AO Holding Company METALLOINVEST

Condensed consolidated interim financial information

30 June 2019

Contents

Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholders of AO Holding Company METALLOINVEST:

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of AO Holding Company METALLOINVEST and its subsidiaries (together – the "Group") as of 30 June 2019 and the related consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information 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 condensed consolidated interim financial information 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

22 August 2019

Moscow, Russian Federation

M.I. Buchnev, certified auditor (licence no. 01-000056), AO PricewaterhouseCoopers Audit

Audited entity:
AO Holding Company METALLOINVEST

Record made in the Unified State Register of Legal Entities on 05 July 2002 under State Registration Number 1027700006289

Rublyovskoye shosse, 28, Moscow, Russia

Independent auditor:
AO PricewaterhouseCoopers Audit

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

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

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

(in thousands of US dollars, unless otherwise stated)

	Note	30 June 2019	31 December 2018
ASSETS			
Non-current assets:			
Property, plant and equipment	5	2,577,544	2,154,396
Mineral rights	5	581,102	542,708
Goodwill		297,131	269,779
Intangible assets	5	49,174	42,629
Equity investments	6	380,524	350,502
Loans advanced		2,132,600	1,275,876
Deferred income tax assets		75,913	52,425
Other non-current assets		44,514	38,958
Total non-current assets		**6,138,502**	**4,727,273**
Current assets:			
Inventories		694,503	680,534
Trade and other receivables		705,962	698,948
Current income tax prepayments		2,838	8,630
Cash and cash equivalents		527,911	693,087
Total current assets		**1,931,214**	**2,081,199**
TOTAL ASSETS		**8,069,716**	**6,808,472**
EQUITY			
Share capital		176,382	176,382
Retained earnings and other reserves		2,177,312	1,323,588
Equity attributable to the Company's owners		**2,353,694**	**1,499,970**
Non-controlling interest		313,462	273,287
TOTAL EQUITY		**2,667,156**	**1,773,257**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	7	3,588,920	3,830,295
Deferred income tax liabilities		278,215	263,798
Employee benefit obligations	8	160,632	131,532
Long-term lease liability		105,832	-
Liability to the regional administration		26,591	22,627
Accounts payable		14,553	17,487
Total non-current liabilities		**4,174,743**	**4,265,739**
Current liabilities:			
Short-term borrowings	7	409,380	220,685
Accounts payable		421,665	397,981
Dividends payable		1,014	2,744
Liability for acquisition of additional interest in the subsidiary	12	203,427	-
Value added tax and other taxes payable		132,039	113,540
Income tax payable		52,004	31,578
Short-term lease liability		4,823	-
Liability to the regional administration		3,465	2,948
Total current liabilities		**1,227,817**	**769,476**
TOTAL LIABILITIES		**5,402,560**	**5,035,215**
TOTAL LIABILITIES AND EQUITY		**8,069,716**	**6,808,472**

Approved for issue and signed on 22 August 2019.

A.V. Varichev
Chief Executive Officer
AO Holding Company METALLOINVEST

(in thousands of US dollars, unless otherwise stated)

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
Sales		3,584,423	3,778,520
Cost of sales		(1,615,890)	(1,801,902)
Gross profit		**1,968,533**	**1,976,618**
Distribution expenses		(469,399)	(438,201)
General and administrative expenses		(155,722)	(160,441)
Other operating income/(expenses) – net	10	(145,347)	(9,803)
Operating profit		**1,198,065**	**1,368,173**
Finance income		100,123	43,451
Finance costs		(214,386)	(165,424)
Change in credit loss allowance on loans advanced, net		15,801	(2,156)
Foreign exchange gain/(loss) from borrowings and loans advanced – net		197,007	(138,892)
Profit before income tax		**1,296,610**	**1,105,152**
Income tax charge		(276,479)	(235,526)
Profit for the period		**1,020,131**	**869,626**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Fair value loss arising on equity investments	6	(396)	(545)
Remeasurements of employee benefit obligations	8	(12,261)	-
Currency translation differences		226,138	(121,361)
Total items that will not be reclassified to profit or loss		**213,481**	**(121,906)**
Total other comprehensive income/(loss) for the period		**213,481**	**(121,906)**
Total comprehensive income for the period		**1,233,612**	**747,720**
Profit is attributable to:			
Owners of the Company		979,956	855,232
Non-controlling interests		40,175	14,394
		1,020,131	**869,626**
Total comprehensive income is attributable to:			
Owners of the Company		1,193,437	733,326
Non-controlling interests		40,175	14,394
		1,233,612	**747,720**
Basic and diluted earnings per ordinary share for profit attributable to the owners of the Company (in USD per share)		**0.0131**	**0.0114**

