

**Public Joint Stock
Company Magnitogorsk
Iron & Steel Works and
Subsidiaries**

**Consolidated Financial Statements
For the Year Ended 31 December 2020**

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FOR THE YEAR ENDED 31 DECEMBER 2020

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**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND
APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Public Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2020, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

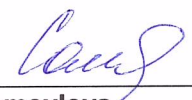
- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the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

The consolidated financial statements for the year ended 31 December 2020 were approved for issuance on 1 February 2021 by:


P. V. Shilyaev
General Director

1 February 2021
Magnitogorsk, Russia




O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER,
a specialized organization, which performs the
accounting function for Public Joint Stock
Company Magnitogorsk Iron & Steel Works



Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Magnitogorsk Iron & Steel Works:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

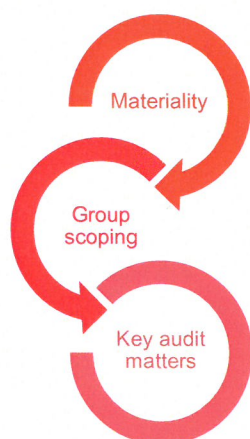
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall Group materiality: United States Dollar ("USD") 37.3 million, which represents 2.5% of adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA, as disclosed in Note 7).

- We conducted audit work at 2 reporting units, identified as significant components, in 2 countries.
- The Group engagement team visited the Company (Russia). The component engagement teams visited the following locations – MMK Metalurji (Turkey) and MMK Steel Trade AG (Switzerland).
- Our audit scope addressed 88% of the Group's revenues.
- Impairment assessment of the Group's non-current assets.

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

Materiality

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

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

Overall Group materiality	USD 37.3 mln
How we determined it	2.5% of adjusted EBITDA of the Group (as disclosed in Note 7)
Rationale for the materiality benchmark applied	We chose adjusted EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We chose 2.5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of the Group's non-current assets</p> <p>The global pandemic and the introduction of quarantine measures to combat coronavirus in Russia have had a significant impact on economic activity in the second quarter of 2020. While the market conditions in the third quarter of 2020 were characterized by partial economy recovery in Russia and in a number of countries and regions of the world, an increase in demand for steel and the subsequent increase in market quotations for steel products, financial results of the Group declined in 2020 compared to 2019.</p> <p>As at 31 December 2020, the carrying amount of the Group's non-current assets (property, plant and equipment, intangible assets) is USD 4,581 mln. We focus on the impairment assessment of non-current assets of the Group due to decline of the Group's EBITDA in 2020 compared to 2019 in a context of overall uncertainty of future market trends due to COVID-19 pandemic, that is still in progress as of 31 December 2020, as the potential impairment indicator.</p> <p>For impairment assessment the management reviewed the business performance and industry outlook and prepared calculations of the recoverable value of non-current assets for each operating segment using the discounted cash flows (DCF) models based on value in use.</p> <p>Management has compared the recoverable amount of non-current assets of each operating segment, determined as the value in use, with the carrying amount of these assets and concluded that no impairment should be recognised in respect of these assets as at 31 December 2020.</p> <p><i>Refer to Note 7 'Segment information' and Note 16 'Property, plant and equipment' for more information.</i></p>	<p>We obtained valuation models (discounted cash flow model) for cash generating units (CGU), that are the Group's operating segments, prepared by management to determine the recoverable amount of the relevant non-current assets. Our audit procedures related to management's assessment of potential non-current assets impairment included:</p> <ul style="list-style-type: none"> • analysis of the methodology used by management for the impairment test; • examination of the mathematical accuracy of the valuation models; • verification of the mathematical accuracy of input data, such as historical information, used in the valuation models; • identification and assessment of reasonableness of key assumptions such as market prices growth rates, sales volumes and discount rates, and other assumptions applied, whether these are in line with the approved budgets for 2021 and external available sources (including macroeconomic forecasts); • reperformance of sensitivity analysis around the selected key assumptions to ascertain the extent of change in those assumptions that would be required for the non-current assets to be impaired. <p>Based on the above procedures, we found that the key assumptions and judgements used for the assessment of impairment for the Group's non-current assets are reasonable and supported by the available evidence. Finally, we compared the recoverable amount of the non-current assets related to operating segments, determined as their value in use, with the carrying amount of these assets.</p>

How we tailored our Group audit scope

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

We identified that Public Joint Stock Company Magnitogorsk Iron & Steel Works, the parent company of the Group, and MMK Metalurji (Turkey) required an audit as significant components due to their size.

We also performed audit procedures for individual financial statement line items on several subsidiaries of the Group. We selected these companies for audit procedures on individual balances and types of transactions separately for each financial statement line item included in the scope of our audit, considering the level of audit evidence obtained from the audit of the financial information of significant components, our assessment of risk associated with these other companies and introducing the element of unpredictability. In addition, we have performed analytical procedures over the remaining immaterial companies of the Group.

We determined the type of work for each component that needed to be performed by us in relation to the activity within the Russian Federation, or by other PwC network firms operating under our instruction in relation to the activity outside the Russian Federation. Where the work was performed by those other firms, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Taken together, the audit work performed addressed 88% of the Group's revenues. This gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

Other information

Management is responsible for the other information. The other information comprises the Annual report and Issuer's Report for the 1 Quarter 2021 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report and Issuer's Report for the 1 Quarter 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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



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

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

The certified auditor responsible for the audit resulting in this independent auditor's report is Maxim Matsiborko.

AO PricewaterhouseCoopers Audit

1 February 2021

Moscow, Russian Federation

M. Matsiborko



M.I. Matsiborko, certified auditor (licence No. 01-000203), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Magnitogorsk Iron & Steel Works

Record made in the Unified State Register of Legal Entities on 12 August 2002 under State Registration Number 1027402166835

Taxpayer Identification Number 7414003633

Kirova, 93, Magnitogorsk, Chelyabinsk region, Russia, 455000

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Taxpayer Identification Number 7705051102

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

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

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

(In millions of U.S. Dollars, unless otherwise stated)

		Years ended 31 December	
	Notes	2020	2019
REVENUE	6	6,395	7,566
COST OF SALES	8	(4,691)	(5,512)
GROSS PROFIT		1,704	2,054
General and administrative expenses	9	(205)	(212)
Selling and distribution expenses	10	(492)	(549)
Change in expected credit loss, net	18	(2)	(10)
Other operating expense, net	11	(63)	(9)
OPERATING PROFIT		942	1,274
Finance income		23	24
Finance costs	13	(44)	(38)
Foreign exchange loss, net	14	(129)	(13)
Impairment and provision for site restoration	16, 23	66	(65)
Other expense		(68)	(87)
PROFIT BEFORE INCOME TAX		790	1,095
INCOME TAX	15	(186)	(239)
PROFIT FOR THE YEAR		604	856
OTHER COMPREHENSIVE (LOSS)/INCOME			
<i>Items, that may be reclassified subsequently to profit or loss</i>			
Translation of foreign operations		261	(164)
<i>Items, that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of post-employment benefit obligations		-	(4)
Effect of translation to presentation currency		(1,101)	738
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(840)	570
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(236)	1,426
Profit attributable to:			
Shareholders of the Parent Company		603	850
Non-controlling interests		1	6
		604	856
Total comprehensive (loss)/income attributable to:			
Shareholders of the Parent Company		(234)	1,417
Non-controlling interests		(2)	9
		(236)	1,426
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.054	0.077
Weighted average number of ordinary shares outstanding (in thousands)		11,174,330	11,174,330

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020**

(In millions of U.S. Dollars)

