Notes to the consolidated financial statements
Year ended 31 December 2019

1. CORPORATE INFORMATION

These consolidated financial statements were authorised for issue by the Board of Directors of EVRAZ plc on 26 February 2020.

EVRAZ plc ("EVRAZ plc" or "the Company") was incorporated on 23 September 2011 as a public company limited by shares under the laws of the United Kingdom. The Company was incorporated under the Companies Act 2006 with the registered number in England 7784342. Until 1 August 2019 the registered address of EVRAZ plc was 5th Floor, 6 St. Andrew Street, London, EC4A 3AE, United Kingdom. The new Company's address is 2 Portman street, London, W1H 6DU, United Kingdom.

The Company is a holding company which owns steel, mining and trading companies. The Company, together with its subsidiaries (the "Group"), is involved in the production and distribution of steel and related products, vanadium products and coal and iron ore mining. The Group is one of the largest steel producers globally.

Until 3 September 2018 Lanebrook Limited ("Lanebrook") registered in Cyprus was the ultimate controlling party of the Group. On that date Lanebrook distributed all its ownership interest in EVRAZ plc to its direct shareholders in proportion to their holdings in Lanebrook. At 31 December 2019 and 2018, EVRAZ plc was jointly controlled by a group of 3 shareholders: Greenleas International Holdings Limited (BVI), Abiglaze Limited (Cyprus) and Crosland Global Limited (Cyprus).

The major subsidiaries included in the consolidated financial statements of the Group were as follows at 31 December:

	Effective ownership interest, %				
Subsidiary	2019	2018	2017	Business activity	Location
EVRAZ Nizhny Tagil Metallurgical Plant	100.00	100.00	100.00	Steel production	Russia
EVRAZ Consolidated West-Siberian Metallurgical Plant	100.00	100.00	100.00	Steel production	Russia
EVRAZ Dneprovsk Metallurgical Plant	–	–	97.73	Steel production	Ukraine
EVRAZ Inc. NA	100.00	100.00	100.00	Steel production	USA
EVRAZ Inc. NA Canada	100.00	100.00	100.00	Steel production	Canada
Raspadskaya	88.17	83.84	81.95	Coal mining	Russia
Yuzhkuzbassugol	100.00	100.00	100.00	Coal mining	Russia
EVRAZ Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	100.00	Ore mining & processing	Russia
Evrazruda (in 2018 merged with EVRAZ Consolidated West-Siberian Metallurgical Plant)	–	–	100.00	Ore mining	Russia

The full list of the Group's subsidiaries and other significant holdings as of 31 December 2019 is presented in Note 34.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

International Financial Reporting Standards are issued by the International Accounting Standard Board ("IASB"). IFRSs that are mandatory for application for the annual periods beginning on or after 1 January 2019, but not adopted by the European Union, do not have any significant impact on the Group's consolidated financial statements.

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, equity instruments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

Going Concern

These consolidated financial statements have been prepared on a going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies

New/Revised Standards and Interpretations Adopted in 2019:

- IFRS 16 "Leases"

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

The Group applied IFRS 16 "Leases" from 1 January 2019 using the modified retrospective approach, i.e. the comparative information was not restated. Under this approach both lease liabilities and right-of-use assets were recognised at the date of transition to IFRS 16. They were included within the Lease liabilities and Property, plant and equipment captions of the consolidated statement of financial position. Long-term finance lease liabilities, which were previously presented in Other long-term liabilities, and short-term finance lease liabilities, which were previously presented in Trade and other payables ($3 million and $3 million at 31 December 2018, respectively), were reclassified to the Lease liabilities caption from 1 January 2019.

The Group has elected to use the following practical expedients proposed by the standard:

- on initial application IFRS 16 was applied only to contracts that were previously classified as leases;
- on initial application initial direct costs are excluded from the measurement of the right-of-use asset;
- for all classes of underlying assets each lease component and any associated non-lease components were accounted as a single lease component; and
- lease payments for contracts with a duration of 12 months or less or leases for which the underlying assets are of low value continue to be expensed to the statement of operations on a straight-line basis over the lease term.