(in thousands of US dollars, unless otherwise stated)

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
Cash flows from operating activities:			
Profit before income tax		1,296,610	1,105,152
Reconciliation between profit before income tax and net cash from operating activities:			
Depreciation		142,234	138,385
Amortisation of intangible assets and mineral rights		21,867	19,068
Finance cost (net)		114,263	121,973
Foreign exchange (gain)/loss		(120,674)	103,895
Change in credit loss allowance on loans advanced, net		(15,801)	2,156
Other		(19,906)	215
Changes in:			
Inventories		49,371	(34,239)
Trade and other receivables		71,835	(188,329)
Trade and other payables		(17,319)	(25,349)
Employee benefit obligations		(2,892)	(2,406)
Interest paid		(140,662)	(157,921)
Income tax paid		(283,051)	(221,465)
Premium paid on early redemption of guaranteed notes	7	(1,398)	-
Other finance charges		(643)	(32)
Net cash from operating activities		**1,093,834**	**861,103**
Cash flows from investing activities:			
Purchases of property, plant and equipment, mineral rights and intangible assets		(220,610)	(234,329)
Loans advanced		(862,131)	(448,954)
Repayments of loans advanced		141,384	209,152
Interest received		7,012	9,577
Other		31	57
Net cash used in investing activities		**(934,314)**	**(464,497)**
Cash flows from financing activities:			
Repayment of borrowings	7	(368,218)	(274,143)
Lease payments		(6,755)	-
Proceeds from borrowings	7	207,290	255,518
Acquisition of additional interest in subsidiaries		-	(5,000)
Dividends paid by the Group's subsidiaries to non-controlling interests		(219)	(19)
Dividends paid to owners of the Company		(140,360)	(275,822)
Net cash used in financing activities		**(308,262)**	**(299,466)**
Effect of exchange rate changes on cash and cash equivalents		(16,434)	(10,144)
Net (decrease)/increase in cash and cash equivalents		**(165,176)**	**86,996**
Cash and cash equivalents at the beginning of the period		**693,087**	**390,372**
Cash and cash equivalents at the end of the period		**527,911**	**477,368**

(in thousands of US dollars, unless otherwise stated)

	Attributable to owners of the Company				Non-	
	Share capital	**Other reserves**	**Retained earnings**	**Total**	**controlling interests**	**Total equity**
Balance at 31 December 2017 (as previously reported)	**176,382**	**(1,684,846)**	**2,455,114**	**946,650**	**1,088**	**947,738**
Effect of IFRS 9 adoption	-	-	(174,488)	(174,488)	-	**(174,488)**
Balance at 1 January 2018	**176,382**	**(1,684,846)**	**2,280,626**	**772,162**	**1,088**	**773,250**
Profit for the period	-	-	855,232	855,232	14,394	**869,626**
Other comprehensive income/(loss)						
Fair value loss on equity investments	-	(545)	-	(545)	-	**(545)**
Currency translation differences	-	(121,361)	-	(121,361)	-	**(121,361)**
Total other comprehensive loss	**-**	**(121,906)**	**-**	**(121,906)**	**-**	**(121,906)**
Total comprehensive income/(loss) for the period ended 30 June 2018	**-**	**(121,906)**	**855,232**	**733,326**	**14,394**	**747,720**
Acquisition of additional interest in subsidiaries	-	-	(49,601)	(49,601)	44,601	**(5,000)**
Dividends declared by the Group's subsidiaries to non-controlling interests	-	-	-	-	(1,362)	**(1,362)**
Dividends declared by the Company	-	-	(304,749)	(304,749)	-	**(304,749)**
Balance at 30 June 2018	**176,382**	**(1,806,752)**	**2,781,508**	**1,151,138**	**58,721**	**1,209,859**
Balance at 1 January 2019	**176,382**	**(1,995,097)**	**3,318,685**	**1,499,970**	**273,287**	**1,773,257**
Profit for the period	-	-	979,956	979,956	40,175	**1,020,131**
Other comprehensive income/(loss)						
Fair value loss on equity investments	-	(396)	-	(396)	-	**(396)**
Remeasurements of employee benefit obligations	-	-	(12,261)	(12,261)	-	**(12,261)**
Currency translation differences	-	226,138	-	226,138	-	**226,138**
Total other comprehensive income/(loss)	**-**	**225,742**	**(12,261)**	**213,481**	**-**	**213,481**
Total comprehensive income for the period ended 30 June 2019	**-**	**225,742**	**967,695**	**1,193,437**	**40,175**	**1,233,612**
Offer to purchase shares in the subsidiary (Note 12)	-	-	(203,427)	(203,427)	-	**(203,427)**
Cancellation of unclaimed dividends to non-controlling interest	-	-	1,707	1,707	-	**1,707**
Dividends declared by the Company (Note 9)	-	-	(137,993)	(137,993)	-	**(137,993)**
Balance at 30 June 2019	**176,382**	**(1,769,355)**	**3,946,667**	**2,353,694**	**313,462**	**2,667,156**

