Notes to the consolidated financial statements

for the year ended 31 december 2018

Millions of US Dollars, unless otherwise stated

1. General information

Organisation and principal activities. Joint Stock Company («JSC») «Siberian Coal Energy Company» («SUEK» or the «Company») was founded on 1 December 1999. The Company and its subsidiaries are collectively referred to as the Group. The address of registered office is Dubininskaya st. 53, bld. 7, Moscow, Russian Federation. The principal activities of the Group are the extraction and sale of coal and generation and sales of electricity, heat and capacity.

In 2018, as the result of reorganization, AIM Capital SE, registered in the Republic of Cyprus, became the immediate parent company of SUEK with 92.2% interest in the Company's share capital.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital SE.

In August 2018, the Group acquired from a parent company 99.9% of Siberian Generating Company («SGC») group. Since the acquisition of the SGC group represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2017, at the beginning of the earliest comparative period (see note 30).

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for:

mining assets carried at fair value; and
derivative financial instruments which are stated at fair value.

Functional currency. The functional currency of subsidiaries of the Group is the currency of the primary economic environment where these entities operate. The functional currency of foreign trading subsidiaries and predominantly exportoriented Russian subsidiaries is US Dollar («USD»). The functional currency of the Company and Russian subsidiaries that are not predominantly export-oriented is the Russian Rouble («RUB»).

Presentation currency. The presentation currency is the USD. The translation of the consolidated financial statements into the presentation currency was performed in accordance with the requirements of IAS 21 «The Effects of Changes in Foreign Exchange Rates».

The following RUB/USD exchange rates were applied at 31 December and during the years then ended:

Adoption of new and revised standards and interpretations

The following standards and amendments to standards became effective for the Group from 1 January 2018:

IFRS 9 «Financial Instruments» supersedes IAS 39 «Financial Instruments: Recognition and Measurement» and introduces new classification and measurement requirements, a single, forward-looking «expected loss» impairment model and a substantially-reformed approach to hedge accounting. The Group has elected to apply the limited exemption in IFRS 9 relating to transition and accordingly has not restated comparative periods in the year of initial application. The standard did not have a significant impact on the classification of the financial instruments and their disclosures in the consolidated financial statements. On 1 January 2018 the Group also estimated the expected credit losses for the entire period of the financial instruments, applying a simplified approach to measuring expected credit losses for trade receivables, which uses a lifetime expected loss allowance. This resulted in an increase of the allowance for doubtful debts for trade receivables of the power segment by 13 million USD and a decrease of the retained earnings by 11 million USD on 1 January 2018. There is no impact on hedge accounting.

IFRS 15 «Revenue from contracts with customers» outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Group assessed the impact of the new standard on the Group’s performance and financial position by identifying and analysing classes of transactions where revenue recognition under previously applied IAS 18 might be different from IFRS 15 requirements. As a result, the Group identified certain areas of focus which mainly related to revenue recognition of services provided to customers. The Group identified that under contract conditions related to significant

portion of coal sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognised revenue for such services and associated costs in full immediately after loading. Under IFRS 15 such revenue is a separate performance obligation and shall be recognised over time rather than at a point in time, however, due to the short lead time to deliver such services and absence of individually material transactions, the potential impact on the Group's performance and financial position was estimated immaterial. The Group has also assessed the impact of the new standard on revenue disclosures which shall reflect how the information is used by the entity to evaluate financial performance and make operating decisions. The Group concluded that existing disclosures are consistent with the new requirements.
The Group did not identify any other areas where new standard might have a material effect upon adoption. The Group will continue monitoring the impact of treating freight related services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.
IFRIC 22 «Foreign currency transactions and advance consideration» provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation does not have a significant impact on the Group's consolidated financial statements.

The following standard is not yet effective at 31 December 2018, and has not been early adopted:

IFRS 16 «Leases» (effective for annual periods beginning after 1 January 2019 with earlier application permitted, if IFRS 15 is also adopted) supersedes IAS 17 «Leases» and provides a new approach to lease accounting that eliminates the classification of leases as either operating leases or finance leases for a lessee and requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. Currently, the Group recognises operating lease expense on a straight line basis over the term of the lease, and recognises assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. Under the new standard the Group will recognise new assets and liabilities for its operating leases, which represent mostly rental of railcars, land and vessels. The nature of expenses related to those leases will be changed because the Group will recognise a depreciation charge for right of use assets and interest expense on lease liabilities. Based on the information currently available, the Group estimates that it will recognise additional lease liabilities and right of use assets in the amount of 779 million USD as at 1 January 2019. The Group does not expect that the adoption of IFRS 16 will impact its ability to comply with the revised restrictive covenants for borrowings described in note 19.