The main categories of contracts, which were affected by the requirements of IFRS 16, are operating leases of gondola cars, land underneath production facilities and certain items of machinery and equipment.

At 1 January 2019, as a result of the application of the new standard, the Group recognised $127 million of right-of-use assets (including $7 million of property, plant and equipment previously recognised under the finance lease contracts and $2 million of prepayments under lease contracts, which were both reclassified from the respective accounts), and $124 million of lease liabilities (including $6 million recorded as finance lease liabilities at 31 December 2018). These lease liabilities consisted of non-current portion ($90 million) and current portion ($34 million).

The Group's weighted average incremental borrowing rates applied to lease liabilities recognised in the statement of financial position at the date of initial application were 8.7% for rouble-denominated liabilities and 4.2% for USD-denominated liabilities.

In previous years the majority of the Group's outstanding short and long-term lease agreements were cancellable. IAS 17 required disclosing operating lease commitments only for non-cancellable leases, consequently, the Group did not disclose commitments under non-cancellable operating leases based on materiality grounds. However, under IFRS 16 the Group is also required to include in lease liabilities the contracts with an option to terminate the lease if the lessee is reasonably certain not to exercise that option. This has resulted in the recognition of lease liabilities of $118 million on transition.

- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 "Investments in Associates and Joint Ventures".

These amendments had no impact on the consolidated financial statements as the Group does not have such long term interests in its associate and joint venture.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in Accounting Policies (continued)

New/Revised Standards and Interpretations Adopted in 2019 (continued)

- Amendments to IFRS 9 – Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the "SPPI criterion") and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

- IFRIC 23 "Uncertainty over Income Tax Treatments"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Interpretation specifically addresses the following:

- ➢ whether an entity considers uncertain tax treatments separately;
- ➢ the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- ➢ how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- ➢ how an entity considers changes in facts and circumstances.

The Interpretation establishes that an entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgements in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability or asset reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability or asset reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability or asset.

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- Annual Improvements to IFRSs 2015-2017 Cycle

The amendments relate to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs". The application of these amendments had no effect on the Group's financial position, performance or the disclosures as the Group followed the same principles in prior periods.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Standards Issued But Not Yet Effective in the European Union

Standards not yet effective for the financial statements for the year ended 31 December 2019	Effective for annual periods beginning on or after
• Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020
• Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
• Amendment to IFRS 3 – Definition of Business	1 January 2020*
• Amendments to IFRS 9, IAS 39, IFRS 7 (Interest Rate Benchmark Reform)	1 January 2020
• IFRS 17 "Insurance Contracts"	1 January 2021*
• Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	1 January 2022*

*Subject to EU endorsement

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Judgements and Estimates

Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- In 2015, following the placement of Highveld Steel and Vanadium Limited under the business rescue procedures, the Group lost control over the subsidiary and it is not expected that it will re-obtain control in the future. As a result, the Group ceased to consolidate this entity from 14 April 2015.

- The Group determined based on the criteria in IFRIC 4 "Determining whether an Arrangement Contains a Lease" (before 2019) and IFRS 16 "Leases" (from 2019) that the supply contracts with PraxAir and Air Liquide do not contain a lease. These contracts include the construction of air separation plants by PraxAir and Air Liquide to be owned and operated by them and the supply of oxygen and other industrial gases produced by the entities to the Group's steel plants for a long-term period on a take or pay basis. Management believes that these arrangements do not convey a right to the Group to use the assets as the Group does not have an ability to operate the assets or to direct other parties to operate the assets; it does not control physical access to the assets; and it is expected that more than an insignificant amount of the assets' output will be sold to the parties unrelated to the Group. The commitments under the contracts are disclosed in Note 30.