		31 December	
	Notes	2020	2019
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	16	4,541	5,180
Right-of-use assets		8	7
Intangible assets		40	47
Investments in securities and other financial assets	19	2	2
Investments in associates		1	2
Deferred tax assets	15	49	55
Total non-current assets		4,641	5,293
CURRENT ASSETS:			
Inventories	17	1,128	1,216
Trade and other receivables	18	606	594
Investments in securities and other financial assets	19	207	8
Income tax receivable		5	5
Value added tax recoverable		47	58
Cash and cash equivalents	20	858	1,105
Assets classified as held for sale		-	5
Total current assets		2,851	2,991
TOTAL ASSETS		7,492	8,284
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	386	386
Share premium		969	969
Translation reserve		(6,295)	(5,458)
Retained earnings		9,522	9,600
Equity attributable to shareholders of the Parent Company		4,582	5,497
Non-controlling interests		19	22
Total equity		4,601	5,519
NON-CURRENT LIABILITIES:			
Long-term borrowings	22	548	527
Obligations under leases		8	9
Retirement benefit obligations		18	21
Long-term other payables		2	5
Site restoration provision	23	125	228
Deferred tax liabilities	15	365	410
Total non-current liabilities		1,066	1,200
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	26	411	333
Current portion of obligations under leases		3	1
Current portion of retirement benefit obligations		2	2
Trade and other payables	25	1,380	1,210
Current portion of site restoration provision	23	11	9
Income tax payables		18	6
Liabilities of disposal groups classified as held for sale		-	4
Total current liabilities		1,825	1,565
TOTAL EQUITY AND LIABILITIES		7,492	8,284

P. V. Shilyaev
General Director

1 February 2021
Magnitogorsk, Russia



O. Y. Samoylova
Director of OOO MMK-ACCOUNTING CENTER,
a specialized organization, which performs the
accounting function for Public Joint Stock
Company Magnitogorsk Iron & Steel Works

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(In millions of U.S. Dollars)

	Attributable to shareholders of the Parent Company					Non-		
	Notes	Share capital	Share premium	Translation reserve	Retained earnings	Total	controlling interest	Total equity
BALANCE AT 1 JANUARY 2019		386	969	(6,029)	9,662	4,988	21	5,009
Profit for the year		-	-	-	850	850	6	856
Other comprehensive income for the year, net of tax		-	-	571	(4)	567	3	570
Total comprehensive income for the year		-	-	571	846	1,417	9	1,426
Decrease in non-controlling interests due to changes of Group's share in subsidiaries		-	-	-	6	6	(8)	(2)
Dividends	21	-	-	-	(914)	(914)	-	(914)
BALANCE AT 31 DECEMBER 2019		386	969	(5,458)	9,600	5,497	22	5,519
Profit for the year		-	-	-	603	603	1	604
Other comprehensive loss for the year, net of tax		-	-	(837)	-	(837)	(3)	(840)
Total comprehensive loss for the year		-	-	(837)	603	(234)	(2)	(236)
Decrease in non-controlling interests due to changes of Group's share in subsidiaries		-	-	-	1	1	(1)	-
Dividends	21	-	-	-	(682)	(682)	-	(682)
BALANCE AT 31 DECEMBER 2020		386	969	(6,295)	9,522	4,582	19	4,601

The notes on pages 5 to 51 are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(In millions of U.S. Dollars)

		Years ended 31 December	
	Notes	2020	2019
OPERATING ACTIVITIES:			
Profit for the year		604	856
Adjustments to profit for the period:			
Income tax		186	239
Depreciation and amortization	8, 9, 10	484	510
Impairment and provision for site restoration	16, 23	(66)	65
Finance costs	13	44	38
Loss on disposal of property, plant and equipment	11	66	13
Change in expected credit loss	18	2	10
Change in provision for legal claims	11	17	10
Change in fair value of investments in securities and other financial assets		-	(1)
Change in allowance for obsolete and slow-moving inventory	17	(4)	8
Finance income		(23)	(24)
Foreign exchange loss, net	14	129	13
Loss on disposal of subsidiaries	11	3	-
Operating cashflow before working capital changes		1,442	1,737
Movements in working capital			
(Increase)/decrease in trade and other receivables		(113)	146
(Increase)/decrease in value added tax recoverable		(1)	27
(Increase)/decrease in inventories		(52)	127
Increase/(decrease) in trade and other payables		132	(23)
Cash generated from operations		1,408	2,014
Interest paid		(26)	(28)
Income tax paid		(156)	(271)
Net cash from operating activities		1,226	1,715
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(683)	(833)
Purchase of intangible assets		(11)	(24)
Proceeds from sale of property, plant and equipment		2	1
Interest received		23	24
Proceeds from sale of subsidiaries, net of disposed cash		1	-
Proceeds from sale of securities and other financial assets		3	5
Purchase of securities and other financial assets		(3)	(3)
Placement of short-term bank deposits		(620)	-
Withdrawal of short-term bank deposits		420	-
Net cash used in investing activities		(868)	(830)
FINANCING ACTIVITIES:			
Proceeds from borrowings		705	981
Repayments of borrowings		(636)	(639)
Repayment of the principal amount of the lease obligation		(4)	(3)
Acquisition of non-controlling interest		-	(2)
Dividends paid to equity holders of the Parent Company		(623)	(907)
Net cash used in financing activities		(558)	(570)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(200)	315
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20	1,105	739
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(47)	51
CASH AND CASH EQUIVALENTS, END OF PERIOD	20	858	1,105

The notes on pages 5 to 51 are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(In millions of U.S. Dollars, unless otherwise stated)

1. GENERAL INFORMATION

PJSC Magnitogorsk Iron & Steel Works ("the Parent Company") is a public joint stock company as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatisation program.

The Parent Company, together with its subsidiaries (the "Group"), is a producer of ferrous metal products. The Group's products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products. The Group is also engaged in coal mining and sale thereof.

The Parent Company's registered office is 93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000.

As at 31 December 2020 the Parent Company's major shareholder was Mintha Holding Limited with a 84.3% ownership interest (31 December 2019: 84.3%).

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors.

At 31 December 2020 and 2019, the Group's principal subsidiaries were as follows:

Subsidiary by country of incorporation	Nature of business	Effective % held at 31 December	
		2020	2019
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod “MMK-Metiz”	Production of metal hardware products	95.78	95.78
LLC MMK LMZ	Production of ferrous metal products	100.00	100.00
LLC IK MMK Finance	Investing activities	100.00	100.00
LLC Ogneupor	Production of refractory materials	100.00	100.00
LLC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
LLC OSK	Production of machinery and equipment for metallurgy	100.00	100.00
LLC MTSOZ	Production of cement and refractory materials	100.00	100.00
LLC MMK Vtormet	Collection and processing of metal scrap	100.00	100.00
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
OJSC Belon	Holding company, trading activities	98.19	97.70
LLC MMK Ugol	Coal mining	99.42	99.26
Turkey			
MMK Metalurji	Production of ferrous metal products	100.00	100.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
Luxembourg			
MMK-Mining Assets Management S.A.	Holding company	100.00	100.00

2. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

- 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).

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

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

COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.

New Accounting Pronouncements

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

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Classification of Liabilities as Current or Non-Current - Amendments to IAS 1 (issued on 23 January 2020 and effective for annual reporting periods beginning on or after 1 January 2022).
- Classification of liabilities as current or non-current, deferral of effective date - Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).
- Proceeds before intended use, Onerous contracts - cost of fulfilling a contract, Reference to the Conceptual Framework - narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Interest rate benchmark (IBOR) reform - phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

3. BASIS OF PREPARATION

Basis of preparation

International Financial Reporting Standards ("IFRS") include Standards and Interpretations issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements of the Group have been prepared in accordance with IFRS.

The Group additionally prepares IFRS consolidated financial statements presented in Russian roubles and in Russian language in accordance with the Federal Law No. 208 - FZ "On consolidated financial reporting".

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

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3. BASIS OF PREPARATION (CONTINUED)

The consolidated financial statements of the Group are prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, derivative financial instruments, which are accounted for at fair value, and other financial assets at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

Subsidiaries

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 "Financial Instruments" or, when applicable, as the cost on initial recognition of an investment in an associate or jointly controlled entity.

Functional and presentation currency

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations.

The functional currency of the Group's entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble ("RUB"). The functional currency of MMK Metalurji and MMK Steel Trade AG is the United States Dollar ("USD").