1 General information

AO Holding Company METALLOINVEST (the "Company") and its subsidiaries (the "Group") principal activity is the production and sale of iron ore products and ferrous metals. These products are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in Russia. The address of its registered office is Rublyovskoye shosse, 28, Moscow, Russia. The Group's manufacturing facilities are primarily based in Kursk, Belgorod and Orenburg regions.

The principal activities of the Group are not subject to seasonal fluctuations.

At 30 June 2019 and 31 December 2018, USM Metalloinvest LLC (a 100%-owned direct subsidiary of Holding Company USM LLC) owned a 100% stake in the Company.

At 30 June 2019 and 31 December 2018, the major beneficial owner of the Company was Alisher B. Usmanov, who owned 49% stake in Holding Company USM LLC.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with IAS 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS.

Estimates. The preparation of consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018, except for assumptions used in calculation of employee benefit obligations (Note 8), assumptions used in calculation of fair value of equity investments (Note 11) and changes in determining the provision for income taxes.

Foreign currency translation. The Company's functional currency is the national currency of Russia, Russian rouble ("RUB"); the Group's presentation currency is US Dollar ("USD").

At 30 June 2019, the exchange rate used for translating assets and liabilities was USD 1 = RUB 63.0756 (31 December 2018: USD 1 = RUB 69.4706).

Income and expenses for the period were translated to presentation currency at quarterly average exchange rates. The average rate for the three months ended 31 March 2019 was USD 1 = RUB 66.1271 (three months ended 31 March 2018: USD 1 = RUB 56.8803), for the three months ended 30 June 2019 was USD 1 = RUB 64.5584 (three months ended 30 June 2018: USD 1 = RUB 61.7998).

3 Accounting policies

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018 except for the income taxes which are accrued in this consolidated interim financial information using the effective tax rate that would be applicable to expected total annual profit and amendments resulted from IFRS 16 adoption.

IFRS 16 Leases

Effective 1 January 2019, the Group adopted IFRS 16 "Leases" using the modified retrospective approach allowing not to restate comparative information but rather recognise the cumulative effect of the initial application on the opening retain earnings.

(in thousands of US dollars, unless otherwise stated)

3 Accounting policies (continued)

As at 1 January, the Group recognised right-of-use assets in amount of USD 103,025 thousand, which comprise corresponding lease liabilities.

At the transition date the lease liability was measured as the present value of the fixed contractual lease payments. Lease liabilities were discounted at a weighted average incremental borrowing rate varied from 2,88% to 8,47% depending on currency and lease contract term.

The Group used the following practical expedients when applying IFRS 16:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term and leases of low-value assets. The payments associated to these leases will be recognised as an expense on a straight-line basis over the lease term. Low-value assets comprise IT-equipment and small items of office furniture.
- Used hindsight when determining the lease term, to determine if the contract contains options to extend or terminate the lease.
- The use of single discount rate for a portfolio of leases with reasonably the same characteristic.

Leases. The Group assesses whether a contract is a lease based on the fact that it transfers the right to control the use of an underlying asset for a period of time in exchange for consideration.

Right-of-use assets. The Group recognises a right-of-use asset and a corresponding lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost comprising of the lease liability, lease payments made at or before the commencement date, any initial direct costs and other lease related costs.

The right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of: the end of the useful life of the underlying asset or the end of the lease term. The lease term may include periods covered by an option to extend (or terminate) the lease, whenever the lease is reasonably certain to be extended (or not terminated). Management assesses extension and termination options of the leases on a regular basis.

Right-of-use assets are accounted for within "Property, plant and equipment" in the consolidated statement of financial position and is subject to testing for impairment, whenever there are indications that the asset may be impaired.