3. Significant accounting policies

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2017, except for the adoption of IFRS 15 «Revenue from Contracts with Customers», IFRS 9 «Financial Instruments» from 1 January 2018 and change in the mining assets disclosure, which did not have a material effect on the Group’s financial statements (see note 2 and note 3.3, respectively).

3.1. Basis of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The acquisition of subsidiaries from third parties is accounted for using the purchase method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition. Non-controlling (minority) interest is measured at its proportionate interest in the identifiable assets and liabilities of the acquiree. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Changes in ownership interests by the Group in a subsidiary, while maintaining control, are recognised as an equity transaction.

Upon a loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Business combination under common control. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the predecessor's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Difference between the purchase consideration and carrying value of net assets acquired is recognised directly in equity.

3.2. Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the respective functional currency at the exchange rate ruling at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in profit or loss, except that exchange differences arising from the revaluation of the intra-group debt accounted for as a part of net investments in foreign entities are recognised in other comprehensive income in the consolidated financial statements.

The translation of the financial statements from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 «The Effects of Changes in Foreign Exchange Rates» 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 the consolidated statement of profit or loss are translated at the average exchange rates for the years presented;
resulting exchange differences are included in equity and presented separately; 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. All cash flows are translated at the annual average exchange rates for the years presented. Resulting exchange differences are presented as foreign exchange effect on cash and cash equivalents.

3.3. Property, plant and equipment

Basis of carrying value of property, plant and equipment.

Mining assets. During 2018, the Group has changed its accounting policy and established a new single category of property plant and equipment — Mining assets. The new category combined mineral rights with capitalised mine development costs and certain types of operating equipment, such as equipment which represents an integral part of a particular mine or a particular openpit, or such items of mining equipment whose use on an alternative mine or openpit is impracticable or not economically feasible. The remaining part of tangible fixed assets besides listed above is defined as operating tangible fixed assets.

Mining assets are carried at fair value since the date of the creation of this new class of property, plant and equipment. Mineral rights were classified as property, plant and equipment and carried at fair value starting from 1 January 2013.

Management believes that the new accounting policy presents more fairly the consolidated financial position of the Group by recognising the whole value of the mineral resource base, which is the Group’s core asset in its consolidated statement of financial position.

The fair value is determined by discounting future cash flows which can be obtained from operations of the mines based on the life-of-mine plans and deducting the fair value of the operating tangible fixed assets.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the mining assets and the net amount is restated to the revalued amount of the asset. Revaluations are performed on an annual basis.

A revaluation increase is recognised in other comprehensive income and accumulated in equity except to the extent it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the mining assets and depreciation based on the asset's historical cost, is transferred from the revaluation reserve to retained earnings.

The mineral rights of new greenfields are carried at historical value until detailed technical and financial plans for the assets are finalized.

Property, plant and equipment, other than mining assets. Property, plant and equipment, other than mining assets, is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalised borrowing costs. Where an item of property, plant and equipment, other than mining assets, comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment, other than mining assets, that is accounted for separately is capitalised with the carrying amount of the component that has been replaced. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in profit or loss as an expense as incurred.

Depreciation. Mining assets are depreciated using the unit-of-production method, based on the estimated proven and probable coal reserves to which they relate, or are written off if the mine is abandoned or where there is an impairment in value. The impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. Estimated proven and probable coal reserves determined in accordance with internationally recognised standards for reporting coal reserves reflect the economically recoverable coal reserves which can be legally recovered in the future from coal deposits.

Tangible assets, other than mining assets, are depreciated using the straight-line method based on estimated useful lives. For each item the estimated useful life has due regard to both its own physical life limitations and, if applicable, the present assessment of the economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all tangible assets, with annual reassessments for major items.