These consolidated financial statements are presented in millions of USD. Using USD as a presentation currency is considered by management to be more relevant for users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all income and expenses in each consolidated statement of comprehensive income are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the year a monthly average exchange rate is applied;
- all items included in the consolidated shareholders' equity, other than total comprehensive income, are translated at historical exchange rates; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the year an average exchange rate for the year is applied.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income as "Effect of foreign operations". When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Exchange rates used for translation into presentation currency of the consolidated financial statements were as follows:

	31 December	
	2020	2019
Russian Rouble/US Dollar		
Year-end rates	73.88	61.91
Average for the period	72.40	64.77

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions

Transactions in currencies other than the functional currencies of the Group's entities (foreign currencies) are recorded at the exchange rates at the dates of the transactions. At each statement of financial position date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the date of statement of financial position. Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of comprehensive income within "Foreign exchange loss, net". Non-monetary items carried at historical cost are translated at the exchange rate on the date of transaction. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated at the exchange rate on the date on which the most recent fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the fair value of the net identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described above.

Revenue recognition

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

Revenue is recognised net of discounts, returns and value added taxes, export duties, other similar mandatory payments.

Group's contracts with customers are fixed-price contracts and generally include both advance payment and deferred payment for the same contracts. Generally the sales are made with a credit term of 30-60 days, which is consistent with the market practice and consequently trade receivables are classified as current assets.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A receivable is recognised when the goods are delivered or dispatched based on delivery terms as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due (Note 18). Contract assets are immaterial and therefore not presented separately in the consolidated financial statements.

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. Contract liabilities are included in trade and other payables line item as advances from customers (Note 25).

Sales of goods

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

Sales of transportation services

If the Group provides transportation services to the customer after control over goods has transferred, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering because the customer receives and uses the benefits simultaneously.

The Group provides services under fixed-price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on proportion the actual distance relative to the total expected distance.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset arise. If the payments exceed the services rendered, a contract liability is recognised. Contract assets from sales of transportation services are immaterial and therefore not presented separately in the consolidated financial statements.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

Income tax

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

Current tax

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profit differs from profit for the year as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of consolidated statement of financial position.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit when initially recorded.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the date of consolidated statement of financial position. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred income tax on post-acquisition retained earnings of subsidiaries

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

Uncertain tax positions

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

Property, plant and equipment

Manufacturing assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the consolidated statement of comprehensive income as incurred.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets is recorded on the same basis as for other property assets, and begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income within "Other operating expense, net".

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mineral rights

Mineral rights are presented as part of mining assets and include rights for evaluation, exploration and production of mineral resources under the licenses or agreements. Such assets are carried at cost, amortisation is charged on a straight-line basis over the shorter of the valid period of the license or the agreement, or the expected life of mine, starting from the date when production activities commence. The costs directly attributable to acquisition of rights for evaluation, exploration and production are capitalised as a part of the mineral rights. If the reserves related to the mineral rights are not economically viable, the carrying amount of such mineral rights is written off.

Depreciation

Land is not depreciated. Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	1-50 years
Machinery and equipment	1-40 years
Transportation equipment	3-20 years
Fixtures and fittings	3-30 years
Mining assets	17-32 years

The estimated useful lives, residual values, and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Leased assets

The Group is a party to lease contracts as a lessee for, among others:

- a) land under buildings and constructions,
- b) building for office space, warehouses,
- c) motor vehicles and machinery.

Leases are recognized, measured and presented in line with IFRS 16 "Leases".

Based on the accounting policy applied the Group recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified asset for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Lease payments included in measurement of lease liability of the Group generally include only fixed payments (including in-substance fixed payments), less any lease incentives receivable. The lease liability excludes variable elements which are not based on an index or rate such as e.g. energy usage. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease term determined by the Group comprises:

- non-cancellable period of lease contracts;
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made;
- and re-measuring the carrying amount to reflect any reassessment or lease modifications.

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets primarily represent licenses and various purchased software costs. Amortisation is charged on a straight-line basis over their estimated useful lives which are:

Licenses	2 -17 years
Purchased software	1-20 years
Other intangibles	1-20 years

Impairment of tangible and intangible assets, excluding goodwill

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Cost includes direct material, labour and an allocation of material and manufacturing overheads. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials are valued at purchase cost inclusive of freight and other shipping costs.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. The impairment charged to reduce the carrying amount of inventories to their net realisable value and an allowance for obsolete and slow-moving inventory are included in consolidated statement of comprehensive income as cost of sales.

Deferred drifting costs

The direct costs and attributable overheads of the preparation of underground coal reserves (drifting) for production using advanced mining machinery are included in inventory and recognised as cost of sales on the unit of production basis of each coal drift.

Value added taxes

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability.

Assets classified as held for sale (or disposal group)

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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(In millions of U.S. Dollars, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs of disposal. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified non-current deferred taxes are not subject to write down to the lower of their carrying amount and fair value less costs of disposal.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Financial instruments - key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. 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 solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 31.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments - initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps, loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are amortised on a straight line basis over the term of the currency swaps, loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets - classification and subsequent measurement - measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. As of 31 December 2020 and 31 December 2019 the Group did not hold financial assets at FVOCI.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets - classification and subsequent measurement - business model

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

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

Financial assets - classification and subsequent measurement - cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

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

The group holds the trade receivables with the objective to collect contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the expected credit loss measurement are provided in Note 18.

Financial assets - reclassification

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

Financial assets impairment - credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for financial assets measured at AC. The Group measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Trade and other receivables are presented in the consolidated statement of financial position net of the allowance for ECL.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group applies simplified approach for impairment of trade receivables. Note 18 provides information about the details of the applied approach and the provision matrix for trade receivables. For other financial assets that are subject to IFRS 9 ECL model the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 28 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 28. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, identified impairment loss was not material.

Financial assets - write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets - modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

Financial liabilities - measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments. As of 31 December 2020 and 31 December 2019 the Group did not have financial guarantee contracts and loan commitments or financial liabilities at FVTPL.

Financial liabilities - derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Trade and other payables

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated statement of comprehensive income.

Defined contribution plans

The Group's Russian subsidiaries and the Parent Company are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to consolidated statement of comprehensive income in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through social contributions calculated by the application of a regressive rate from 30% to 0% of the annual gross remuneration of each employee. This rate depends on the annual gross remuneration of each employee.

The Group's obligations for contributions to other defined contribution plans are recognised as expense as incurred.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined benefit plans

The Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield on government bonds that have maturity dates approximating the terms of the Group's obligations.

The current service cost of the defined benefit plan, recognised in profit and loss in employee benefit expense reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements. Past-service costs are recognised immediately in profit and loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the profit and loss in the consolidated statement of comprehensive income. Actuarial gains and losses are fully recognised in other comprehensive income in the period they occur.

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 the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of consolidated statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Site restoration provision

The Group provides for the costs of restoring a site where a legal or constructive obligation exists. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. The estimated future land restoration costs, discounted to net present value, are capitalised in respective items of property, plant and equipment and amortised over the useful life of the corresponding asset. In case at the date when the site restoration obligation arise no corresponding assets exist relative provision is included in the consolidated statement of comprehensive income as other expenses.

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Changes in the measurement of a provision that result from changes in the estimated timing or amount of cash outflow, or a change in the discount rate, are added to or deducted from the costs of the related assets as appropriate in the current period or when there are no relative assets are recognised in the consolidated statement of comprehensive income as other expenses.

Provisions are discounted to their present value based on the rates of government bonds adjusted for the specific risk which are consistent with the currency and estimated term of the liability. The unwinding of the obligation is included in the consolidated statement of comprehensive income as finance costs before revising the provision at year end.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Segment information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group's chief operating decision maker ("CODM"). The Group has identified the General Director of the Parent Company as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified three reportable segments: Steel (Russia), Steel (Turkey) and Coal mining.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgments, including those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements and affect the amounts of assets and liabilities within the next financial year.

Key sources of estimation uncertainty

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

Useful economic life and residual value of property, plant and equipment

The Group's property, plant and equipment, other than mining assets, are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values include the following:

- changes in asset utilisation rates;
- changes in maintenance technology;

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**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(CONTINUED)**

- changes in regulations and legislation; and
- unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Site restoration provision

The Group estimates site restoration provision based on management's understanding of the current legal requirements and internally generated engineering estimates and represents management's best estimate of the present value of the future costs required.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Significant estimates and assumptions are made in determining the amount of restoration provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework, the magnitude of possible contamination and the timing, extent and costs of required restoration activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated statement of financial position by adjusting both the restoration asset if it exists and provision. Such changes give rise to a change in future depreciation and financial charges. For closed sites, changes to estimated costs are recognised immediately in the consolidated statement of comprehensive income. Details are disclosed in Note 23.