The right-of-use assets mainly comprised administrative offices lease contracts.

Lease liabilities. The lease liability is initially measured at the present value of fixed lease payments that are not paid at the commencement date. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's individual incremental borrowing rate is used.

The lease liability is subsequently measured at amortised cost using the effective interest method and remeasured in case of change in the lease term, lease modification or revised lease payments. The amount of remeasurement is recognised as a change in the carrying value of right-of-use assets.

Lease liability is presented in the consolidated statement of financial position as “Lease liability”.

A reconciliation of future minimum operating lease payments to recognised lease liabilities is as follows:

Total future minimum lease payments for operating leases as at 31 December 2018:	299,537
Less: variable payments not based on index or rate	(113,602)
Less: low-value leases recognised on a straight-line basis as an expense	(3,465)
Less: future lease payments for operating leases with a term of less than 12 months	(1,225)
Effect of discounting to present value	(78,220)
Lease liability recognised as at 1 January 2019	**103,025**

(in thousands of US dollars, unless otherwise stated)

3 Accounting policies (continued)

A breakdown of leases recognised as right-of-use assets is as follows:

	1 January 2019	30 June 2019
Buildings	101,796	104,883
Machinery and equipment	1,229	936
Total leases recognised as right-of-use assets	**103,025**	**105,819**

Adoption of other new or revised standards and interpretations. The following new amendments to standards became effective for the Group from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (Issued on 7 June 2017 and Effective for Annual Periods Beginning on or After 1 January 2019).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

New Accounting Pronouncements. A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2019, and have not been early adopted by the Group:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The Group is currently assessing the impact of new standards and interpretations on its consolidated financial statements.

4 Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The functions of the CODM are performed by the senior management board of the Group.

Management has determined the operating segments based on the types of products produced and services provided and from which each reportable segment derives its revenues. The development and approval of strategies, market and risk analysis, setting of goals are undertaken in line with the segments determined.

(in thousands of US dollars, unless otherwise stated)

4 Segment information (continued)

The Group is organised on the basis of the following reportable operating segments:

- Mining – production and sale of iron ore products and co-products (includes LGOK and MGOK);
- Steel – production and sale of ferrous metal products (includes OEMK, Ural Steel and OOO Ural Scrap Company);
- Trading – overseas trading of the Group's products (includes Metalloinvest Trading AG, Metalloinvest Logistics DWC LLC and Metalloinvest Logistics AG).

Other activities have been included in the "All other segments" column. These activities include central management, certain services and investment activities, activities of Hamriyah Steel FZC and KMA-Energosbyt.

The CODM reviews management accounting information which is based on the financial information prepared in accordance with Russian accounting standards (RAS) or IFRS and adjusted to meet internal reporting requirements. Such financial information differs in certain aspects from the information presented in accordance with IFRS.

Sales between segments are carried out at arm's length. Revenue from external parties reported to the CODM of the Group is measured in a manner consistent with that in profit or loss.

The CODM evaluates the performance of each segment and the overall performance of the Group based on Management EBITDA and Adjusted EBITDA. Management EBITDA is determined based on management accounting information, while Adjusted EBITDA is determined based on IFRS accounts. EBITDA is calculated as profit before tax adjusted for depreciation and amortisation, foreign exchange gain or loss, interest income and expense and certain other non-cash and extraordinary items. Since EBITDA is not a standard IFRS measure, the Group's definition may differ from that of other companies.

In 2019, the Group started integration of IFRS principles into management accounting. Accordingly from 2019, Management EBITDA of the mining segment (previously calculated based on RAS figures) includes adjustments for capitalisation of stripping costs, employee benefit obligations and other not material IFRS adjustments. Previously these items were included in reconciliation of Management to Adjusted EBITDA. Comparable information was not restated. As at 30 June 2019 measurement of Management EBITDA of the other segments has not yet changed.

Segment financial information reviewed by the CODM includes working capital as a measure of reportable segments' assets. Working capital consists of inventories and certain receivables and payables. Working capital is determined based on management accounting information. Since working capital is not a standard IFRS measure, the Group's definition may differ from that of other companies.

