

Based on test results the excess of carrying value over recoverable amount of the TPS CGU in the amount of 493 was revealed. Loss on impairment of goodwill was included to impairment of assets within the interim condensed consolidated statement of comprehensive income.

Calculation of value-in-use for TPS CGU is most sensitive to the following assumptions: EBITDA margin and discount rate. Possible effects of changes in these assumptions are as follows:

- A decrease in the EBITDA margin by 2 percentage points would result in a further impairment of 210;
- An increase in the discount rate by 1 percentage point would result in a further impairment of 502.

Other CGUs were not tested for impairment since there were no impairment indicators at 30 June 2019.

8. INVENTORY

	30 June 2019	31 December 2018
Raw materials	16,949	14,570
Finished goods and goods for resale	10,898	6,247
Work in progress	6,534	6,064
Allowance for inventory obsolescence	(1,071)	(1,165)
Total inventory	**33,310**	**25,716**

(millions of Russian Roubles, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES

	30 June 2019	31 December 2018
Non-current		
Trade receivables	174	206
Interest receivable	81	60
Other receivables	86	104
Expected credit losses of trade, interest and other receivables	(188)	(229)
Total financial assets in long-term receivables	**153**	**141**
Advances and prepayments	3	3
Total non-financial assets in long-term receivables	**3**	**3**
Total non-current trade and other receivables	**156**	**144**
Current		
Trade receivables	26,875	24,852
Interest receivable	852	805
Other receivables	4,546	2,000
Expected credit losses of trade, interest and other receivables	(3,417)	(3,457)
Total financial assets in short-term receivables	**28,856**	**24,200**
VAT and other taxes recoverable	3,408	2,078
Advances and prepayments	2,309	1,916
Allowance for impairment of advances and prepayments	(164)	(195)
Total non-financial assets in short-term receivables	**5,553**	**3,799**
Total current trade and other receivables	**34,409**	**27,999**
Total trade and other receivables	**34,565**	**28,143**

Movements in the allowance for impairment of trade, interest and other receivables, advances and prepayments are as follows:

	Trade, interest and other receivables		Advances and prepayments	
	2019	**2018**	**2019**	**2018**
At 1 January	**(3,686)**	**(3,220)**	**(195)**	**(99)**
Allowance recorded (Note 17)	(272)	(326)	(28)	(77)
Allowance reversed (Note 17)	255	88	59	10
Effect of translating from functional to presentation currency	5	(6)	-	-
Receivables written-off during the period as uncollectible	93	34	-	-
At 30 June	**(3,605)**	**(3,430)**	**(164)**	**(166)**

10. EQUITY

At 31 December 2018, the total authorised number of ordinary shares is 472,382,880 shares with a par value of Russian Rouble 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote. At 31 December 2018, the Group held 166,666,132 treasury shares for a total amount of 19,309.

In May 2019, the Group purchased 20,412 of own shares from minority shareholders at a fixed price of 114.42 Russian Roubles per share totaling 2.

In June 2019, the Group reduced its share capital by 882 through cancellation of 166,686,544 treasury shares. The difference between the total treasury stock reduction of 19,311 and the nominal value of the shares of 882 was reflected as a decrease in retained earnings.

Therefore, at 30 June 2019, the total authorized number of ordinary shares is 305,696,336 shares with a par value of Russian Rouble 1 per share. The Group has no treasury shares on its balance.

For the six months ended 30 June 2019, the Company declared dividends in the amount of 4,702 (six months ended 30 June 2018: dividends were declared in amount of 3,756).

11. BORROWINGS

	30 June 2019	31 December 2018
Non-current		
Loans with fixed rates	29,160	32,065
Bonds payable	24,820	24,908
Loans with floating rates	4,186	14,281
Lease liabilities	1,219	24
Credit lines with fixed rates	997	997
Total	**60,382**	**72,275**
Current		
Loans with fixed rates	12,580	7,558
Loans with floating rates	11,640	4,999
Credit lines with fixed rates	3,340	4,180
Lease liabilities	905	37
Credit lines with floating rates	392	724
Factoring	-	202
Total	**28,857**	**17,700**
Total borrowings	**89,239**	**89,975**

Bonds payable

The bonds payable represent bonds of 001R programme issued by the Company in December 2016 and during 2017, as described below.