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements. Details of the assumptions are disclosed in Note 16.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 27.

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**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(CONTINUED)**

ECL measurement

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Notes 18 and 28. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Group regularly reviews and validates the models and inputs of the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The credit loss allowance for trade receivables is determined according to provision matrix based on the number of days that an asset is past due. The effect of adjustments for forward looking information from the models of macro-economic scenarios do not have significant impact on ECL estimation because performance obligations are generally short-term in nature.

Income tax and other taxes

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation and of other countries, where the Group's entities operate. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax expense and tax provisions in the period in which such determination is made.

In addition, the Group records deferred tax assets at each date of the consolidated statement of financial position based on the amount that management believes is probable to be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write-off of deferred tax assets in future periods for assets that are currently recorded in the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability.

Write-off policy

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: receivables being past due over 360 days, liquidation or bankruptcy proceedings, fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

Measurement of right-of-use assets and liabilities

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

**PUBLIC JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. REVENUE

By product (including transportation services)	2020	2019
Hot rolled steel	2,542	3,132
Galvanised steel	1,154	1,320
Long steel products	601	716
Cold rolled steel	496	630
Galvanised steel with polymeric coating	577	599
Hardware products	132	154
Wire, sling, bracing	130	149
Formed section	81	131
Coking production	72	120
Band	79	83
Tin plated steel	119	115
Coal	21	16
Tubes	43	33
Scrap	69	58
Slabs	5	-
Others	274	310
Total	6,395	7,566
By customer destination	2020	2019
Russian Federation and the CIS	83 %	87 %
Middle East	7 %	7 %
Asia	5 %	2 %
Europe	3 %	3 %
Africa	2 %	1 %
Total	100 %	100 %
By type of performance obligation	2020	2019
Revenue from sales of products – at point in time	6,073	7,235
Revenue from transportation services – over time	322	331
Total	6,395	7,566

7. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

Based on the current management structure and internal reporting the Group has identified the following operating segments:

- *Steel segment (Russia)*, which includes the Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the cities of Magnitogorsk and Lysva (Russian Federation);
- *Steel segment (Turkey)*, which includes MMK Metalurji involved in production of steel. The two sites of this segment are located in Iskenderun and Istanbul (Turkey); and

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7. SEGMENT INFORMATION (CONTINUED)

- *Coal mining segment*, which includes OJSC Belon and LLC MMK Ugol involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo (Russian Federation).

The profitability of the three operating segments is primarily measured by CODM based on Segment EBITDA. Segment EBITDA is determined as segment's operating profit adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including the impairment of investments in associates. Since this term is not a standard measure in IFRS the Group's definition of EBITDA may differ from that of other companies.

Inter-segment pricing is determined on a consistent basis using market benchmarks.

The following table presents measures of segment results for the years ended 31 December 2020 and 2019:

	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue (including transportation revenue)										
Sales to external customers	5,855	7,029	518	520	22	17	-	-	6,395	7,566
Inter-segment sales	117	197	-	-	157	229	(274)	(426)	-	-
Total revenue	5,972	7,226	518	520	179	246	(274)	(426)	6,395	7,566
Segment EBITDA	1,440	1,744	34	(12)	13	68	5	(3)	1,492	1,797
Depreciation and amortisation	(437)	(463)	(17)	(18)	(30)	(29)	-	-	(484)	(510)
Loss on disposal of property, plant and equipment	(65)	(12)	-	-	(1)	(1)	-	-	(66)	(13)
Operating profit/(loss) per IFRS financial statements	938	1,269	17	(30)	(18)	38	5	(3)	942	1,274

A reconciliation from operating profit per IFRS financial statements to profit before taxation is included in the consolidated statement of comprehensive income.

At 31 December 2020 and 2019, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2020				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	8,266	499	400	(1,673)	7,492
Total liabilities	2,757	95	99	(60)	2,891

	31 December 2019				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	9,238	496	487	(1,937)	8,284
Total liabilities	2,685	100	89	(109)	2,765

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7. SEGMENT INFORMATION (CONTINUED)

The segmental additions to property, plant and equipment and intangible assets for the years ended 31 December 2020 and 31 December 2019 were:

	2020	2019
Steel (Russia)	679	773
Steel (Turkey)	5	5
Coal mining	57	73
Total capital expenditure	741	851

8. COST OF SALES

	2020	2019
Raw materials used	3,422	4,123
Depreciation of property, plant and equipment	459	485
Payroll and social taxes	602	650
Other expenses	202	203
	4,685	5,461
Changes in work in progress, finished goods and goods-in-transit	6	51
Total	4,691	5,512

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Payroll and social taxes	103	112
Taxes other than income tax	33	33
Depreciation and amortisation	24	24
Professional services	22	20
Insurance	2	3
Materials	4	3
Research and development costs	-	1
Other	17	16
Total	205	212

10. SELLING AND DISTRIBUTION EXPENSES

	2020	2019
Transportation expenses	398	423
Packing costs	37	44
Materials	16	19
Payroll and social taxes	13	14
Advertising expenses	2	3
Depreciation	1	1
Other	25	45
Total	492	549

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11. OTHER OPERATING EXPENSE/(INCOME), NET

	2020	2019
Loss on disposal of property, plant and equipment	66	13
Provision for legal claims	17	10
Gain on disposal of other assets	(13)	(13)
Loss on disposal of subsidiaries	3	-
Insurance compensation of damage	(9)	-
Other operating gain, net	(1)	(1)
Total	63	9

12. OTHER EXPENSES

For the years ended 31 December 2020 and 2019, other expenses included USD 58 million and USD 64 million, respectively, related to social programs and maintenance of social assets.

13. FINANCE COSTS

	2020	2019
Interest expense on borrowings	1	12
Interest expense on provisions	13	14
Interest expense on bonds	23	12
Expenses related to withholding tax in respect to dividends paid in prior periods and related compensation, net (Note 27)	6	-
Other	1	-
Total	44	38

14. FOREIGN EXCHANGE LOSS, NET

	2020	2019
Foreign exchange loss from operating activities, net	9	28
Foreign exchange loss/(gain) from financing activities, net	120	(15)
Total	129	13

15. INCOME TAXES

The Group's income tax expense attributable to different tax jurisdictions for the years ended 31 December 2020 and 2019 was:

	2020	2019
Current income tax	167	255
Deferred income tax expense/(income), net	19	(16)
Total income tax expense	186	239

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15. INCOME TAXES (CONTINUED)

The income tax charge is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit before income tax. A reconciliation between the expected and the actual taxation charge is provided below.

	2020	2019
Profit before income tax	790	1,095
Theoretical income tax charge	158	219
Adjustments due to:		
Effect of different tax rates	-	(1)
Income not taxable	-	(1)
Expenses not deductible	12	13
Change in unrecognized deferred tax assets	(5)	(12)
Unrecognized deferred tax assets as a result of difference between functional and tax accounting currency	15	20
Other	6	1
Income tax expense	186	239

Deferred income tax assets and liabilities comprise income tax effect of the differences arising between the tax and accounting bases of the following assets and liabilities:

	31 December 2020	Recognised in profit or loss	Effect of translation to presen- tation currency	31 December 2019
Property, plant and equipment	15	1	(3)	17
Investments	2	-	-	2
Unused tax losses	15	(2)	(3)	20
Investment tax credits	4	(1)	-	5
Inventories	15	4	(3)	14
Accounts receivable	7	3	-	4
Site restoration provision	27	(12)	(8)	47
Accounts payable	24	3	(2)	23
Deferred tax set off	(60)	6	11	(77)
Deferred income tax assets	49	2	(8)	55
Property, plant and equipment	(377)	(9)	71	(439)
Intangible assets	(2)	-	-	(2)
Investments	(3)	(1)	-	(2)
Inventories	(37)	(10)	3	(30)
Accounts receivable	(4)	6	3	(13)
Loans	(2)	(1)	-	(1)
Deferred tax set off	60	(6)	(11)	77
Deferred income tax liabilities	(365)	(21)	66	(410)
Net deferred tax liability	(316)	(19)	58	(355)

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15. INCOME TAXES (CONTINUED)

	31 December 2019	Recognised in profit or loss	Effect of translation to presen- tation currency	31 December 2018
Property, plant and equipment	17	2	1	14
Investments	2	-	-	2
Unused tax losses	20	2	2	16
Investment tax credits	5	-	-	5
Inventories	14	(3)	2	15
Accounts receivable	4	1	-	3
Loans	-	(1)	-	1
Site restoration provision	47	15	4	28
Accounts payable	23	12	1	10
Deferred tax set off	(77)	(27)	(6)	(44)
Deferred income tax assets	55	1	4	50
Property, plant and equipment	(439)	(18)	(46)	(375)
Intangible assets	(2)	(1)	-	(1)
Investments	(2)	(2)	-	-
Inventories	(30)	8	(3)	(35)
Accounts receivable	(13)	1	(1)	(13)
Loans	(1)	-	-	(1)
Deferred tax set off	77	27	6	44
Deferred income tax liabilities	(410)	15	(44)	(381)
Net deferred tax liability	(355)	16	(40)	(331)

At 31 December 2020 and 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 558 million and USD 682 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes that the Group will realise the benefits of the deductible differences.