Segment information for the six months ended 30 June 2019 is as follows:

	Mining	Steel	Trading	All other segments	Elimina-tions	Total
External revenue	844,845	799,140	1,822,976	117,462	-	3,584,423
Inter-segment revenue	1,238,526	731,230	36	275,519	(2,245,311)	-
Total revenue	**2,083,371**	**1,530,370**	**1,823,012**	**392,981**	**(2,245,311)**	**3,584,423**
Adjusted EBITDA	**1,303,163**	**107,954**	**13,449**	**(14,166)**	**-**	**1,410,400**
Management EBITDA	1,288,778	102,085	35,494	1,111	-	1,427,468
Depreciation and amortisation	88,365	36,418	46	38,471	-	163,300
Interest income	14,538	2,826	358	56,613	-	74,335
Inter-segment interest income	6,613	32,720	-	30,404	(69,737)	-
Interest expense	46,685	17,372	7,054	61,940	-	133,051
Inter-segment interest expense	26,148	17,931	-	25,658	(69,737)	-
Income tax charge/(credit)	259,111	27,303	3,692	(2,380)	-	287,726

(in thousands of US dollars, unless otherwise stated)

4 Segment information (continued)

Segment information for the six months ended 30 June 2018 is as follows:

	Mining	Steel	Trading	All other segments	Elimina-tions	Total
External revenue	813,049	789,524	1,950,942	225,005	-	3,778,520
Inter-segment revenue	984,809	1,000,365	-	291,627	(2,276,801)	-
Total revenue	**1,797,858**	**1,789,889**	**1,950,942**	**516,632**	**(2,276,801)**	**3,778,520**
Adjusted EBITDA	**1,046,381**	**397,590**	**52,902**	**(6,244)**	**-**	**1,490,629**
Management EBITDA	1,029,049	404,374	35,355	(5,699)	-	1,463,079
Depreciation and amortisation	74,514	37,795	291	6,122	-	118,722
Interest income	4,448	19,391	24	18,961	-	42,824
Inter-segment interest income	10,463	13,730	-	34,749	(58,942)	-
Interest expense	63,336	17,228	6,405	64,635	-	151,604
Inter-segment interest expense	33,330	22,501	-	3,111	(58,942)	-
Income tax charge	159,203	71,615	3,366	4,229	-	238,413
Working capital:						
30 June 2019	**430,251**	**363,977**	**(7,053)**	**109,381**	**-**	**896,556**
31 December 2018	**377,521**	**452,493**	**(91,860)**	**93,574**	**-**	**831,728**

A reconciliation of EBITDA to profit for the period is provided as follows:

	Six months ended	
	30 June 2019	**30 June 2018**
Management EBITDA for reportable segments	**1,426,357**	**1,468,778**
All other segments Management EBITDA	**1,111**	**(5,699)**
Total Management EBITDA	**1,427,468**	**1,463,079**
Adjustments to EBITDA arising from differences in management accounting and requirements of IFRS:		
Capitalisation of elements of cost of non-current assets recognised as expenses in profit or loss in management accounting	-	25,412
Recognition of expenses in profit or loss recognised as non-current assets in management accounting	61	(668)
Reversal of expenses recognised as lease under IFRS requirments	6,836	-
Additional loss on disposal of property, plant and equipment	(2,104)	(1,869)
Unrealised profits adjustment	(1,889)	(24,275)
Effect arising from differences in management accounting and requirements of IFRS at the foreign trader	(22,608)	18,960
Employee benefit obligations adjustment	1,209	2,630
Other adjustments	1,427	7,360
Total Adjusted EBITDA	**1,410,400**	**1,490,629**
Other reconciling items:		
Depreciation and amortisation	(164,101)	(157,453)
Finance income	100,123	43,451
Finance costs	(214,386)	(165,424)
Foreign exchange gain/(loss)	120,674	(103,895)
Change in credit loss allowance on loans advanced, net	15,801	(2,156)
Reverse of impairment loss on accounts receivable	20,817	-
Other	7,282	-
Income tax charge	(276,479)	(235,526)
Profit for the period	**1,020,131**	**869,626**

(in thousands of US dollars, unless otherwise stated)

4 Segment information (continued)

An analysis of the Group's sales to external customers by their geographical location is presented as follows:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Russia	1,498,562	1,435,542
Rest of CIS	184,062	198,961
Total CIS	**1,682,624**	**1,634,503**
China	124,303	-
Rest of Asia	196,009	186,397
Total Asia	**320,312**	**186,397**
Middle East	442,219	519,297
Europe	815,605	822,738
Other countries	323,663	615,585
Total Sales	**3,584,423**	**3,778,520**