	BO-001R-01	BO-001R-02	BO-001R-03	BO-001R-04
Date of issue	December 2016	February 2017	March 2017	June 2017
Number of bonds	5,000,000	5,000,000	5,000,000	10,000,000
Par value, thousands of Russian Roubles	1	1	1	1
Total amount	**5,000**	**5,000**	**5,000**	**10,000**
Bonds expiry date	100% of par value at 1,456-th day from the date of placement	100% of par value at 1,820-th day from the date of placement	100% of par value at 2,548-th day from the date of placement	100% of par value at 3,640-th day from the date of placement
Coupon rate, % p.a.	10.75	9.85	9.7	8.95
Coupon yield payment period	Semi-annually	Semi-annually	Quarterly	Semi-annually

The carrying value of the bonds is presented in the table below:

	30 June 2019	31 December 2018
BO-001P-01	4,982	4,976
BO-001P-02	4,988	4,986
BO-001P-03	4,992	4,991
BO-001P-04	9,858	9,955
Total	**24,820**	**24,908**

(millions of Russian Roubles, unless otherwise stated)

Loans and credit lines

The Group has various borrowing agreements with lenders including loans and revolving credit lines.

During the six months ended 30 June 2019, the Group entered into additional credit lines facilities denominated in Russian Roubles in the amount of 5,000 expiring in January 2020 and April 2022. The credit lines bear interest at rates varying between 8.75% to 15% p.a. and determined at the time of the loan drawdown.

At 30 June 2019, the Group had available undrawn amounts under credit lines totaling 29,659 (31 December 2018: 28,603).

At 30 June 2019, long-term liabilities under the loan agreement with VTB Bank (PJSC) in the amount of 8,875 were reclassified from non-current loans with floating rates to current loans with floating rates as in June 2019 the Group sent the irrevocable notice of early repayment of the loan.

The non-current borrowings maturity schedule, excluding the lease liabilities, is as follows:

	30 June 2019	31 December 2018
1 to 2 years	14,787	16,258
2 to 3 years	14,618	12,857
3 to 4 years	8,478	15,267
4 to 5 years	11,422	12,922
More than 5 years	9,858	14,947
Total	**59,163**	**72,251**

Lease liabilities

The lease liabilities maturity schedule at 30 June 2019 presented is as follows:

	Minimum lease payments	Present value of minimum lease payments
Due in 1 year	1,046	905
Due between 1 and 5 years	1,237	1,185
More than 5 years	102	34
Total	**2,385**	**2,124**

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	30 June 2019	31 December 2018
Non-current		
Investment tax credit	420	60
Accrued liabilities and other creditors	10	-
Total	**430**	**60**
Current		
Trade payables	32,611	31,504
Wages and salaries payable (non-financial liabilities)	1,890	2,638
Accrued liabilities and other creditors	1,180	1,669
Dividends payable	4,751	47
Interest payable	345	464
Total	**40,777**	**36,322**
Total accounts payable and accrued expenses	**41,207**	**36,382**

(millions of Russian Roubles, unless otherwise stated)

13. REVENUE

	Six months ended 30 June	
	2019	**2018**
Domestic sales of pipes	54,652	59,127
Domestic sales of oilfield services	6,015	5,482
Domestic sales of scrap	5,046	5,538
Domestic sales of pipeline valves	1,626	2,054
Domestic sales of other goods	231	422
Export of pipes	16,681	21,119
Export of pipeline valves	1,237	912
Export of oilfield services	302	234
Export of scrap	18	14
Export of other goods	30	39
Total revenue	**85,838**	**94,941**

14. COST OF SALES

	Six months ended 30 June	
	2019	**2018**
Raw materials	41,911	42,802
Cost of goods for resale	7,210	8,603
Salaries and salary taxes	6,468	6,034
Production overheads and repairs	4,895	7,108
Energy and utilities	3,599	3,345
Depreciation and amortisation	3,324	3,014
Changes in balances of work in progress and finished goods	(4,816)	630
Changes in allowance for inventory obsolescence	(41)	(72)
Total cost of sales	**62,550**	**71,464**

15. DISTRIBUTION COSTS

	Six months ended 30 June	
	2019	**2018**
Transportation, surveyor and customs expenses	2,830	2,832
Salaries and salary taxes	772	720
Commission	702	76
Packing, storage and handling	505	507
Advertising and marketing expenses	76	313
Office expenditure	56	46
Depreciation and amortisation	42	27
Operating lease expenses	3	17
Insurance	1	64
Other	117	67
Total distribution costs	**5,104**	**4,669**

16. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2019	**2018**
Salaries and salary taxes	3,339	3,059
Non-production overheads and repairs	1,594	1,252
Depreciation and amortisation	601	403
Consultancy, audit and legal services	457	315
Taxes other than income tax	284	484
Social and charity expenses	84	88
Insurance	19	19
Auxiliary materials	8	9
Other	63	182
Total general and administrative expenses	**6,449**	**5,811**

For the six months ended 30 June 2019, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to 10,579 (six months ended 30 June 2018: 9,813).