Deferred tax assets of USD 4 million have not been recognised in 2020 (which don't include related to tax losses) and USD 5 million have not been recognised in 2019 (of which USD 5 million related to tax losses) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

At 31 December 2020 unrecognised deferred tax assets other than related to tax losses were USD 58 million (31 December 2019: USD 72 million). Tax losses expire in the following years:

Year of expiry	31 December 2020	2019
Without expiry date	9	9
From 2 to 5 years	11	27
	20	36

The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). CFC income is subject to a 20% tax rate. This legislation had no material impact on remeasurement of Group's income tax assets and liabilities.

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16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans- portation equipment	Fixtures and fittings	Mining assets	Construc- tion-in- progress	Total
Cost							
At 1 January 2019	2,731	5,612	164	160	85	927	9,679
Additions	3	215	11	3	-	588	820
Transfers	233	362	18	5	-	(618)	-
Site restoration provision	-	-	-	-	13	-	13
Disposals	(9)	(196)	(6)	(2)	-	(13)	(226)
Disposals of subsidiaries	(5)	(5)	(1)	-	-	-	(11)
Utilised allowance for impairment losses	-	-	-	-	-	(2)	(2)
Effect of translation to presentation currency	266	586	19	19	11	112	1,013
At 31 December 2019	3,219	6,574	205	185	109	994	11,286
Additions	1	184	3	3	-	535	726
Transfers	157	339	2	13	-	(511)	-
Site restoration provision	-	-	-	-	(1)	-	(1)
Disposals	(39)	(312)	(4)	(6)	(13)	(13)	(387)
Effect of translation to presentation currency	(425)	(910)	(28)	(30)	(18)	(165)	(1,576)
At 31 December 2020	2,913	5,875	178	165	77	840	10,048
Depreciation							
At 1 January 2019	(1,306)	(3,663)	(121)	(126)	(64)	(29)	(5,309)
Charge for the year	(86)	(380)	(14)	(18)	(2)	-	(500)
Reversal/(accrual) of impairment	-	-	-	-	-	1	1
Utilised allowance for impairment losses	-	-	-	-	-	2	2
Disposals	3	174	5	1	-	-	183
Disposals of subsidiaries	3	4	1	-	-	-	8
Effect of translation to presentation currency	(107)	(345)	(13)	(15)	(8)	(3)	(491)
At 31 December 2019	(1,493)	(4,210)	(142)	(158)	(74)	(29)	(6,106)
Charge for the year	(84)	(367)	(14)	(10)	(2)	-	(477)
Reversal/(accrual) of impairment	-	-	-	-	-	3	3
Disposals	16	265	4	6	13	-	304
Effect of translation to presentation currency	169	541	19	25	11	4	769
At 31 December 2020	(1,392)	(3,771)	(133)	(137)	(52)	(22)	(5,507)
Carrying amount							
At 31 December 2019	1,726	2,364	63	27	35	965	5,180
At 31 December 2020	1,521	2,104	45	28	25	818	4,541
Carrying amount had no impairment taken place							
At 31 December 2019	2,123	2,525	63	29	51	994	5,785
At 31 December 2020	1,895	2,188	46	28	37	840	5,034

For the year ended 31 December 2020 and 2019 Group capitalise borrowing costs 1 and 1 to property, plant and equipment, respectively.

At 31 December 2020 and 2019 there is no property, plant and equipment pledged.

Capital commitments are disclosed in Note 30.

At 31 December 2020 carrying amount of the construction in progress included impairment provision of USD 22 million (31 December 2019: USD 29 million). During the year ended 31 December 2020 management approved the decision to restart the modernisation project and reversed previously recognised provision on amount of USD 3 million. The effect of translation to presentation currency USD 4 million.

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The global pandemic and the introduction of quarantine measures to combat coronavirus in Russia have had a significant impact on economic activity in Q2 2020. While the market conditions in Q3 2020 were characterized by economy recovery in Russia and in a number of countries and regions of the world, an increase in demand for steel and the subsequent increase in market quotations for steel products, financial results of the Group declined in 2020 compared to 2019.

Management focused on the impairment assessment of non-current assets of the Group due to decline of the Group's EBITDA in 2020 compared to 2019 in a context of an overall uncertainty of future market trends due to COVID-19 pandemic, that is still in progress as of 31 December 2020, as the potential impairment indicator.

For impairment assessment the management reviewed the business performance and industry outlook and prepared calculations of the recoverable value of non-current assets for each operating segment using the discounted cash flows (DCF) model based on value in use.

For impairment testing management groups its assets into three cash generating units (CGU) that are operating segments: Steel segment (Russia), Steel segment (Turkey) and Coal mining segment.

At 31 December 2019, management analysed changes in the economic environment and developments in the metal industry and the Group's operations since 31 December 2018 and considered it necessary to carry out impairment test for Steel (Turkey) cash-generating unit. No impairment indicators were identified for cash generating units Steel (Russia) and Coal mining. For Steel (Turkey) impairment indicators were identified such as significant decrease of Turkish lira to US dollar, increase of inflation and borrowing costs. Based on the test performed as at 31 December 2019 no impairment for Steel (Turkey) was identified.

As of 31 December 2020, the management analysed changes in the economics, metals industry and the Group's business since 31 December 2019 and decided to test non-current assets for impairment for all CGUs of the Group: Steel segment (Russia), Steel segment (Turkey) and Coal mining segment. As the result of impairment test no impairment was identified for all CGUs as at 31 December 2020.

The recoverable amount was calculated using projected cash flows for 5 years prepared by extrapolation of data derived from the approved financial budget for 2021 as base period over the next 4 years, using projected growth rates. Cash flows beyond the five-year period are extrapolated based on long-term growth rates.

The following assumptions were used for the impairment test as of 31 December 2020 for the Steel segment (Russia) CGU:

- Sales volume in 2021 is expected to go 15% up vs. 2020, 1% up year on year in 2022 and 2023, and remain flat in 2024 and 2025;
- Average steel prices in 2021 are expected to go 8% up vs. 2020, 2% up in 2022-2024 and 1% up in 2025;
- EBITDA margin in the terminal period is projected at 16.1%;
- Growth rate beyond five years is projected at 2%;
- A pre-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 12.5% (post-tax rate was 10%).

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas for the Steel segment (Russia) CGU:

- a 3% decrease in future planned volume of sales would not lead to impairment;
- a decrease in sales price for 3% would lead to impairment;
- a 1% increase in the discount rate would not lead to impairment;

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- a 1% decrease in EBITDA margin in the post-forecast period would not lead to impairment.

The following assumptions were used for the impairment test as of 31 December 2020 for the Steel segment (Turkey) CGU:

- Sales volume in 2021 is expected to go 12% up vs. 2020, 11% up in 2022 vs. 2021, and remain flat in 2013, 2024 and 2025;
- Average steel prices in 2021 are expected to go 3% up vs. 2020, 4% up in 2022 and 2% up in 2023-2025;
- EBITDA margin in the terminal period is projected at 10.3%;
- Growth rate beyond five years is projected at 2%;
- A pre-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 13.9% (post-tax rate was 11,6%).