5 Property, plant and equipment, intangible assets and mineral rights

Six months ended 30 June 2019	Property, plant and equipment	Intangible assets (excluding goodwill)	Mineral rights
Closing net book amount at 31 December 2018 (as previously reported)	**2,154,396**	**42,629**	**542,708**
Effect of IFRS 16 adoption (Note 3)	103,025	-	-
Opening net book amount at 1 January 2019	**2,257,421**	**42,629**	**542,708**
Additions	231,319	7,893	-
Disposals	(1,129)	-	-
Depreciation and amortisation	(141,356)	(5,772)	(16,054)
Currency translation differences	231,289	4,424	54,448
Closing net book amount at 30 June 2019	**2,577,544**	**49,174**	**581,102**

Six months ended 30 June 2018	Property, plant and equipment	Intangible assets (excluding goodwill)	Mineral rights
Opening net book amount at 1 January 2018	**2,464,863**	**19,705**	**675,593**
Additions	168,002	22,483	14,056
Disposals	(3,192)	-	-
Depreciation and amortisation	(140,885)	(1,645)	(17,420)
Currency translation differences	(202,519)	(2,770)	(54,752)
Closing net book amount at 30 June 2018	**2,286,269**	**37,773**	**617,477**

At 30 June 2019, the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets for USD 250,632 thousand (31 December 2018: USD 250,088 thousand).

At 30 June 2019, certain bank borrowings were secured by items of property, plant and equipment with the carrying amount of USD 604 thousand (31 December 2018: USD 559 thousand).

6 Equity investments

	Six months ended 30 June 2019	Six months ended 30 June 2018
At 1 January	**350,502**	**428,863**
Fair value loss	(396)	(545)
Currency translation differences	30,418	(29,687)
At 30 June	**380,524**	**398,631**

(in thousands of US dollars, unless otherwise stated)

6 Equity investments (continued)

Equity investments include the following:

	30 June 2019	31 December 2018
Nautilus Minerals Inc.	-	5,042
OOO South Ural Mining & Processing Works	50,078	45,432
AO HC BMC	330,446	300,028
Total	**380,524**	**350,502**

At 30 June 2019, the Group held approximately 19.2% (31 December 2018: 19.2%) share in Nautilus Minerals Inc., 19.9% share in OOO South Ural Mining & Processing Works (31 December 2018: 19.9%) and 19.15% share in AO HC BMC (31 December 2018: 19.15%).

Fair values of the equity investments were determined applying valuation techniques disclosed in Note 11.

7 Short-term and long-term borrowings

	30 June 2019	31 December 2018
Long-term borrowings	2,079,108	2,125,997
Guaranteed notes	797,504	1,129,531
Unsecured corporate bonds	712,308	574,767
Total long-term borrowings	**3,588,920**	**3,830,295**
Short-term borrowings	38,412	44,386
Short-term part of guaranteed notes	279,927	10,314
Unsecured corporate bonds	19,485	16,757
Bank overdraft	71,556	149,228
Total short-term borrowings	**409,380**	**220,685**
Total	**3,998,300**	**4,050,980**

Movements in borrowings are analysed as follows:

	Six months ended	
	30 June 2019	30 June 2018
Opening amount at 1 January	**4,050,980**	**4,445,943**
Borrowings received	130,017	255,518
Issue of unsecured corporate bonds	77,273	-
Transaction costs on borrowings received	(1,708)	(2,493)
Premium accrued due to early repayment of guaranteed notes	1,398	-
Repayments of borrowings	(306,104)	(274,130)
Repayments of guaranteed notes	(62,114)	-
Repayments of unsecured corporate bonds	-	(13)
Interest accrued	141,168	161,691
Repayments of interest accrued	(138,954)	(154,730)
Premium paid due to early repayment of guaranteed notes	(1,398)	-
Gain from modification of borrowings term	(13,971)	-
Foreign exchange and currency translation differences, net	121,713	(144,328)
Closing amount at 30 June	**3,998,300**	**4,287,458**

8 Employee benefit obligations

The Group's companies operate both funded and unfunded post-employment benefits plans.

The principal assumptions used for actuarial valuations for the six months ended 30 June 2019 were the same as those applied for the year ended 31 December 2018, with the exception of the discount rate. The decrease in the discount rate from 8.6% to 7.7% resulted in recognition of an actuarial loss of USD 12,261 thousand in other comprehensive income for the six months ended 30 June 2019 (The principal assumptions used for actuarial valuations for the six months ended 30 June 2018 were the same as those applied for the year ended 31 December 2017. The Group recognised no actuarial gain or loss for the six months ended 30 June 2018).