(millions of Russian Roubles, unless otherwise stated)

17. IMPAIRMENT OF ASSETS

	Six months ended 30 June	
	2019	**2018**
Goodwill (Note 7)	493	-
Property, plant and equipment and intangible assets	281	521
Loans receivable	107	-
Trade and other receivables (Note 9)	(14)	305
Advances for capital construction and intangible assets	-	24
Total impairment of assets	**867**	**850**

18. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2019	**2018**
Interest income on deposits and loans receivable	219	226
Total finance income	**219**	**226**
Interest cost on borrowings	4,597	4,674
Finance charges for lease liabilities	96	16
Interest on employee benefits liabilities	8	8
Total finance costs	**4,701**	**4,698**

19. INCOME TAX

Income tax comprises the following:

	Six months ended 30 June	
	2019	**2018**
Current tax	2,064	2,169
Deferred tax	(355)	(248)
Total income tax	**1,709**	**1,921**

20. EARNINGS PER SHARE

For the six months ended 30 June 2019, basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company in the amount of 4,174 (six months ended 30 June 2018: 5,655) by the weighted average number of ordinary shares outstanding for the six months ended 30 June 2019, excluding treasury shares, which comprised 305,712,463 shares (six months ended 30 June 2018: 302,866,748 shares).

The Company has no potentially dilutive ordinary shares, accordingly diluted earnings per share is the same as the basic earnings per share.

(millions of Russian Roubles, unless otherwise stated)

21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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 30 June 2019 are detailed below:

	Group's controlling shareholder	Parties controlled by the Group's controlling shareholder	Parties under significant influence of the Group's controlling shareholder
Trade and other receivables	339	2,883	810
Loans receivable	-	954	601
Trade and other payables	(3,633)	(835)	(44)
Borrowings	-	(990)	-

Income and expense items with related parties as well as purchases for the six months ended 30 June 2019 were as follows:

	Group's controlling shareholder	Parties controlled by the Group's controlling shareholder	Parties under significant influence of the Group's controlling shareholder
Revenue	-	55	8
Purchases	-	(680)	(89)
Distribution costs	-	(5)	-
General and administrative expenses	-	(532)	(232)
Finance (costs)/ income, net	10	(3)	15

In addition to the transactions mentioned in the table above, during the six months ended 30 June 2019, the Group had the following transactions with related parties:

- The Group declared dividends to related parties in the amount of 4,134;
- The Group acquired intangible assets from related parties of total amount of 54.

Transactional cash flows with related parties for the six months ended 30 June 2019 were as follows:

	Group's controlling shareholder	Parties controlled by the Group's controlling shareholder	Parties under significant influence of the Group's controlling shareholder
Operating activities	-	(3,715)	(309)
Financing activities	-	(109)	-
Investing activities	-	(124)	(527)

(millions of Russian Roubles, unless otherwise stated)

At 30 June 2019, the Group recognized the right-of-use assets from related parties in the amount of 1,126.

At 30 June 2019, the Group entered into the surety agreements under labilities of the related parties with banks. The maximum amount of surety agreements under liabilities comprised 818.

At 31 December 2018, significant transactions and balances with related parties were as follows:

	Group's controlling shareholder	Parties controlled by the Group's controlling shareholder	Parties under significant influence of the Group's controlling shareholder
Trade and other receivables	329	417	897
Loans receivable	-	1,085	229
Trade and other payables	-	(304)	(189)
Borrowings	-	(9)	-

At 31 December 2018, the Group entered into the surety agreements under labilities of the related parties with banks. The maximum amount of surety agreements under liabilities was 100.