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas for the Steel segment (Turkey) CGU:

- a 1% decrease in future planned volume of sales would lead to impairment;
- a decrease in sales price for 1% would lead to impairment;
- a 1% increase in the discount rate would lead to impairment;
- a 1% decrease in EBITDA margin in the post-forecast period would lead to impairment.

The following assumptions were used for the impairment test as of 31 December 2020 for the Coal mining segment CGU:

- Sales volume in 2021 is expected to go 14% up vs. 2020, 7% up in 2022 vs. 2021, 3% down in 2023, 1% down in 2024 and 4% up in 2025 vs. 2024;
- Average coal concentrate prices in 2021 are expected to go 6% up vs. 2019 (2020 is considered irrelevant for long-term forecasting due to the imbalance at global coal market caused by the ban on coal import to China from Australia), 2% up in 2022 vs. 2021, 3% up in 2023, 1% up in 2024 and remain flat in 2025;
- EBITDA margin in the terminal period is projected at 26.4%;
- Growth rate beyond five years is projected at 4%;
- A pre-tax discount rate was estimated in RUB terms based on the weighted average cost of capital basis and was 16.9% (post-tax rate was 13%).

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas for the Coal mining segment CGU:

- a 1% decrease in future planned volume of sales would lead to impairment;
- a decrease in sales price for 1% would lead to impairment;
- a 1% increase in the discount rate would lead to impairment;
- a 1% decrease in EBITDA margin in the post-forecast period would lead to impairment.

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17. INVENTORIES

	31 December	
	2020	2019
Raw materials	661	702
Work in progress	160	164
Finished goods and goods for resale	279	327
Goods in transit	1	2
Deferred drifting costs	48	50
Total	1,149	1,245
Allowance for obsolete and slow-moving items and write down to net realisable value	(21)	(29)
Total inventories, net	1,128	1,216

The movement in the allowance for obsolete and slow-moving items and write down to net realisable value was as follows:

	2020	2019
Balance at the beginning of the year	29	20
Change in allowance	(4)	8
Derecognised during the period	-	(1)
Effect of translation to presentation currency	(4)	2
Balance at the end of the year	21	29

18. TRADE AND OTHER RECEIVABLES

	31 December	
	2020	2019
Trade receivables	528	536
Other receivables	9	11
Expected credit loss allowance	(32)	(36)
Total financial assets within trade receivables	505	511
Advances paid	42	37
Prepaid expenses	27	20
Other receivables	32	26
Total trade and other receivables	606	594

Guarantee letters received in relation to trade receivables that are not impaired amounted to USD 119 million (31 December 2019: USD 168 million).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of customers over a period of 36 month before each balance sheet date and the corresponding historical credit losses experienced within this period. The effect from adjustments to historical loss rates for macroeconomic factors is not material because performance obligations are short-term in nature.

The credit loss allowance for trade receivables is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

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18. TRADE AND OTHER RECEIVABLES (CONTINUED)

	31 December			
	2020		2019	
	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL
Current	484	1	481	-
Less than 30 days overdue	21	-	22	-
30 to 90 days overdue	2	1	4	1
91 to 180 days overdue	1	1	3	2
over 180 days overdue	20	20	26	22
Total financial assets within trade receivables	528	-	536	-
Credit loss allowance	-	23	-	25
Total financial assets within trade receivables (carrying amount)	505	-	511	-

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

	2020	2019
Balance at the beginning of the year	25	21
Changes in estimates and assumptions	2	10
Total credit loss allowance charge in profit or loss for the period	2	10
Expected credit loss utilised	(1)	(5)
Effect of translation to presentation currency	(3)	(1)
Balance at the end of the year	23	25

As a result of the credit risk analysis for other receivables, the total amount of the estimated provision for expected credit losses for other financial receivables amounted to USD 9 million as at 31 December 2020 (USD 11 million as at 31 December 2019). The amount of the provision was primarily formed in respect of financial assets impaired as a result of default in Phase 3 of the "three-stage" model. The change in the estimated provision for ECL on other receivables in 2020 and 2019 is not material.

19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2020	2019
Non-current financial assets		
Unlisted securities	2	2
Total non-current	2	2
Current financial assets		
Trading debt securities	7	8
Bank deposits, USD	200	-
Total current	207	8

Trading debt securities are liquid publicly traded bonds and notes of Russian companies and banks. They are reflected at period-end market value based on trade prices obtained from investment brokers.

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19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS (CONTINUED)

No bank deposits are past due or impaired. The analysis of the credit quality of bank deposits are as follows:

	31 December	
	2020	2019
BBB- to BBB+ rated	200	-
Total	200	-

20. CASH AND CASH EQUIVALENTS

	31 December	
	2020	2019
Cash in banks, USD	255	57
Cash in banks, EUR	8	10
Cash in banks, RUB	44	35
Cash in banks, others	1	-
Cash in transit, USD	1	-
Bank deposits, USD	85	626
Bank deposits, RUB	461	375
Bank deposits, EUR	1	1
Bank deposits, TRY	2	1
Total	858	1,105

No bank balances and deposits are past due or impaired. The analysis of the credit quality of bank balances and deposits are as follows:

	31 December	
	2020	2019
A-to AA+ rated	8	110
BBB- to BBB+ rated	575	909
BB- to BB+ rated	215	40
B- to B+ rated	55	41
Other	5	5
Total	858	1,105

Based on the credit ratings of independent rating agencies Standard&Poors and Fitch ratings.

21. SHARE CAPITAL

Common stock

	31 December	
	2020	2019
Authorised, issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Treasury stock

At 31 December 2020 and 31 December 2019, the Group did not hold issued common shares of the Parent Company as treasury stock.

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21. SHARE CAPITAL (CONTINUED)

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations and translation to presentation currency. The reserve is dealt with in accordance with the accounting policies set out in Note 4.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

Dividends

On 27 December 2019, the Parent Company declared dividends of RUB 1.650 (USD 0.027) per ordinary share representing total dividends of USD 298 million. In January 2020 dividends were paid out.

On 29 May 2020, the Parent Company declared dividends of RUB 1.507 (USD 0.021) per ordinary share representing total dividends of USD 237 million. In June and July 2020 dividends were paid out.

On 11 September 2020, the Parent Company declared dividends of RUB 0.607 (USD 0.008) per ordinary share representing total dividends of USD 90 million. In October 2020 dividends were paid out.

On 25 December 2020, the Parent Company declared dividends of RUB 2.391 (USD 0.032) per ordinary share representing total dividends of USD 357 million. In January 2021 dividends were partially paid out (Note 32).

22. LONG-TERM BORROWINGS

	31 December	
	2020	2019
Unsecured listed bonds, USD	478	478
Unsecured loans, EUR	70	49
Total	548	527

Borrowings

The Group has various borrowing arrangements denominated in RUB, USD and EUR with various lenders. Those borrowings consist of unsecured loans and credit facilities. At 31 December 2020 and 2019, the total unused element of all credit facilities was USD 1,494 million and USD 1,437 million, respectively.

According to the terms of the borrowings, the Group is required to comply with a number of covenants, including under certain financial ratios. The Group was in compliance with covenants during the reporting periods and as at 31 December 2020 and 2019.

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22. LONG-TERM BORROWINGS (CONTINUED)

Debt repayment schedule

Year ended	31 December 2020
2021 (presented as current portion of long-term borrowings, Note 26)	60
2022	56
2023	30
2024	451
2025 and thereafter	11
Total	608

Year ended	31 December 2019
2020 (presented as current portion of long-term borrowings, Note 26)	221
2021	46
2022	42
2023	18
2024 and thereafter	421
Total	748

Eurobonds

On 13 June 2019, the Group issued 5 year USD 500 million eurobonds with an annual coupon rate of 4.375% payable semi-annually to finance its general corporate purposes. The bonds are repayable on 13 June 2024. The Group issued bonds through a consolidated structured entity MMK International Capital DAC incorporated in Ireland. This entity was consolidated as it was specifically set up for the purposes of the Group, and the Group has exposure to substantially all the risks and rewards through outstanding guarantees of the entity's obligations. The Group guarantees all obligations of this entity represented by the bonds issued.