The estimated useful lives of property, plant and equipment, including mining assets, are as follows:

mining assets average of 59 years
buildings, structures and utilities 5 — 50 years
machinery, equipment and transport 3 — 37 years

3.4. Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

3.5. Impairment

The Group reviews the carrying amounts of its tangible and intangible assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cashgenerating unit (CGU) to which the asset belongs.

A recoverable amount is the higher of fair value less costs to sell 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.

If the recoverable amount of an asset or CGU is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment losses are recognised in profit or loss for the year.

Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of the other assets in CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6. Research and exploration expenditure

Pre-exploration costs are recognised in profit or loss as incurred.

Exploration and evaluation costs (including geophysical, topographical, geological and similar types of expenditure) are capitalised as exploration and evaluation assets on a project-byproject basis pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting coal is considered to be determinable when proven coal reserves are determined to exist. Expenditure deemed to be unsuccessful is recognised immediately in profit or loss.

3.7. Inventories

Coal. Coal is measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Production costs include on-mine and processing costs, as well as transportation costs to the point of sale.

Consumable stores and materials. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.8. Financial instruments

Non-derivative financial instruments. Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

From 1 January 2018, the financial assets are classified in the following measurement categories based on the Group’s business model for managing the asset and the asset’s contractual cash flow characteristics: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

Financial assets at amortised cost. Financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss («FVTPL»):

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

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at fair value through other comprehensive income («FVOCI»). Financial assets are classified and measured at fair value through other comprehensive income if they meet both of the following conditions and are not designated as at FVTPL:

they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through profit or loss. Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. This includes all derivative financial assets.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

If the Group changes its business model for managing financial assets it must reclassify all affected financial assets.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset, or it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

Cash and cash equivalents. Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities.. All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that the Group designates to be measured at fair value through profit or loss. After initial recognition, the Group cannot reclassify any financial liability.

The Group derecognises a financial liability (or a part of a financial liability) when the obligation specified in the contract is discharged or cancelled or expires.

Impairment of financial assets. The Group assesses on a forward looking basis the expected credit losses («ECL») associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probabilityweighted basis. The impairment model applies to the financial instruments that are not measured at FVTPL.

Loss allowance is recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group measures loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

debt securities that are determined to have low credit risk at the reporting date;
other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

For loans, the Group measures ECL on an individual basis, or on a collective basis for portfolios that share similar economic risk characteristics.

An impairment loss in respect of the financial assets is calculated as present value of the difference between the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive.

For trade receivables, the Group applies a simplified approach permitted by the standard, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. In assessing the impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the asset. Impairment losses on financial assets are presented under 'other expenses' in the operating profit or loss, similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and other comprehensive income due to materiality considerations.

Derivative financial instruments. The Group may enter into a variety of derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk, interest rate risk and risk of changes in the price of freight.

Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. The subsequent changes are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

When a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, or the designation is revoked, then hedge accounting is discontinued prospectively. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is reclassified to profit or loss.

3.9. Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10. Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting year is recognised as an expense in that reporting year.

Defined contribution plan. The Group contributes to the Pension Fund of the Russian Federation, a defined contribution pension plan. The only obligation of the Group is to make the specified contributions in the year in which they arise and these contributions are expensed as incurred.

Defined benefit plans. In accordance with current legislation and internal documentation the Group operates defined benefit plans whereby field workers of its coal-producing subsidiaries are entitled to a lump sum payment. The amount of benefits depends on age, years of service, compensation and other factors.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. Actuarial gains and losses are recognised directly in other comprehensive income.

The defined benefit obligation is calculated annually by the Group. The Projected Unit Credit Method is used to determine the present value of defined benefit obligations and the related current service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

3.11. Income tax

Income tax expense comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill and temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

3.12. Revenue recognition

Revenue comprises the sales value of coal, power and other goods and services supplied to customers during the period, excluding value-added tax. The sales of goods are recognised when control of the products has transferred to the customer. Revenue from providing services is recognised in the accounting period in which the services are rendered.

Power sales are carried out on both regulated and unregulated power markets. Regulated market revenue is based on the application of authorised tariffs as approved by the Federal Antimonopoly Service and Regional Energy Commission of Russian Federation. Revenue is recognised on a monthly basis upon the delivery of the electricity and heat.