- In 2019, an independent trader concluded contracts with two Group's subsidiaries: for the purchase of semi-finished steel products with one subsidiary of the Steel segment and for the sale of semi-finished steel products with another subsidiary of the Steel North America segment. The Group analysed the nature of the contracts and determined that they require a separate recognition of the sales and purchase transactions as there is neither a tripartite agreement, nor a call or put option, which would require to treat these contracts as a single arrangement. Specifically, the trader bears full inventory and market risks, it has a full discretion in establishing prices for each contract separately based on prevailing market conditions. In 2019, the Group sold to the independent trader 330 thousand metric tonnes of slabs ($161 million) and purchased from it 192 thousand metric tonnes ($108 million).

- In 2019, the Group concluded a contract with Xcel Energy Inc. for the construction of a solar power plant to be owned and operated by a third party and for the supply of electricity to the Group's steel plant for a long-term period on a take-or-pay basis. The Group determined based on the criteria in IFRS 16 "Leases" that the supply contract with Xcel Energy Inc. does not contain a lease. Management believes that this arrangement does not convey a right to the Group to use the assets as the Group does not have an ability to operate the assets or to direct other parties to operate the assets; it does not control physical access to the assets; and it is expected that more than an insignificant amount of the assets' output will be sold to the parties unrelated to the Group. The commitments under the contract are disclosed in Note 30.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2019, 2018 and 2017, the Group recognised a net impairment reversal/(loss) of $(142) million, $(30) million and $20 million, respectively (Notes 6 and 9).

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate that impairment exists.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill at 31 December 2019, 2018 and 2017 was $594 million, $864 million and $917 million, respectively. In 2019, the Group recognised a $300 million impairment loss in respect of goodwill. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in Note 6.

Mineral Reserves

Mineral reserves and the associated mine plans are a material factor in the Group's computation of a depletion charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with the JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

The changes in the pricing environment and geology-related risk factors may lead to a revision of mining plans, decisions to abandon or to mothball certain parts of a mine, to a reassessment of the capital expenditures required for the extraction of the proved and probable reserves, as well as to the changes in the resources classified as proved and probable reserves. As the value of the Group's mining assets is very significant (Note 9), these changes may have a material impact on the depletion charge and impairment, which may arise as a result of a decline in the recoverable amounts of the affected mines.

Post-Employment Benefits

The Group uses an actuarial valuation method for the measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.). More details are provided in Note 23.

Foreign Currency Transactions

The presentation currency of the Group is the US dollar because presentation in US dollars is most relevant for the major current and potential users of the consolidated financial statements.

The functional currencies of the Group's subsidiaries are the Russian rouble, US dollar, euro, Czech koruna, Canadian dollar and Ukrainian hryvnia. At the reporting date, the assets and liabilities of the subsidiaries with functional currencies other than the US dollar are translated into thepresentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of operations are translated at the exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the statement of operations.

The following exchange rates were used in the consolidated financial statements:

	2019		2018		2017	
	31 December	Average	31 December	average	31 December	average
USD/RUB	**61.9057**	**64.7362**	69.4706	62.7078	57.6002	58.3529
EUR/USD	**1.1234**	**1.1195**	1.1450	1.1810	1.1993	1.1297
USD/CAD	**1.2968**	**1.3269**	1.3658	1.2962	1.2530	1.2979
USD/UAH	**n/a**	**26.1337**	27.6883	27.2029	28.0672	26.5947

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate ruling at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. All resulting differences are taken to the statement of operations.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights and over which the Group has control, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the parent’s shareholders’ equity.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Acquisition of Subsidiaries

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree’s identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree’s identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the consolidated financial statements.

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the “Predecessor”). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Put Options over Non-controlling Interests

The Group derecognises non-controlling interests if non-controlling shareholders have a put option over their holdings. The difference between the amount of the liability recognised in the statement of financial position over the carrying value of the derecognised non-controlling interests is charged to accumulated profits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate and goodwill impairment charges, if any.

The Group’s share of its associates’ profits or losses is recognised in the statement of operations and its share of movements in reserves is recognised in equity. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has legal or constructive obligations to make payments to, or on behalf of, the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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.