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22. LONG-TERM BORROWINGS (CONTINUED)

Net Debt Reconciliation

The table below sets out an analysis of net debt. Net debt reconciliation is a reconciliation of the movements in the Group's liabilities from financing activities net of cash and cash equivalents and bank deposits for each of the periods presented. The items of these liabilities are those that are reported as financing in the consolidated statement of cash flows:

	Borrowings (Notes 22, 26)	Leases	Cash and cash equivalents (Note 20)	Bank deposits (Note 19) /Interest income	Total
At 1 January 2019	(515)	(21)	739	-	203
Cash flows, net	(315)	3	315	(22)	(19)
Effect of translation to presentation currency and exchange rate changes	(5)	(1)	51	1	46
Interest (charge)/income	(24)	(1)	-	21	(4)
Change in lease, net	-	10	-	-	10
Other	(1)	-	-	-	(1)
At 31 December 2019	(860)	(10)	1,105	-	235
Cash flows, net	(43)	4	(200)	179	(60)
Effect of translation to presentation currency and exchange rate changes	(32)	-	(47)	1	(78)
Interest (charge)/income	(24)	(1)	-	20	(5)
Change in lease, net	-	(4)	-	-	(4)
At 31 December 2020	(959)	(11)	858	200	88

For the purposes of this disclosure interest income amounts include interest accrued on all bank deposits (Note 19 and 20).

23. SITE RESTORATION PROVISION

	2020	2019
Balance at the beginning of the year	237	140
Unwinding of discount rate	12	12
Change in estimates	(63)	78
Provision utilised	(11)	(13)
Effect of translation to presentation currency	(39)	20
Balance at the end of the year	136	237
Included in the consolidated statement of financial position as:		
Long-term portion of site restoration provision	125	228
Current portion of site restoration provision	11	9
Total	136	237

According to environmental regulation and Ecological program approved by the management in 2013 the Group recognised a provision for restoration of land and open pit in Magnitogorsk up to 2040. At the moment of provision recognition there were no assets in the consolidated statement of financial position related to this provision due the open pit was depleted long years ago.

In 2020 management changed the restoration plan for the part of depleted open pit by appropriate submission of technical project, as the result, provision for restoration decreased by 71 million. Due to the implemented changes the Group plans to complete its restoration program for other parts of the depleted open pit in 2030. Changes in discount rate and site restoration expenses led to increase of related provision by USD 9 million. All those changes were recognized in other expenses.

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23. SITE RESTORATION PROVISION (CONTINUED)

Provision for restoration and closing mine of mine shaft was decreased by USD 1 million and recognised in the costs of related assets.

In 2019 the management reassessed the cost of restoration of open pit due to changes in discount rate and site restoration expenses and increased relative provision by USD 65 million accordingly and recognized it as part of other expenses. Provision for restoration and closing mine of mine shaft was increased by USD 13 million and recognised in the costs of related assets.

The Group used discount rate of 5.9% (2019: 6.5%) to calculate provision.

24. DEFINED CONTRIBUTION PLANS

Contributions to the Russian Federation State Pension Fund amounted to USD 123 million and USD 133 million for the years ended 31 December 2020 and 2019, respectively.

25. TRADE AND OTHER PAYABLES

	31 December	
	2020	2019
Trade accounts payable	620	539
Dividends payable	370	307
Total financial payables within trade and other payables	990	846
Advances from customers	243	189
Other taxes payable	48	71
Salaries payable	55	61
Claims provision	19	13
Other current liabilities	25	30
Total trade and other payables	1,380	1,210

Performance obligations of the Group are short-term in nature. Consequently all advances to customers as of 1 January 2020 and 2019 were recognised in revenue during the years ended 31 December 2020 and 2019 respectively.

The maturity profile of the Group's financial payables within trade and other payables was as follows:

	31 December	
	2020	2019
Due in:		
1 month	823	715
1-3 months	109	99
3 months to 1 year	58	32
Total	990	846

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26. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December	
	2020	2019
Short-term borrowings:		
Unsecured loans, RUB	40	-
Unsecured loans, EUR	246	45
Unsecured borrowings, RUB	2	-
Unsecured loans, USD	63	67
	351	112
Current portion of long-term borrowings:		
Unsecured listed bonds, USD	21	21
Unsecured loans, EUR	39	200
	60	221
Total	411	333

At 31 December 2020 and 2019 short-term loans were not secured.

Short-term borrowings and current portion of long-term borrowings are repayable as follows:

	31 December	
	2020	2019
Due in:		
1 month	9	7
1-3 months	262	203
3 months to 1 year	140	123
Total	411	333

27. RELATED PARTIES

Transactions and balances outstanding with related parties

Transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are generally performed on arm's length basis.

Details of transactions with and balances between the Group and related parties at 31 December 2020 and 2019 and for the years ended 31 December 2020 and 2019 are disclosed below.

In 2020 the Group received monetary reimbursement of expenses incurred in June 2020 related to withholding tax in respect to dividends paid in prior periods in the amount of USD 7 million from the Parent company's major shareholder (Note 13).

a) Transactions with associates of the Group

	2020	2019
Revenue	3	4
Purchases	5	12
Other expenses	6	-

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27. RELATED PARTIES (CONTINUED)

Balances outstanding	31 December	
	2020	2019
Trade and other receivables	-	1

b) Transactions with other related parties

	2020	2019
Revenue	383	257
Purchases	4	16
Bank charges	1	1

Balances outstanding	31 December	
	2020	2019
Cash and cash equivalents	35	30
Borrowings	1	-
Trade and other receivables	106	36

Other related parties include entities under common control with the Group and companies controlled by key management personnel of the Group.

The amounts outstanding are unsecured and will be settled in cash.

Remuneration of the Group's key management personnel

Key management personnel include key management of the Group and members of the Board of Directors and receive only short-term employment benefits. For the years ended 31 December 2020 and 2019, total key management personnel compensation included in general and administrative expenses amounted to USD 8 million and USD 9 million, respectively, including social taxes.

28. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk exposures, market movements in interest rates, equity investment prices and fluctuations in foreign exchange rates. A description of the Group's risks and associated management policies in relation to these risks are detailed below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's borrowings (the maturity profiles for financial liabilities within trade and other payables are presented in Notes 25) based on contractual undiscounted payments, including interest:

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28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

2020	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in one year to later
Fixed rate borrowings					
Principal	902	3	264	111	524
Interest	78	-	-	23	55
	980	3	264	134	579
Floating rate borrowings					
Principal	64	6	-	10	48
Total fixed and floating rate borrowings	1,044	9	264	144	627
2019	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in one year to later
Fixed rate borrowings					
Principal	794	7	204	83	500
Interest	99	-	-	22	77
	893	7	204	105	577
Floating rate borrowings					
Principal	71	-	-	21	50
Interest	2	-	-	1	1
	73	-	-	22	51
Total fixed and floating rate borrowings	966	7	204	127	628

Credit risk

Credit risk refers to the risk that one party to a financial instrument will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from cash and cash equivalents and deposits with banks as well as credit exposures to customers and other counterparties, including outstanding uncollateralised trade and other receivables.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recorded in the consolidated financial statements, net of any impairment losses.

Credit risk is the one of the largest risks for the Group's business; management therefore carefully manages its exposure to credit risk. Prior to acceptance of a new customer, the Group assesses the customer's credit quality and defines credit limits. Credit limits attributable to customers are regularly reviewed, at a minimum annually.

At 31 December 2020 and 2019, the Group assessed credit quality for trade and other receivables including trade and other receivables from related parties by type of customers as follows:

	31 December	
	2020	2019
Automobile producers	66	75
Traders	180	122
Tube plants	74	90
Other industries	185	224
Total	505	511

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28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfall (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these consolidated financial statements are point-in-time estimates, rather than through-the-cycle estimates. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that could have an impact on credit risk.

For purposes of measuring probability of default, the group defines default as a situation when the exposure meets one or more of the following criteria:

- the customer is more than 90 days past due on its contractual payments;
- international rating agencies have classified the customer in the default rating class;
- the customer meets the unlikeliness-to-pay criteria listed below:
 - the customer is insolvent;
 - the customer is in breach of financial covenants; and
 - it is becoming likely that the customer will enter bankruptcy.