The amounts of revenue and expenses of self-produced and consumed electricity volume are shown net for presentation purposes based on selling prices on a dayahead market. Management believes that such presentation provides more relevant and meaningful information about the operation of the Group.

3.13. Operating lease payments

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit or loss in the year in which they are due in accordance with lease terms.

3.14. Dividends declared

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

Retained earnings legally distributable by the Group 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 Group entities. These amounts may differ significantly from the amounts recognised in the Group's consolidated IFRS financial statements.

3.15. Development expenditure

Development costs are capitalised when shaft sinking is done to prepare a certain part of a deposit for mining and used throughout the life of a mine. Development costs are expensed when longwalls are prepared for extraction.

3.16. Overburden removal expenditure

In open pit coal mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable coal.

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

Due to the specifics of the geology of the Group's mining assets, the period required to gain access to a coal seam is short, and the stripping ratio (volume of overburden removed over the volume of coal extracted) is relatively constant over the periods. Therefore, stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

3.17. Environmental obligation

Environmental obligation includes provision for decommissioning and site restoration costs.

Environmental provision is recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the balance sheet date:

to dismantle and remove its items of property, plant and equipment (decommissioning); and
to restore site damage after the commencement of coal production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision through unwinding of the obligation, due to the passage of time, is recognised as a finance cost in profit or loss.

Changes in the obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit or loss.

Gains from the expected disposal of mining assets at the end of the life of the mine are not taken into account when determining the provision.

3.18. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss for the year in which they are incurred.

3.19. Goodwill

Goodwill arises on acquisitions and is recognised as an asset initially measured at cost, being the excess of the cost of the business combination over the Group’s share of the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. If the Group’s share of the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities, after reassessment, exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Transaction costs incurred in a business combination are expensed.

The Group elected not to restate past business combinations at the date of adoption of IFRS.

4. Critical accounting judgements and estimates

In the process of applying the Group’s accounting policies management has made the following principal judgements and estimates that have a significanteffect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

Coal reserve estimates. Coal reserve estimates are used as the basis for future cash flows, which enter into the valuation of mining rights, the determination of provision for environmental obligations, calculations of amortisation and depreciation of mining assets, the unwinding of discount on environmental obligations and the related deferred taxes.

The coal reserve estimates represent the quantity of coal expected to be mined, processed and sold at prices at least sufficient to recover the estimated total costs, the carrying value of the investment and anticipated additional expenditures («proven and probable coal reserves» in international mining terminology). The estimates are based on several assumptions about the physical existence of coal reserves, future mining and recovery factors, production costs and coal prices and have been calculated using the assessment of available exploration and other data. The Group undertakes revisions of the coal reserve estimates, which are confirmed by independent consulting mining engineers, as appropriate.

Although management's long-term mine plans exceed the remaining useful life of some of the mining licenses of the Group, the Group has a legal right to apply for the extension of the licenses for its existing mining resources and therefore management is confident that the licenses will be extended provided that it is the same coal resource within the original mining license and that certain other conditions are met. Extensions to new seams or adjacent areas are often subject to open auctions. Delay or failure in securing relevant government approvals or licences, as well as any adverse change in government policies, may cause a significant adjustment to development and acquisition plans, which may have a material adverse effect on the Group's financial position and performance.

Valuation of mining assets. Mining assets for coal extraction are stated at their fair value based on reports prepared by internal specialists of the Group at each year end.

Since there is no active market for mining assets, the fair value is determined by discounting future cash flows, which can be obtained from the operations of the mines based on the life-of-mine plans, and deducting the fair value of the operating tangible fixed assets. The Group did not identify any material intangible assets which could be deducted in arriving at the fair value of the mining assets.

Since the operating tangible fixed assets are carried at historical cost, for the purposes of regular revaluation of mining assets their fair value is determined either based on market prices for similar items of tangible fixed assets recently acquired or constructed by the Group or, in absence of such items, by applying a price index for the relevant year of acquisition of mining equipment to the residual value of items.