Income and expense items with related parties for the six months ended 30 June 2018 were as follows:

	Group's controlling shareholder	Parties controlled by the Group's controlling shareholder	Parties under significant influence of the Group's controlling shareholder
Revenue	-	33	26
Purchases	-	(562)	(300)
Distribution costs	-	(4)	-
General and administrative expenses	-	(704)	(121)
Finance income, net	-	55	5

In addition to the transactions mentioned in the table above, during the six months ended 30 June 2018, the Group had the following transactions with related parties:

- The Group declared and paid dividends to related parties in the amount of 3,076;
- The Group acquired from the related party intangible assets of total amount of 329;
- The Group's accounts payable to related parties were transferred to accounts payable to third parties at fair value of 22 under the factoring agreement.

Transactional cash flows with related parties for the six months ended 30 June 2018 were as follows:

	Group's controlling shareholder	Parties controlled by the Group's controlling shareholder	Parties under significant influence of the Group's controlling shareholder
Operating activities	-	(1,502)	(549)
Financing activities	-	(1,886)	-
Investing activities	-	34	(111)

Directors' and key management remuneration

At 30 June 2019, the Board of Directors of the Company comprised 7 directors (31 December 2018: 7 directors). For the six months ended 30 June 2019, compensation to the members of the Board of Directors of the Company, excluding social taxes, amounted to 100 and was included in general and administrative expenses (six months ended 30 June 2018: 95). For the six months ended 30 June 2019, aggregate remuneration of executives, excluding social taxes, amounted to 627 and was included in general and administrative expenses (six months ended 30 June 2018: 681).

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. From time to time, the Group adopts interpretations in such areas that may impact the tax position of the Group and such interpretations may be subject to challenge by the tax authorities. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of submission of tax declaration. Under certain circumstances reviews may cover longer periods.

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

Management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 147 at 30 June 2019 (31 December 2018: 147) which relate primarily to income tax and VAT. There is no liability recorded in these interim condensed consolidated financial statements for this exposure as management does not believe payment is probable.

Capital expenditure commitments

At 30 June 2019, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totaling 845 (31 December 2018: 960).

Shares pledged and restricted

At 30 June 2019 and 31 December 2018, the Group had no shares of the Group's companies pledged as collateral.

Guaranties

At 30 June 2019, the Group entered into the surety agreements under liabilities of the related (Note 21) and the third parties with banks and other counterparties. The maximum amount of surety agreements under the EUR denominated liabilities was 739 (31 December 2018: 23). The maximum amount of surety agreements under the Russian Roubles denominated liabilities was 120 (31 December 2018: 120).

(millions of Russian Roubles, unless otherwise stated)

23. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments such as trade and other receivables, cash and cash equivalents, accounts payable and accrued expenses, loans and credit lines with floating rates, lease liabilities, factoring approximate their fair values.

The Group's financial instruments which carrying values differ from their fair values are disclosed in the table below:

	Level of the fair value hierarchy	Note	30 June 2019		31 December 2018	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans receivable	Level 3		1,978	1,967	1,813	1,812
Financial liabilities						
Loans and credit lines with fixed rates	Level 3	11	46,077	46,159	44,800	45,427
Bonds payable	Level 2	11	24,820	25,914	24,908	25,115

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair values of level 3 financial assets and liabilities were calculated based on the present value of future principal and interest cash flows, discounted at market discount rate that reflects the credit risk of counterparties. The fair value of level 2 financial liabilities was calculated based on the present value of future principal and interest cash flows, discounted at observable market rate.

Financial assets measured at fair value

The Group owns 30% of share capital of CJSC TechnoInvest Aliance and accounts for it at fair value in accordance with IFRS 9 "Financial Instruments". At 30 June 2019, the fair value of investments in CJSC TechnoInvest Aliance was determined by independent appraiser and comprised 3,380 (31 December 2018: 3,294).

The fair value was determined based on the discounted cash flow model. This model includes some assumptions that are not supportable by observable market prices or rates (level 3 inputs). In determining the fair value amount at 30 June 2019, discount rate of 17.2% (31 December 2018: 16.9%) was used. The fair value amount at 30 June 2019 would be lower by 576 if the discount rate increased by 1 percentage point.

24. EVENTS AFTER THE REPORTING PERIOD

In July 2019, the Group repaid the loan to PJSC VTB Bank in the amount of 8,875 ahead of the schedule. Re-financing was implemented by means of proceeds within the revolving credit line with PJSC "Sberbank", denominated in Russian Roubles and maturing in 2022.

In July and August 2019, the Company paid dividends declared during the six months ended 30 June 2019.