(in thousands of US dollars, unless otherwise stated)

8 Employee benefit obligations (continued)

Amounts recognised in the consolidated interim statement of profit or loss and other comprehensive income were as follows:

	Six months ended	
	30 June 2019	**30 June 2018**
Current service costs	2,308	2,901
Net interest expense	5,969	6,726
Net periodic benefit costs	**8,277**	**9,627**

Amounts recognised in the consolidated interim statement of financial position were as follows:

	30 June 2019	31 December 2018
Present value of defined benefit obligations	162,024	132,573
Fair value of plan assets	(1,392)	(1,041)
Net liability in the consolidated interim statement of financial position	**160,632**	**131,532**

9 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial or operational decisions as defined by IAS 24, Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties at 30 June 2019 and 31 December 2018 include entities significantly influenced by the owners of the Company. The owners of the Company are disclosed in Note 1.

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 and 31 December 2018 is detailed below:

(i) Balances and transactions with the owners of the Company

	Six months ended	
Loans advanced to the owners of the Company:	**30 June 2019**	**30 June 2018**
At 31 December 2017 (as previously reported)		**707,767**
Effect of IFRS 9 adoption		(3,021)
At 1 January	**931,217**	**704,746**
Loans advanced during the period	277,131	437,444
Repayments of loans advanced	-	(143,708)
Interest income accrued	46,333	31,359
Fair value loss on initial recognition of loans advanced	(25,661)	-
Interest income received	-	(2,848)
Change in credit loss allowance on loans advanced, net	(1,335)	(1,817)
Foreign exchange and currency translation differences, net	100,696	(21,601)
At 30 June	**1,328,381**	**1,003,575**

Loans advanced to the owners of the Company bear contractual interest rates ranging as follows:

Currency	30 June 2019	31 December 2018
RUB	1%-10.3%	5.5%-10.3%

In June 2019 the Company declared dividends in the amount of USD 137,993 thousand (USD 0.0018 per share). In June 2018 the Company declared dividends in the amount of USD 304,749 thousand (USD 0.0041 per share). At 30 June 2019, dividends payable to the owners of the Company amounted to nil (31 December 2018: nil).

(in thousands of US dollars, unless otherwise stated)

9 Balances and transactions with related parties (continued)

(ii) Balances and transactions with other related parties

	Six months ended	
Loans advanced to other related parties:	**30 June 2019**	**30 June 2018**
At 31 December 2017 (as previously reported)		**156,600**
Effect of IFRS 9 adoption		(10,627)
At 1 January	**341,879**	**145,973**
Loans advanced during the period	585,000	7,093
Repayments of loans advanced	(141,384)	(65,444)
Loss from prolongation of loans advanced	(28,478)	-
Interest income accrued	22,704	8,255
Fair value gain on initial recognition of loans advanced	415	-
Interest income received	(2,425)	(3,536)
Change in credit loss allowance on loans advanced, net	17,151	(514)
Foreign exchange and currency translation differences, net	6,274	(12,560)
At 30 June	**801,136**	**79,267**

Loans advanced to other related parties bear contractual interest rates ranging as follows:

Currency	**30 June 2019**	**31 December 2018**
USD	6.7%-7.1%	6.8%-7.1%
RUB	8.4%-9.8%	8.4%-10.3%

Period-end balances:	**30 June 2019**	**31 December 2018**
Trade accounts receivable	2,735	2,304
Other receivables	6,371	5,463
Trade accounts payable	8,608	5,397

At 30 June 2019, lease liability due to other related parties amounted to USD 107,767 thousand.

	Six months ended	
The transactions carried out during the period:	**30 June 2019**	**30 June 2018**
Sales of goods and services	6,183	5,908
Purchases of raw materials and components	5,346	4,331
Purchase of services	9,556	9,893
Finance income	341	335

(iii) Key management personnel compensation

Key management personnel comprises senior management board and Board of Directors. Compensation of key management personnel consists of monthly remuneration, annual performance bonus contingent on operating results and contributions to the Russian state pension fund.

Total key management personnel compensation included in general and administrative expenses for the six months ended 30 June 2019 amounted to USD 30,262 thousand (six months ended 30 June 2018: USD 29,743 thousand).

10 Other operating income/(expenses) – net

	Six months ended	
	30 June 2019	**30 June 2018**
Foreign exchange (loss)/gain on operating activities, net	(76,333)	34,997
Charity expenses	(48,624)	(41,820)
Social costs	(5,257)	(4,804)
Other	(15,133)	1,824
Total	**(145,347)**	**(9,803)**

(in thousands of US dollars, unless otherwise stated)

11 Financial risk management and fair value of financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements; it should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

There have been no substantial changes in the risk policies since the year end.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial instruments carried at fair value

The levels in the fair value hierarchy into which assets carried at fair value are categorised are as follows:

	30 June 2019			**31 December 2018**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Equity investments						
Equity securities	x	x	380,524	5,042	x	345,460
Loans advanced	x	x	-	x	x	-
Total financial assets carried at fair value	**x**	**x**	**380,524**	**5,042**	**x**	**345,460**

As at 31 December 2018 included in Level 1 were the Group's investments in Nautilus Minerals Inc. shares. The market value of the Group's interest in Nautilus Minerals Inc. at 31 December 2018 was based on Toronto Stock Exchange (TSX) quotation and amounted to USD 5,042 thousand. In 2019 Nautilus Minerals Inc. entered into an insolvency proceeding and was delisted from TSX, following this event investment in Nautilus Minerals was transferred from Level 1 into Level 3. As at 30 June 2019, the Group measured its investment in Nautilus Minerals Inc. as nil.

At 30 June 2019 and 31 December 2018, included in Level 3 were the Group's investments in OOO South Ural Mining & Processing Works and AO HC BMC. Both companies are not publicly traded.

The fair value of the investment in OOO South Ural Mining & Processing Works is estimated by reference to future cash flows discounted at the post-tax RUB-nominated rate of 15.85% (31 December 2018: 15.85%) based on the market interest rates. During the six months ended 30 June 2019 the Group recognised a fair value gain of USD 4,646 thousand (six months ended 30 June 2018: a fair value loss of USD 3,648 thousand) in other comprehensive income.

At 30 June 2019, if the post-tax RUB-nominated rate was 1.0% (31 December 2018: 1.0%) lower/higher with all other variables held constant, the estimated fair value of the investment would have been USD 7,406 thousand higher and USD 6,289 thousand lower, respectively (31 December 2018: USD 6,773 thousand higher and USD 5,753 thousand lower, respectively).

The fair value of the investment in AO HC BMC was determined by an internal appraiser based on cash flows forecasted for a period till 2046. There were no significant changes in the fair value of the investment during the six months ended 30 June 2019. Key assumptions and valuation techniques are disclosed in the annual financial statements for the year ended 31 December 2018. During the six months ended 30 June 2019 the Group recognised a currency translation gain of USD 30,419 thousand (30 June 2018: loss of USD 29,687 thousand) in other comprehensive income.

11 Financial risk management and fair value of financial instruments (continued)

Fair value of financial assets and liabilities carried at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- Trade and other receivables,
- Cash and cash equivalents,
- Accounts payable,
- Dividends payable,
- Liability for acquisition of additional interest in the subsidiary,
- Lease liability,
- Bank overdrafts.

The market value of the guaranteed notes based on the Irish Stock Exchange quotation as at 30 June 2019 was USD 1,108,785 thousand (31 December 2018: USD 1,112,695 thousand).

The market value of the unsecured corporate bonds based on the Moscow Stock Exchange quotation as at 30 June 2019 was USD 768,742 thousand (31 December 2018: USD 619,194 thousand).

At 30 June 2019, the fair value of borrowings exceeded their carrying amount by USD 70,787 thousand (31 December 2018: USD 74,339 thousand).

At 30 June 2019, the carrying values of the loans advanced exceeded their fair values by USD 48,178 thousand (31 December 2018: USD 16,663 thousand).

At 30 June 2019, the fair value of the liability to the regional administration exceeded its carrying amount by USD 9,117 thousand (31 December 2018: USD 9,673 thousand).

12 Events after the reporting period

In April 2019, the Group made a voluntary offer to minority shareholders of its subsidiary, PAO Mikhailovsky Mining and Processing Works ("MGOK"), to purchase 10.683% of MGOK shares.

As at 30 June 2019, the Group recognised the obligation for the voluntary offer in the consolidated interim statement of financial position in the amount of RUB 12,831,307 thousand, or USD 203,427 thousand. In August 2019, the Group acquired shares for a total consideration of RUB 12,019,002 thousand, or USD 189,523 thousand, which comprise 10.01% of MGOK total shares.