For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Group.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets the default criteria that was applicable to the relevant counterparty.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group's management. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met. For trade and other receivables:

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28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

- 30 days past due;
- commencement of legal proceedings with the counterparty in respect of the existing debt;
- Relative threshold: the Group regularly monitors debtors with increased credit risk and, depending on the assessment of macroeconomic, industry and other relevant factors, considers if such debtors have a SICR.

The level of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the debtor has increased significantly since initial recognition.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

The objective of the Group's foreign exchange risk management is to minimise the volatility of the Group's cash flows arising from fluctuations in foreign exchange rates. Management focuses on assessing the Group's future cash flows in foreign currencies and managing the gaps arising between inflows and outflows. Currently, the Group does not use hedging instruments to manage exchange rate exposures.

At 31 December 2020 and 2019, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency were as follows:

	31 December 2020		31 December 2019	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	7	317	11	666
Deposits	-	200	-	-
Trade receivables	12	189	11	77
Total assets	19	706	22	743
Liabilities				
Trade and other payables	(56)	(91)	(46)	(87)
Borrowings	(361)	(501)	(299)	(501)
Total liabilities	(417)	(592)	(345)	(588)
Total net position	(398)	114	(323)	155

The table below details the Group's sensitivity to devaluation of the RUB against USD and EUR by 10% (2019: 10%), which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		USD impact	
	2020	2019	2020	2019
Loss or profit	(40)	(32)	11	16
Capital	(40)	(32)	11	16

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

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28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 2% (31 December 2019: 2%), which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

	31 December	
	2020	2019
Profit	-	1
Capital	-	1

Equity and debt investment price risk

Investment price risk arising from holding equity and debt investments is not material for the Group.

29. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity.

As at 31 December 2020 the capital structure of the Group consists of debt (borrowings and obligations under leases) in the amount of USD 970 million (31 December 2019: USD 870 million), share capital of USD 386 million (31 December 2019: USD 386 million) and retained earnings of USD 9,522 million (31 December 2019: USD 9,600 million).

The management of the Group reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt. The Group monitors capital on the basis of the debt-to-equity ratio (to be not higher than 1:1). Additionally, the Group monitors the adequacy of its debt level using the net debt to EBITDA ratio.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2020 in comparison to the prior period.

30. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

In the course of carrying out its operations and other activities the Group enters into various agreements which require the Group to invest in or provide financing to specific projects or undertakings.

In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses to the Group.

At 31 December 2020, the Group had purchase agreements of approximately USD 678 million to acquire property, plant and equipment (31 December 2019: USD 705 million).

At 31 December 2020, the Group had purchase agreements of approximately USD 3,305 million to acquire in future periods through 2021-2027 coking coal, zinc, iron ore and natural gas (31 December 2019: USD 2,556 million).

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30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

As at 31 December 2020, future cash outflows of USD 37 million (undiscounted) to which the Group is potentially exposed to during the land lease term have not been included in the lease liability because they include variable lease payments that are linked to cadastral value (31 December 2019: USD 131 million).

Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

In the past, the Group transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund these social operations for the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred (Note 12).

Letters of guarantee

At 31 December 2020 the Group had letters of guarantee obtained from banks and given to suppliers amounted to USD 207 million (31 December 2019: USD 271 million).

Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2020. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Taxation contingencies in the Russian Federation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax noncompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

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30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note 15.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that it is probable that the tax positions and interpretations that it has taken will be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Impact of COVID 19

In response to the spread of coronavirus in Russia, the Group has established a special committee under the leadership of the Parent Company's CEO and is promptly monitoring the situation. The Group's employees receive up to date information on a daily basis about the current epidemiological situation at the Group enterprises in Magnitogorsk, in the Chelyabinsk Region, in Russia and across the world.

The Group is taking active measures to prevent the spread and reduce the risk of coronavirus. Office employees have been shifted to work remotely, while the number of personnel at production sites has been reduced. Shifts are being separated by pauses in order to minimise contact between employees. All employees have been provided with personal protective equipment. Employees have their body temperature measured by contactless thermometers throughout the Group's divisions. Dispensers with antiseptic solution have been placed in administrative buildings and in public areas, while specialised disinfecting equipment has been put in place and sanitary treatments are being carried out regularly. In person meetings, negotiations and business trips have been replaced by online communications using appropriate technology.

According to the decision of the Chairman of the Board of Directors, Victor F. Rashnikov, PJSC MMK donated USD 12 mln for anti pandemic and social support measures at Magnitogorsk.

The global pandemic and the introduction of quarantine measures to combat coronavirus in Russia have had a significant impact on economic activity in Q2 2020.

Despite the ongoing difficult pandemic situation in the world, steel demand in Q4 caused by supply shortage in some markets, continued to increase, stimulating the growth of market quotations for steel products.

The Group's management is closely monitoring the development of the situation on global markets.

During the peak of the pandemic, the Group carried out planned repairs of the blast furnace, converter and rolling equipment, which was the cause of a partial reduction in production volumes.

The Group has considerable flexibility in implementing its CAPEX programme, giving priority to projects with the strongest economic and environmental performance.

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30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group has a sufficient liquidity level and one of the lowest debt load indicators in the industry. As of 31 December 2020, the Group's debt amounted to USD 970 million, including Eurobonds maturing in 2024 (Notes 22, 26). At the same time, the total unused element of all credit facilities is USD 1,494 million, which allows the Group to fully refinance its current debt portion. The Group's cash, cash equivalents and short term bank deposits balance amounts to USD 1,058 million, resulting in a net debt/EBITDA ratio of -0.06x at the end of Q4 2020. The current values of financial covenants are significantly lower than the normative ones.

The Group regularly assesses the solvency of its contractors. A significant part of the Group's accounts receivable is secured by bank guarantees.

To date, the Group has not experienced any difficulties with the supply of basic raw materials, equipment or spare parts.

The Russian Government has announced large scale measures to support the country's economy and population. A set of measures has been enacted for enterprises from the industries most affected by the spread of coronavirus. These measures include the deferral of certain categories of tax payments and the provision of subsidies and other forms of assistance. Additional measures are being worked out to support the automotive and construction industries as well as traditional metal consuming industries. In particular, metal consumption in Russia should be positively affected by the programme to subsidise mortgage interest rates and speed up the implementation of the government's national projects in conjunction with other methods to support the construction industry.

In accordance with Decrees of the Russian Government published in April May 2020, the Group's three subsidiaries raise preferential rate loans as part of the state support programs aimed at maintaining employment. The total amount of the debt under concluded loan agreements as of 31 December 2020 is USD 40 million.

Significant estimates were made by the Group based on available data in the current macroeconomic environment and using the best industry expertise. Nevertheless, the Group's management current significant estimates may change depending on the uncertainty surrounding the duration of spread and the magnitude of the effects of coronavirus.

The Group's management continues to closely monitor the development of the pandemic, taking active measures to minimise risks to employees and to the business as a whole.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information.

The carrying amounts of financial instruments such as cash (Level 1) and cash equivalents (Level 2), bank deposits, trade and other receivables, lease obligations, short-term and long-term borrowings (except for listed bonds), trade and other payables are reasonable approximation of their fair values as at 31 December 2020 and 31 December 2019 (Level 3 of fair value hierarchy). Fair value of the financial assets carried at amortized cost is valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of floating rate instruments is normally approximation of their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

The fair value of eurobonds is determined on the basis of market value and relates to level 1 of the fair value hierarchy.

The following table presents the fair value of financial instruments carried at FVTPL and eurobonds at the end of reporting period across the three levels of the fair value hierarchy defined in IFRS 13 *Fair Value Measurement*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value management. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	Level 1	Level 2	Level 3	Total
31 December 2020				
Unlisted equity securities	-	-	2	2
Trading debt securities	7	-	-	7
Total assets	7	-	2	9
 Eurobonds	 540	 -	 -	 540
Total liabilities	540	-	-	540
 31 December 2019				
Unlisted equity securities	-	-	2	2
Trading debt securities	8	-	-	8
Total assets	8	-	2	10
 Eurobonds	 529	 -	 -	 529
Total liabilities	529	-	-	529

32. EVENTS AFTER THE DATE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In January 2020, dividends were paid in the amount of USD 353 million. The difference with the declared amount is caused by the change in the exchange rates.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2020 were approved by the Group's management and authorised for issue on 1 February 2021.