At 31 December 2018 the fair value of mining assets was determined based on the following key assumptions:

the cash flows were projected based on actual operating results and life-of-mine models constructed for each cashgenerating mining unit and based on an assessment of proven and probable reserves using projected volumes of coal and the available capacity of the transport infrastructure in the foreseeable period and thereafter. Management opts to involve professional appraisers to perform estimation of reserves as appropriate;
export coal sales volumes were estimated to grow at an average 2% for the foreseeable forecasted period 2019-2030;
export coal prices for Asian markets estimated to fall with average 10% and European markets — 5% in 2019 and to fall at an average of 6% and 3% correspondingly in 2020-2022 based on the forward rates and a consensus forecast of investment banks and thereafter in line with expected longterm USD inflation;

domestic coal sales volumes were estimated to grow at an average rate of 1% for the foreseeable forecasted period 2019-2030;
domestic coal prices estimated to grow with average 5% in 2019 and to grow in line with RUB inflation thereafter;
regulated railroad tariffs for 2019 were estimated to grow at an average rate of 6% for domestic and 9% for export shipments and to grow in line with RUB inflation thereafter;
the RUB/USD exchange rate was estimated in 2019 at the level of 68 RUB/USD. For 2020-2021 estimate was based on the RUB/USD forward rate and a consensus forecast of investment banks and was indexed by the ratio between the expected RUB inflation of the corresponding year and the long-term USD inflation thereafter;
cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 13.8% for brown coal mining units and at nominal weighted average cost of capital of 10.4% for hard coal mining units.

At 31 December 2018 the total effect of the revaluation of the mining assets was an increase of 1,322 million USD (31 December 2017 — an increase of 1,321 million USD); the after-tax effect on equity was an increase of 1,058 million USD (31 December 2017 — an increase of 1,057 million USD).

Example changes in key assumptions applied to the first forecasted year would have the following effect on the fair value of the mining assets:

Determination of recoverable amount of property, plant and equipment of the Coal segment (other than mining assets). The recoverable amount of the property, plant and equipment of the coal segment (other than mining assets) as at 31 December 2018 was determined either based on market prices for similar items of machinery and equipment recently acquired by the Group or, if no such purchases were made, by applying a price index for the relevant year of acquisition for mining equipment to the residual value of items. As a result of the testing no impairment loss was recognised.

5. Segmental information

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and based on operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Operating segments identified by management are coal mining, ports and logistics, power and corporate segments in Russian Federation along with sales and distribution segments in Russian Federation and abroad. The coal mining segment represents the operations of the coal mining companies including extraction and washing; the ports and logistics segment includes railroad transportation assets and ports; the sales and distribution segment represents sales and distribution companies; the power segment represents operations of power generating companies including generation and sales of power and corporate segment includes holding companies.

Operating segment information for the Group at 31 December 2018 and for the year then ended is as follows:

Operating segment information for the Group at 31 December 2017 and for the year then ended is as follows:

6. Revenue

7. Cost of sales

Proceeds from the sale of electricity and purchased power are presented after deduction of cost of electricity generated by the Group and consumed for own process needs in the amount of 87 million USD for the year ended 31 December 2018 (for the year ended 31 December 2017 — 54 million USD).

8. Distribution costs

9. General and administrative expenses

10. Finance costs, NET

11. Property, plant and equipment

Group assets include advances issued for capital expenditures of 100 million USD (31 December 2017 — 64 million USD).

If mining assets had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2018 would have been 5,372 million USD (31 December 2017 — 4,718 million USD).

12. Other assets

13. Trade accounts and other receivables

14. Inventories

15. Prepaid and recoverable taxes

16. Cash and cash equivalents

17. Share capital and reserves

Ordinary shares of the Company have a par value of 0.005 RUB. All issued shares were fully paid.

In June 2018, the Company issued 4,000 thousand ordinary shares with par value of 0.005 RUB each for a total consideration of 104 million USD. The transaction resulted in a recognition of share premium in the amount of 104 million USD. In 2018 the shareholder’s liability for the shares was offset against payables of the Company for shares of SUEK LTD existent as at 31 December 2017 (see note 22).

18. Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no dilution effect.

19. Borrowings

As at 31 December 2017 49.98% of shares of JSC «Yenisei Territorial Generating Company (TGC-13)» and 49.99% of shares of JSC «Kuzbassenergo» were pledged as security for loans. In the first half of 2018 these loans were fully repaid.

The Group’s long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with:

consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation («EBITDA»); and
EBITDA to consolidated interest expense.