Interests in Joint Ventures

The Group’s interest in its joint ventures is accounted for under the equity method of accounting whereby an interest in jointly ventures is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of joint ventures. The statement of operations reflects the Group's share of the results of operations of joint ventures.

Property, Plant and Equipment

The Group’s property, plant and equipment is stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met.

The Group’s property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each end of the reporting period management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is 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 impairment loss in the statement of operations or other comprehensive income. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount.

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year end.

The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	Weighted average remaining useful life (years)
Buildings and constructions	15–60	18
Machinery and equipment	4–45	9
Transport and motor vehicles	7–20	7
Other assets	3–15	4

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves. The depletion calculation takes into account future development costs for reserves which are in the production phase.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and Evaluation Expenditures

Exploration and evaluation expenditures represent costs incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The expenditures include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. These costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Group commences recognition of expenditures related to the development of mineral resources as assets. These assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Leases

Group as a Lessee

The determination of whether an arrangement is, or contains, a lease is done at contract inception and includes the assessment of whether the arrangement conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term or exercise a purchase option, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Otherwise, the lessee depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Right-of-use assets are subject to impairment. The right-of-use assets are included in the Property, plant and equipment caption of the statement of financial position (Note 9).

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is determined based on the Group's borrowing rates for similar terms and currencies in an economic environment, in which the lessee operates. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of plans to purchase the underlying asset.

The lease term is a non-cancellable period for which a lessee has the right to use an underlying asset, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The lease term of cancellable or renewable leases is dependent of the enforceability of the contract beyond the date on which it can be terminated. The contract is enforceable if only one party of the lease contract has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. In this case the Group, as a lessee, assesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option.

Lease payments for contracts with a duration of 12 months or less or leases for which the underlying assets are of low value are not recognised as lease liabilities. They are expensed to the statement of operations on a straight-line basis over the lease term and included in cost of revenues, selling, general and administrative expenses.

Information about lease arrangements is disclosed in Note 25.

Group as a Lessor

Finance leases, in which the Group acts as a lessor, when substantially all the risks and benefits incidental to ownership of the leased item are transferred to the lessee, are recognised as net investments in finance lease from the commencement of the lease term at the present value of the minimum lease payments. Lease payments are apportioned between the finance income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of recevables. Finance income is included in the interest income caption.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases (Note 9). Operating lease income is recognised within the rendering of services caption on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Accounting for Leases before 2019

Before 1 January 2019 the Group recognised as liabilities only finance lease arrangements. Finance leases, which involved the transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, were capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were charged to interest expense.

Leases where the lessor retained substantially all the risks and benefits of ownership of the asset were classified as operating leases. Operating lease payments were recognised as an expense in the statement of operations on a straight-line basis over the lease term.

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred for an acquisition of a subsidiary or an associate and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognised in the consolidated statement of operations.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of an associate is included in the carrying amount of the investments in associates.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or the group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures on internally generated intangible assets, excluding capitalised development costs, are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

The table below presents the useful lives of intangible assets.

	Useful lives (years)	Weighted average remaining useful life (years)
Customer relationships	1–15	4
Contract terms	10	4
Other	5–19	5

Certain water rights and environmental permits are considered to have indefinite lives as management believes that these rights will continue indefinitely.

The most part of the Group's intangible assets represents customer relationships arising on business combinations (Note 10).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them, i.e. how the Group manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

With the exception of trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Trade and Other Accounts Receivable

Trade and other receivables are recognised at their transaction price as defined in IFRS 15 "Revenue" if they do not contain a significant financing component or if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

For trade and other receivables, the Group applies a simplified approach for calculating the expected credit losses. Therefore, the Group does not track changes in credit risk, but, instead, it recognises a loss allowance based on the lifetime expected credit losses at each reporting date. The Group separately determines the expected credit losses for individually significant balances or collectively for trade and other receivables that are not individually significant.