The covenants are calculated based on the IFRS financial statements of the Group on a semi-annual basis.
As at 31 December 2018 the Group was in compliance with all such covenants.

20. Changes in liabilities arising from financial activities

The table below provides information of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

21. Other long-term liabilities

Provision for environmental obligation. The extent and cost of future site restoration programmes are inherently difficult to estimate and depend on the estimated lives of the assets, the scale of any possible disturbance and contamination as well as the timing and extent of corrective actions. The following is a summary of the key assumptions on which the discounted carrying amounts of the obligations are based:

Provision for defined benefit obligation. Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

22. Trade accounts and other payables

23. Taxes payable

24. Taxation

The reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, where the Company is domiciled, to the amount of actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income is as follows:

The tax effects of temporary differences that give rise to deferred taxation are presented below:

Net effect of business combination recognised in equity amounted to 121 million USD (see note 30).

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends on a tax-free basis when certain conditions are met and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to 4,032 million USD (31 December 2017 — 3,646 million USD).

Management believes that sufficient taxable profits will be available, against which the unused tax losses can be utilised by the Group in the future.

For disclosure purposes certain deferred tax assets and liabilities are offset in accordance with the accounting policy.

25. Related party transactions

Related parties are considered to include the ultimate beneficiary, affiliates and entities under common ownership and control of the same principal ultimate beneficiary. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties.

Transactions with related parties not dealt with elsewhere in the consolidated financial statements are as follows:

26. Commitments

Capital commitments. The following capital expenditures were approved:

Social commitments. The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group's social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group's employees. Contributions are expensed in the year during which they are incurred.

Operating lease commitments. The Group has a number of non-cancellable lease commitments. Future minimum lease payments due under non-cancellable operating leases are as follows:

Lease of railcars. The Group has long-term operating lease contracts which expire through to 2025.

Land and premises leases. The Group has long-term operating lease contracts for land and office premises. The land in the Russian Federation on which the Group’s production facilities are located is largely owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2067 for land lease and to 2029 for office premises lease.

Lease of vessels. The Group has long-term operating lease contracts for two ice-class vessels. The operating lease agreements expire in 2020 and 2021.

27. Contingencies

Insurance. The insurance industry in the Russian Federation is in the process of development, and some forms of insurance protection common in developed markets are not yet generally available at commercially acceptable terms. The Group has limited coverage for its mining, processing, transportation and power generating facilities for business interruption or for third-party liabilities in respect of property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group’s operations and financial position.

Litigation. The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits which will be required to settle such liabilities.

Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment and other environmental concerns.

The Group’s management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, changes in environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This change in the environment did not have a significant effect on the Group’s operations, however, the longer-term effects of the imposed and possible additional sanctions are difficult to determine. The Group implemented relevant compliance policy, continuously monitors economic sanctions and analyses their effect on the Group’s financial position and operation results.

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

28. Fair value measurement

The fair value of assets and liabilities is determined with reference to various market information and other valuation methods as considered appropriate. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in valuation techniques, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data.

Financial instruments carried at amortised cost. At 31 December 2018, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values.

Financial instruments carried at fair value. Fair values of derivative financial assets and liabilities were determined using inputs from observable market data, which correspond to Level 2 of the hierarchy of fair values.

Mining assets carried at fair value. The fair value of mining assets was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values (see note 4).

29. Financial risk management

In the normal course of its operations, the Group is exposed to market (including foreign currency and interest rate), credit and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out through regular meetings of a risk management committee of operational management and by the central treasury department. The Board of Directors approves principles for overall risk management. In addition, operational management have developed policies covering specific areas, such as foreign currency risk, interest rate risk and the use of derivative and non-derivative financial instruments.

29.1. Market risk

Market risk is the risk that changes in market prices, such as coal prices, foreign exchange rates and interest rates will negatively impact the Group's results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk management includes the analysis of foreign currency and interest rate risks.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The total net unhedged liability which exposes the Group to interest rate risk amounts to 3,050 million USD (31 December 2017 — 3,146 million USD).

The Group's interest rate risk arises primarily from long-term borrowings. The Group's borrowings at variable interest rates are primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk. The Group monitors the risk and, if necessary, manages its exposure by entering into variable-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from variable interest rates to fixed interest rates.