The expected credit losses for individually significant balances are estimated using debtors' historical credit loss experience adjusted for forward-looking factors specific to the debtors and economic environment.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

The Group's subsidiaries apply the accrual method for VAT recognition, under which VAT becomes payable upon invoicing and delivery of goods or rendering services as well upon receipt of prepayments from customers. VAT on purchases, even if not settled at the end of the reporting period, is deducted from the amount of VAT payable.

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at fair value, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings.

Borrowing costs relating to qualifying assets are capitalised (Note 9).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in statement of operations on the purchase, sale, issue or cancellation of the treasury shares. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity only if they are declared before the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorised for issue.

Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Site Restoration Provisions

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”.

Provisions for site restoration costs are capitalised within property, plant and equipment.

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian and Ukrainian state pension, social insurance and medical insurance funds at the statutory rates in force based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Defined Benefit Plans

The Group companies provide pensions and other benefits to their employees (Note 23). The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amounts of benefits are stipulated in the collective bargaining agreements and/or in the plan documents.

The Group involves independent qualified actuaries in the measurement of employee benefit obligations.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. It is recorded within interest expense in the consolidated statement of operations.

The Group recognises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements in the consolidated statement of operations within “cost of sales”, “general and administrative expenses” and “selling and distribution expenses”.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefits (continued)

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Share-based Payments

The Group has management compensation schemes (Note 21), under which certain senior executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with grantees is measured by reference to the fair value of the Company's shares at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity (additional paid-in capital), over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the statement of operations for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards if EBITDA-related conditions are not satisfied or participants lose the entitlement for the shares due to the termination of their employment. Accumulated share-based expense is adjusted to reflect the number of share options that eventually vest. For market-related performance conditions, such as TSR (Note 21), if the conditions are not met and the share options do not vest, then no reversal is made for the share-based expense previously recognised.

The TSR-related vesting condition of Incentive Plans adopted in 2017, 2018 and 2019 was considered by the Group as a market condition. As such, it was included in the estimation of the fair value of the granted shares and will not be subsequently revised. Vesting condition related to EBITDA was not taken into account when estimating the fair value of the share options at the grant date. Instead, this will be taken into account by adjusting the share-based expense based on the number of share options that eventually vest.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect of outstanding share-based awards is reflected as additional share dilution in the computation of earnings per share (Note 20).

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

The Group recognises revenues from sales of goods at the point in time when control of the asset is transferred to the customer and it is probable that the amount of consideration is collectible. The moment of transfer of control is determined by the contract terms and usually occurs at the date of shipment.

Some contracts with customers provide a right of return, trade discounts or volume rebates. The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of the estimated returns and price concessions, trade discounts and volume rebates. The variable consideration is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group enters into contracts with its customers, under which the Group provides transportation and handling services using third party providers (i.e. the Group selects suitable firms and manages the shipment and delivery). These services are provided to the customers before, or after, they obtain control over the goods. The cost of services is included in the contract price. Under IFRS 15, transportation and handling services rendered by the Group before control over the goods is transferred to the customers do not represent a separate performance obligation. Therefore, the Group recognises these services at the moment when control over the goods is passed to the customers. With respect to the contracts when the Group provides transportation and handling services after obtaining control over the goods by the customers, the Group concluded that these services represent a separate performance obligation and the Group acts as a principal rather than an agent. Consequently, the control over its services is transferred over time. Transportation and handling services rendered by the Group in contracts, in which it acts as a principal, are presented within the caption "Sales of goods" in the consolidated statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rendering of Services

The Group's revenues from rendering of services include electricity, transportation, port and other services. The pattern of revenue recognition reflects the transfer of services to customers and may occur at a point in time or over time.

Advances from Customers

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

Interest

Interest is recognised using the effective interest method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental Income

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognised outside profit or loss is recognised in other comprehensive income or equity and not in the statement of operations.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, tax legislation and tax planning strategies.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.