An increase or decrease in the floating interest rate by 1 percentage point, provided that the amount of outstanding balance remained constant for the whole year, would have decreased or increased profit for the year by 31 million USD (2017 — 31 million USD).

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.

A significant portion of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUB. Accordingly, operating profits may be adversely impacted by the appreciation of the RUB against the USD. The risk of negative fluctuations in the USD/RUB exchange rate for future revenue streams is naturally hedged by the USD borrowings.

The Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

A 10% devaluation of functional currencies against foreign currencies at the reporting date would have the following effect on the equity and profit or loss for the year:

29.2. Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties. Trade receivables comprise international companies and large Russian companies, and credit is only extended to these customers after rigid credit approval procedures. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At 31 December 2018 3% of total trade receivables were due from the Group's largest customer and 26% of the total trade receivables were due from the Group's next 19 largest customers (31 December 2017 — 4% and 26%, respectively).

The table below analyses the Group's trade receivables into relevant groupings based on ageing.

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

Analysis of credit quality of cash and cash equivalents, including bank deposits, based on credit ratings of independent agencies «Standard & Poor's» and «Fitch Ratings» is listed in the table below:

29.3. Liquidity risk

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

Recently global and Russian capital markets have experienced significant volatility, including a lack of available sources of financing and significant fluctuation of the Russian Rouble against the USD and the Euro. Despite stabilisation measures undertaken by various governments, markets remain volatile.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group expects that cash generated from operations will be the major source of the Group's liquidity in 2018 and will be sufficient to cover the capital expenditures programme of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to refinance existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by ensuring the availability of credit line facilities. The unused portion of these lines at 31 December 2018 totalled 3,474 million USD (31 December 2017 — 3,427 million USD).

The table below analyses the Group’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the contractual undiscounted cash flows to maturity, including interest payments.

29.4. Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns to equity holders and benefits for other stakeholders.

The Group defines capital as shareholders’ equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. This strategy remains unchanged from prior years.

30. Investments in significant subsidiaries

Acquisition of SGC group. In August 2018 the Group acquired from a parent company 99.9% of LLC «SGC» for 1,916 million USD. The consideration is payable within 18 months since the date of acquisition. Payable to a parent company was transmitted to a related company by virtue of reorganization of a parent company. The principal activity of LLC «SGC» and its subsidiaries (SGC group) is generation and sales of electricity, heat and capacity.

Since the acquisition of the SGC group represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2017, at the beginning of the earliest comparative period presented. The assets and liabilities of SGC group were accounted for at the carrying amounts in the SGC consolidated IFRS financial statements using predecessor accounting. The difference between the transaction price and the net assets of SGC group was recorded in retained earnings.

The carrying amount of assets and liabilities of the SGC group at the date of acquisition and as at 31 December 2017 is presented below:

The statements of profit or loss for the year ended 31 December 2018 and 2017 and net assets as at 31 December 2018 and 2017 are disclosed in the segmental information (note 5).

Business combination. In the first quarter of 2018 JSC «Kuzbassenergo» acquired 77.6% of interest in power generation from third parties for 504 million USD. The principal activity of the acquired business is generation and sales of electricity, heat and capacity.

The fair value of assets and liabilities as of the acquisition date is presented below:

Non-controlling interest was determined proportionally to the share of minority shareholders in the net assets of the acquired group of companies.

Trade accounts and other receivables were presented at fair value. The estimation of cash flows at the acquisition date which, according to expectations, will not be collected, is 22 million USD.

Transactions with non-controlling interest. In the first half of 2018 the Group acquired 15.15% of the Group subsidiary JSC «Murmanskiy Morskoi Torgovyi Port» («MMTP») for 63 million USD from third parties which resulted in a decrease in non-controlling interests by 43 million USD and a decrease in retained earnings by 20 million USD. The acquisition increased the Group’s interest in the subsidiary to 100%.

In the fourth quarter of 2018 the Group acquired 19.49% of the Group subsidiary for 101 million USD from third parties which resulted in a decrease in non-controlling interests by 107 million USD and an increase in retained earnings by 6 million USD. The acquisition increased the Group’s interest in the subsidiary to 97.09%.

Non-controlling interests. Information of LLC «Vostochno-Beyskiy razrez» that has significant non-controlling interests is as follows: