PHOSAGRO

OJSC “PhosAgro”

Consolidated Financial Statements for 2015 and Auditors’ Report

Contents

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Auditors' Report

To the Shareholders and Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: OJSC "PhosAgro"

Registered by the State Registration Chamber with the Russian Ministry of Justice on 10 October 2001. Registration No. P-18009.16.

Entered in the Unified State Register of Legal Entities on 5 September 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700190572, Certificate series 77 No. 005082819.

55/1 building 1, Leninsky prospekt, Moscow, Russian Federation, 119333

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

I.V. Tokarev

Director, power of attorney dated 16 March 2015 No. 25/15

JSC "KPMG"

22 March 2016

Moscow, Russian Federation

	Note	2015 RUB Million	2014* RUB Million
Revenues	7	189,732	123,124
Cost of sales	9	(83,064)	(67,467)
Gross profit		**106,668**	**55,657**
Administrative expenses	10	(12,184)	(9,217)
Selling expenses	11	(17,751)	(12,963)
Taxes, other than income tax		(1,994)	(1,983)
Other expenses, net	12	(1,408)	(1,898)
Operating profit		**73,331**	**29,596**
Finance income	13	1,222	1,059
Finance costs	13	(6,093)	(11,610)
Foreign exchange loss, net	29(b)	(22,178)	(33,545)
Share of loss of associates	16	(59)	(756)
Restructuring costs		-	(173)
Profit/(loss) before tax		**46,223**	**(15,429)**
Income tax (expense)/benefit	14	(9,787)	2,034
Profit/(loss) for the year		**36,436**	**(13,395)**
Attributable to:			
Non-controlling interests ^		(6)	246
Shareholders of the Parent		36,442	(13,641)
Other comprehensive income			
Revaluation of available-for-sale securities		-	23
Actuarial gains and losses, net of tax		(4)	133
Foreign currency translation difference		3,405	5,220
Other comprehensive income for the year		**3,401**	**5,376**
Total comprehensive income/(loss) for the year		**39,837**	**(8,019)**
Attributable to:			
Non-controlling interests ^		(6)	248
Shareholders of the Parent		39,843	(8,267)
Basic and diluted earnings/(loss) per share (in RUB)	24	281	(105)

^ non-controlling interests are the minority shareholders of the subsidiaries of OJSC "PhosAgro"
* comparative information has been represented, see note 5

The consolidated financial statements were approved on 22 March 2016:

Chief executive officer
A.A. Guryev

Chief financial officer
A.F. Sharabaiko

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

	Note	31 December 2015 RUB million	31 December 2014 RUB million
Assets			
Property, plant and equipment	15	120,952	86,086
Intangible assets		566	572
Investments in associates	16	810	12,975
Deferred tax assets	17	5,901	4,249
Other non-current assets	18	10,246	8,935
Non-current assets		**138,475**	**112,817**
Other current investments	19	4,902	1,656
Inventories	20	17,814	12,527
Current income tax receivable		453	2,975
Trade and other receivables	21	25,511	18,993
Cash and cash equivalents	22	29,347	30,687
Current assets		**78,027**	**66,838**
Total assets		**216,502**	**179,655**
Equity	23		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		43,460	22,708
Other reserves		8,659	5,258
Equity attributable to shareholders of the Parent		59,985	35,832
Equity attributable to non-controlling interests		213	149
Total equity		**60,198**	**35,981**
Liabilities			
Loans and borrowings	25	105,565	93,002
Defined benefit obligations	26	424	453
Deferred tax liabilities	17	3,677	2,118
Non-current liabilities		**109,666**	**95,573**
Trade and other payables	28	17,011	15,321
Current income tax payable		491	620
Loans and borrowings	25	28,947	30,822
Derivative financial liabilities		189	1,338
Current liabilities		**46,638**	**48,101**
Total equity and liabilities		**216,502**	**179,655**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

	Note	2015 RUB million	2014 RUB million
Cash flows from operating activities			
Profit/(loss) before tax		46,223	(15,429)
Adjustments for:			
Depreciation and amortisation	9, 10, 11	9,133	8,013
Loss on disposal of property, plant and equipment	12	915	280
Finance income	13	(1,222)	(1,059)
Finance costs	13	6,093	11,610
Share of loss of associates	16	59	756
Foreign exchange loss, net		23,663	35,010
Operating profit before changes in working capital and provisions		84,864	39,181
Increase in inventories		(5,287)	(100)
Increase in trade and other receivables		(6,116)	(7,191)
Increase in trade and other payables		2,741	2,161
Cash flows from operations before income taxes and interest paid		76,202	34,051
Income tax paid		(7,488)	(3,847)
Finance costs paid		(5,453)	(2,695)
Cash flows from operating activities		**63,261**	**27,509**
Cash flows from investing activities			
Loans issued, net		(151)	(907)
Acquisition of intangible assets		(118)	(160)
Acquisition of property, plant and equipment		(42,550)	(20,549)
Proceeds from disposal of property, plant and equipment		170	335
Proceeds from disposal of investments		-	254
Finance income received		1,008	817
Cash of Phosint Group at the date of consolidation	33	10,178	-
Cash flows used in investing activities		**(31,463)**	**(20,210)**
Cash flows from financing activities			
Proceeds from borrowings		46,376	71,412
Repayment of borrowings		(62,041)	(43,145)
Dividends paid to shareholders of the Parent	23	(18,130)	(5,737)
Payment of finance lease liabilities		(1,905)	(1,015)
Payments for settlement of derivatives, net		(1,590)	(5,921)
Proceeds from contribution to charter capital of subsidiaries by non-controlling interests		71	132
Other payments		(154)	(247)
Acquisition of non-controlling interests		-	(7,078)
Cash flows (used in)/from financing activities		**(37,373)**	**8,401**
Net (decrease)/increase in cash and cash equivalents		**(5,575)**	**15,700**
Cash and cash equivalents at 1 January		30,687	8,938
Effect of exchange rates fluctuations		4,235	6,049
Cash and cash equivalents at 31 December	22	**29,347**	**30,687**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

RUB Million	Attributable to shareholders of the Parent							
	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Attributable to non-controlling interests	Total
Balance at 1 January 2014	**372**	**7,494**	**48,556**	**(23)**	**(443)**	**350**	**3,020**	**59,326**
Total comprehensive income for the year								
Loss for the year	-	-	(13,641)	-	-	-	246	(13,395)
Reclassification of non-controlling interests reflected as liability	-	-	-	-	-	-	(72)	(72)
Actuarial gains and losses, net of tax	-	-	-	-	131	-	2	133
Foreign currency translation difference	-	-	-	-	-	5,220	-	5,220
Revaluation of available for sale investments	-	-	-	23	-	-	-	23
	-	-	(13,641)	23	131	5,220	176	(8,091)
Transactions with owners recognised directly in equity								
Acquisition of non-controlling interest in subsidiaries	-	-	(3,633)	-	-	-	(3,179)	(6,812)
Dividends to shareholders of the Parent	-	-	(8,327)	-	-	-	-	(8,327)
Additional contribution to charter capital of subsidiaries	-	-	-	-	-	-	132	132
Other	-	-	(247)	-	-	-	-	(247)
	-	-	(12,207)	-	-	-	(3,047)	(15,254)
Balance at 31 December 2014	**372**	**7,494**	**22,708**	**-**	**(312)**	**5,570**	**149**	**35,981**
Balance at 1 January 2015	**372**	**7,494**	**22,708**	**-**	**(312)**	**5,570**	**149**	**35,981**
Total comprehensive income for the year								
Profit for the year	-	-	36,442	-	-	-	(6)	36,436
Actuarial gains and losses, net of tax	-	-	-	-	(4)	-	-	(4)
Foreign currency translation difference	-	-	-	-	-	3,405	-	3,405
	-	-	36,442	-	(4)	3,405	(6)	39,837
Transactions with owners recognised directly in equity								
Dividends to shareholders of the Parent, note 23	-	-	(15,540)	-	-	-	(1)	(15,541)
Additional contribution to charter capital of subsidiaries	-	-	-	-	-	-	71	71
Other	-	-	(150)	-	-	-	-	(150)
	-	-	(15,690)	-	-	-	70	(15,620)
Balance at 31 December 2015	**372**	**7,494**	**43,460**	**-**	**(316)**	**8,975**	**213**	**60,198**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 39.

1 BACKGROUND

(a) Organisation and operations

OJSC “PhosAgro” (the “Company” or the “Parent”) and its subsidiaries (together referred to as the “Group”) comprise Russian legal entities and foreign trading subsidiaries. The Company was registered in October 2001. The Company’s location is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation.

The Group’s principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region), Balakovo (Saratov region) and Volkhov (Leningrad region), and their distribution across the Russian Federation and abroad.

The Company's key shareholders are several Cyprus entities holding between 5% and 9.9% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey G. Guryev and his family members.

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial conditions of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, 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. 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.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and in accordance with the Federal Law No. 208 – FZ “On consolidated financial statements”.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale and derivative financial instruments are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

(c) Functional currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Parent and its subsidiaries, except for foreign trading subsidiaries, where the functional currency is USD.

(d) Presentation currency

These consolidated financial statements are presented in RUB. All financial information has been rounded to the nearest million, except per share amounts.

The translation from USD into RUB, where applicable, was performed as follows:

- Assets and liabilities as at 31 December 2015 were translated at the closing exchange rate of RUB 72.8827 for USD 1 (31 December 2014: RUB 56.2584 for USD 1);

- Profit and loss items were separately translated at the average exchange rate for 2015 of RUB 60.9579 for USD 1. Taking into account significant RUB volatility during the fourth quarter of 2014, profit and loss items were separately translated at the average exchange rate for the nine months ended 30 September 2014 and for the three months ended 31 December 2014 of RUB 35.3878 and RUB 47.4243 for USD 1, respectively;
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 27.7487 for USD 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

The translation from EUR into RUB, where applicable, was performed as follows:

- Assets and liabilities as at 31 December 2015 were translated at the closing exchange rate of RUB 79.6972 for EUR 1 (31 December 2014: RUB 68.3427 for EUR 1);
- Profit and loss items were separately translated at the average exchange rate for 2015 of RUB 67.7767 for EUR 1. Taking into account significant RUB volatility during the fourth quarter of 2014, profit and loss items were separately translated at the average exchange rate for the nine months ended 30 September 2014 and for the three months ended 31 December 2014 of RUB 47.9894 and RUB 59.1997 for EUR 1, respectively;
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 37.8409 for EUR 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

(e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- note 17 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- note 19 – recognition of bad debt provision on promissory notes: uncertainties associated with the mutual court claims filed by the Group and the bank.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) 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.

(ii) Loss of control

Upon the 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.

(iii) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group's interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date ("deemed cost") as determined by an independent appraiser.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenses in connection with ordinary maintenance and repairs are recognized in the statement of income as they are incurred.

Expenses in connection with periodic maintenance on property, plant and equipment are recognized as assets and depreciation straight line basis over the period until the next periodic maintenance, provided the criteria for capitalizing such items have been met.

Expenses incurred in connection with major replacements and renewals that materially extend the life of property, plant and equipment are capitalized and depreciated on a systematic basis.

(iv) Depreciation

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives as determined when adopting IFRS (1 January 2005) are as follows:

- Buildings 12 to 17 years;
- Plant and equipment 4 to 15 years;
- Fixtures and fittings 3 to 6 years.

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

- Buildings 10 to 60 years;
- Plant and equipment 5 to 35 years;
- Fixtures and fittings 2 to 25 years.

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 Business combinations to business combinations, which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

(iv) Amortisation

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3 – 10 years.

(e) Investments

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.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Other: Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

The Group from time to time buys derivative financial instruments to manage its exposure to foreign currency risk. All derivatives are recognised on the balance sheet at fair value. Derivatives are not designated as hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognised in profit and loss.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. 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 consolidated statement of cash flows.

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

(j) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between initial value and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Pension plans

The Group’s net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss on a straight line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(ii) Long-term service benefits other than pensions

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(iii) State pension fund

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle 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.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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. 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies' warehouses (mainly for domestic dispatches) or upon loading the goods onto the relevant carrier or upon the delivery to the destination point defined by the customer.

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

Revenue from services rendered is recognised in the profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Overburden removal expenditure

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

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.

According to the Group's approach to stripping, the ore which becomes accessible after the overburden removal is extracted within three months. Therefore, the stripping ratio (volume of overburden removed over the volume of resources extracted) is expected to stay relatively constant over the future periods and stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

(s) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit and loss as incurred.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

If the number of ordinary shares outstanding increases/(decreases) as a result of a share split/(reverse share split), the calculation of the EPS for all periods presented is adjusted retrospectively.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) Segment reporting

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. All operating segments' operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, related head office expenses and Group's associates.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) Adoption of new and revised standards and interpretations

No new standards and amendments became effective for the Group from 1 January 2015.

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement.* Amended IFRS 7 *Financial Instruments: Disclosure* requires additional disclosure on transition from IAS 39 to IFRS 9. The standard provides amended guidance on the recognition and measurement of financial assets and liabilities. Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.
- IFRS 15 *Revenue from contracts with customers* outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

- Amended IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* clarify the use of a revenue-based depreciation or amortisation method. Effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- Amended IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures* address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. Effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- IFRS 16 *Leases* outlines a single leesee accounting model and requires to bring most leases on-balance sheet. Effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

The Group is currently assessing the impact of these new and amended standards on the consolidated financial statements and plans to adopt these pronouncements when they become effective.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(d). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

(b) Derivative financial instruments

The Group's derivative financial liabilities are represented by forward and targeted accrual redemption note (TARN) contracts to sell USD at a predetermined USD/RUB exchange rates.

Fair value of the derivative financial instruments is estimated in accordance with Level 2 of the fair value hierarchy based on Monte Carlo simulation analysis at each reporting date.

A Monte Carlo simulation is a method for iteratively evaluating a deterministic model based on one or more random (stochastic) variables as inputs. The following inputs are used in determining the fair value of the Group's derivative financial instruments using Monte Carlo simulation:

- USD/RUB spot rate;
- USD/RUB forward curve;
- USD/RUB volatility surface.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS

During the current year the Group made a decision to make certain reclassifications of expenses for the year ended 31 December 2014 on materials and services, depreciation, and Russian Railways infrastructure tariff and operators’ fees between cost of sales, administrative expenses, selling expenses and other expenses, net in order to align them with the current year’s presentation:

	2014		
	As previously presented	Reclassifications	As adjusted
	RUB Million	RUB Million	RUB Million
Cost of sales	(68,821)	1,354	(67,467)
Administrative expenses	(9,081)	(136)	(9,217)
Selling expenses	(11,646)	(1,317)	(12,963)
Other expenses, net	(1,997)	99	(1,898)

6 SEGMENT INFORMATION

The Group has two reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

- *Phosphate-based products segment* includes mainly production and distribution of ammophos, diammoniumphosphate, sodium tripolyphosphate and other phosphate based and complex (NPK) fertilisers on the factories located in Cherepovets, Balakovo and Volkhov, and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;
- *Nitrogen-based products segment* includes mainly production and distribution of ammonia, ammonium nitrate and urea on the factory located in Cherepovets.

Certain assets, revenue and expenses are not allocated to any particular segment and are, therefore, included in the “other operations” column. None of these operations meet any of the quantitative thresholds for determining reportable segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on gross profit, as included in internal management reports that are reviewed by the Group’s CEO.

Management is currently in the process of reviewing and adjusting its internal reporting system based on merger of management accounting and IFRS. As a result, presentation of the segment information has been amended from 1 January 2015. Comparative information has been adjusted to conform to the current year’s presentation.

Segment information as at 31 December 2015 and for the year then ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Total
Segment revenue and profitability				
Segment external revenues, thereof:	167,430	21,574	728	189,732
Export	120,873	17,984	-	138,857
Domestic	46,557	3,590	728	50,875
Inter-segment transfers	-	-	-	-
Cost of goods sold	(70,344)	(12,063)	(657)	(83,064)
Gross segment profit	97,086	9,511	71	106,668
Certain items of profit and loss				
Amortisation and depreciation	(7,022)	(1,890)	(221)	(9,133)
Total non-current segment assets	76,090	41,992	3,436	121,518
Additions to non-current assets	17,913	25,025	1,255	44,193

Segment information of the Group as at 31 December 2014 and for the year then ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	105,832	16,626	666	-	123,124
Export	73,152	13,690	-	-	86,842
Domestic	32,680	2,936	666	-	36,282
Inter-segment transfers	-	8	-	(8)	-
Cost of goods sold	(58,156)	(8,720)	(599)	8	(67,467)
Gross segment profit	47,676	7,914	67	-	55,657
Certain items of profit and loss					
Amortisation and depreciation	(6,023)	(1,842)	(148)	-	(8,013)
Total non-current segment assets	66,498	18,214	1,946	-	86,658
Additions to non-current assets	12,818	4,352	1,405	-	18,575

The analysis of export revenue by regions is as follows:

	2015 RUB million	2014 RUB million
Europe	47,303	25,491
North and South America	44,430	39,477
India	18,185	2,672
Africa	12,475	8,799
CIS	10,740	6,882
Asia	5,724	3,521
	138,857	**86,842**

7 REVENUES

	2015 RUB million	2014 RUB million
Sales of chemical fertilisers	154,312	94,983
Sales of apatite concentrate	19,155	14,393
Sales of sodium tripolyphosphate	5,803	4,713
Sales of nepheline concentrate	737	660
Sales of ammonium	115	760
Other sales	9,610	7,615
	189,732	**123,124**

During the current year the Group made a decision to make certain reclassifications of revenue for the year ended 31 December 2014 between sales of chemical fertilisers and other sales in order to align them with the current year's presentation:

	2014		
	As previously presented RUB Million	Reclassifications RUB Million	As adjusted RUB Million
Sales of chemical fertilisers	98,164	(3,181)	94,983
Other sales	4,434	3,181	7,615

8 PERSONNEL COSTS

	2015 RUB Million	2014 RUB Million
Cost of sales	(10,155)	(9,754)
Administrative expenses	(6,784)	(5,248)
Selling expenses	(373)	(359)
Restructuring costs	-	(173)
	(17,312)	**(15,534)**

Personnel costs include salaries and wages, termination benefits, social contributions and current pension service costs.

9 COST OF SALES

	2015 RUB million	2014 RUB million
Materials and services	(22,905)	(20,398)
Salaries and social contributions	(10,155)	(9,754)
Sulphur and sulphuric acid	(8,385)	(4,522)
Ammonia	(8,190)	(3,423)
Depreciation	(8,057)	(7,198)
Potash	(7,559)	(3,915)
Natural gas	(7,484)	(7,505)
Chemical fertilisers and other products for resale	(4,091)	(2,932)
Electricity	(3,927)	(3,650)
Fuel	(2,865)	(2,791)
Ammonium sulphate	(2,176)	(839)
Heating energy	(718)	(1,161)
Other items	(23)	(14)
Change in stock of WIP and finished goods	3,471	635
	(83,064)	**(67,467)**

10 ADMINISTRATIVE EXPENSES

	2015 RUB million	2014 RUB million
Salaries and social contributions	(6,784)	(5,248)
Professional services	(2,003)	(1,107)
Depreciation and amortisation	(606)	(567)
Other	(2,791)	(2,295)
	(12,184)	**(9,217)**

11 SELLING EXPENSES

	2015 RUB million	2014 RUB million
Freight, port and stevedoring expenses	(8,425)	(5,252)
Russian Railways infrastructure tariff and operators' fees	(6,099)	(5,471)
Materials and services	(2,384)	(1,633)
Depreciation	(470)	(248)
Salaries and social contributions	(373)	(359)
	(17,751)	**(12,963)**

12 OTHER EXPENSES, NET

	2015 RUB million	2014 RUB million
Social expenditures	(1,821)	(1,259)
Loss on disposal of property, plant and equipment	(915)	(280)
Increase in provision for bad debt	(41)	(339)
Fines and penalties received	956	-
Decrease/(increase) in provision for inventory obsolescence	161	(48)
Other income, net	252	28
	(1,408)	**(1,898)**

13 FINANCE INCOME AND FINANCE COSTS

	2015 RUB million	2014 RUB million
Interest income	933	1,000
Unwind of discount of financial assets	128	-
Dividend income	-	3
Other finance income	161	56
Finance income	1,222	1,059
Interest expense	(5,198)	(2,577)
Loss from operations with derivative financial instruments	(310)	(7,338)
Bad debt provision on promissory notes	-	(1,424)
Bank fees	(277)	(168)
Other finance costs	(308)	(103)
Finance costs	(6,093)	(11,610)
Net finance costs	**(4,871)**	**(10,551)**

14 INCOME TAX (EXPENSE)/BENEFIT

The Company's applicable corporate income tax rate is 20% (2014: 20%).

	2015 RUB million	2014 RUB million
Current tax expense	(9,879)	(1,628)
Origination and reversal of temporary differences, including change in unrecognised assets	92	3,662
	(9,787)	**2,034**

Reconciliation of effective tax rate:

	2015 RUB million	2015 %	2014 RUB million	2014 %
Profit/(loss) before tax	46,223	100	(15,429)	100
Income tax at applicable tax rate	(9,245)	(20)	3,086	(20)
Reversal of income tax on intra-group dividends	399	1	-	-
Under provided in respect of prior years	(250)	(1)	(183)	1
Unrecognised tax asset on loss from associates	(12)	-	(151)	1
Correction of tax loss carry-forward	-	-	(330)	2
Non-deductible items	(638)	(1)	(406)	3
Effect of tax rates in foreign jurisdictions	(41)	-	18	-
	(9,787)	**(21)**	**2,034**	**(13)**

15 PROPERTY, PLANT AND EQUIPMENT

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2014	23,506	59,796	4,584	24,839	**112,725**
Additions	33	1,157	967	16,418	**18,575**
Transfers	2,381	7,475	-	(9,856)	**-**
Disposals	(257)	(1,367)	(178)	(189)	**(1,991)**
At 1 January 2015	25,663	67,061	5,373	31,212	**129,309**
Additions	10	741	1,544	41,898	**44,193**
Consolidation of Phosint Group	-	747	-	-	**747**
Transfers	5,392	8,574	-	(13,966)	**-**
Disposals	(244)	(2,411)	(168)	(644)	**(3,467)**
At 31 December 2015	30,821	74,712	6,749	58,500	**170,782**
Accumulated depreciation					
At 1 January 2014	(5,489)	(28,308)	(3,000)	-	**(36,797)**
Depreciation charge	(1,163)	(5,899)	(740)	-	**(7,802)**
Disposals	88	1,163	125	-	**1,376**
At 1 January 2015	(6,564)	(33,044)	(3,615)	-	**(43,223)**
Depreciation charge	(1,434)	(6,778)	(777)	-	**(8,989)**
Disposals	75	2,162	145	-	**2,382**
At 31 December 2015	(7,923)	(37,660)	(4,247)	-	**(49,830)**
Net book value at 1 January 2014	18,017	31,488	1,584	24,839	**75,928**
Net book value at 1 January 2015	19,099	34,017	1,758	31,212	**86,086**
Net book value at 31 December 2015	22,898	37,052	2,502	58,500	**120,952**

(a) Security

Properties with a carrying amount of RUB nil (31 December 2014: RUB 315 million) are pledged to secure loans and borrowings, see note 25.

(b) Leasing

Plant and equipment with the carrying value of RUB 6,008 million (31 December 2014: RUB 5,737 million) is leased under various finance lease agreements, see note 27(a).

16 INVESTMENTS IN ASSOCIATES

The movement in the balance of investments in associates is as follows:

	2015 RUB million	2014 RUB million
Balance at 1 January	12,975	8,485
Share in loss for the year	(59)	(756)
Consolidation of Phosint Limited, see note 33	(14,047)	-
Foreign currency translation difference	1,941	5,225
Share in revaluation gain on available-for-sale securities	-	21
Balance at 31 December	**810**	**12,975**

In November 2015, the Group obtained control over additional 46% in Phosint Limited, which has control ownership in PhosAsset GmbH and PhosAgro Trading SA, see notes 33 and 34.

Carrying values of the Group’s investments in associates are as follows:

	31 December 2015 RUB Million	31 December 2014 RUB Million
JSC Khibinskaya Teplovaya Kompaniya	400	400
LLC PHOSAGRO-UKRAINE	245	111
OJSC Giproruda	116	93
OJSC Soligalichskiy izvestkovyi kombinat	49	47
Phosint Group	-	12,324
	810	**12,975**

Summary financial information for associates is as follows:

2015	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	(Loss)/profit for the year RUB Million
JSC Khibinskaya Teplovaya Kompaniya	2,550	(1,800)	750	545	(77)
LLC PHOSAGRO-UKRAINE	1,398	(780)	618	5,959	416
OJSC Giproruda	884	(407)	477	130	103
OJSC Soligalichskiy izvestkovyi kombinat	242	(49)	193	555	10
	5,074	**(3,036)**	**2,038**	**7,189**	**452**

2014	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	(Loss)/profit for the year RUB Million
Phosint Group	13,077	(453)	12,624	55	(759)
JSC Khibinskaya Teplovaya Kompaniya	2,767	(1,940)	827	560	(37)
LLC PHOSAGRO-UKRAINE	400	(198)	202	2,142	48
OJSC Giproruda	451	(77)	374	249	59
OJSC Soligalichskiy izvestkovyi kombinat	225	(42)	183	546	29
	16,920	**(2,710)**	**14,210**	**3,552**	**(660)**

17 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

RUB Million	Assets 2015	Liabilities 2015	Net 2015	Assets 2014	Liabilities 2014	Net 2014
Property, plant and equipment	7	(5,235)	(5,228)	38	(5,291)	(5,253)
Other long-term assets	85	(19)	66	151	(236)	(85)
Current assets	958	(405)	553	855	(328)	527
Liabilities	1,566	(10)	1,556	1,640	(22)	1,618
Tax loss carry-forwards	5,298	-	5,298	5,349	-	5,349
Unrecognised deferred tax assets	(21)	-	(21)	(25)	-	(25)
Tax assets/(liabilities)	7,893	(5,669)	2,224	8,008	(5,877)	2,131
Set off of tax	(1,992)	1,992	-	(3,759)	3,759	-
Net tax assets/(liabilities)	**5,901**	**(3,677)**	**2,224**	**4,249**	**(2,118)**	**2,131**

The deferred tax assets on tax loss carry-forwards will expire in accordance with the below schedule:

	31 December 2015 RUB million	31 December 2014 RUB million
4 years	167	-
5 years	-	167
6 years	71	-
7 years	208	71
8 years	720	208
9 years	2,569	720
10 years	1,563	4,183
	5,298	**5,349**

Management has developed a tax strategy to utilise the tax losses above. In assessing the recoverability of the tax losses, the Group considered a forecast of future taxable profits and the Group's tax position. The forecast is reviewed at each reporting date to ensure that the related tax benefit will be realised.

As at 31 December 2015, no deferred tax liability for taxable temporary differences of RUB 29,090 million has been recognised (31 December 2014: no deferred tax asset for deductible temporary differences of RUB 8,618 million), either because the Parent can control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, or because the applicable tax rate is expected to be 0%.

(b) Movement in temporary differences during the year

RUB million	31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2015
Property, plant and equipment	(5,228)	25	-	(5,253)
Other long-term assets	66	151	-	(85)
Current assets	553	26	-	527
Liabilities	1,556	(63)	1	1,618
Tax loss carry-forwards	5,298	(51)	-	5,349
Unrecognised deferred tax assets	(21)	4	-	(25)
Net tax assets/(liabilities)	**2,224**	**92**	**1**	**2,131**

RUB million	31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2014
Property, plant and equipment	(5,253)	(622)	-	(4,631)
Other long-term assets	(85)	(128)	-	43
Current assets	527	669	-	(142)
Liabilities	1,618	560	(33)	1,091
Tax loss carry-forwards	5,349	3,177	-	2,172
Unrecognised deferred tax assets	(25)	6	-	(31)
Net tax assets/(liabilities)	**2,131**	**3,662**	**(33)**	**(1,498)**

18 OTHER NON-CURRENT ASSETS

	31 December 2015 RUB million	31 December 2014 RUB million
Advances issued for property, plant and equipment, at cost	7,424	6,927
Financial assets available-for-sale, at cost	596	610
Loans issued to related parties, at amortised cost	862	466
Loans issued to third parties, at amortised cost	248	287
Loans issued to employees, at amortised cost	133	260
Financial assets available-for-sale, at fair value	81	44
Finance lease receivable	13	21
Other long-term receivables	889	320
	10,246	**8,935**

19 OTHER CURRENT INVESTMENTS

	31 December 2015 RUB million	31 December 2014 RUB million
Investments in debt securities, at amortised cost	5,671	2,531
Financial assets available-for-sale, at fair value	1,636	-
Loans issued to third parties, at amortised cost	183	96
Loans issued to employees, at amortised cost	114	63
Loans issued to associate, at amortised cost	68	-
Interest receivable	27	383
Loans issued to related parties, at amortised cost	-	7
Provision for doubtful accounts	(2,797)	(1,424)
	4,902	**1,656**

As at 31 December 2015 and 31 December 2014 the Group held debt securities issued by entities affiliated to a bank, which at the end of 2014 went into a financial recovery procedure, monitored by the Russian Deposit Insurance Agency, finalised in June 2015. Taking into account the uncertainties associated with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 50% of the nominal value of the debt securities in the amount of RUB 2,797 million (31 December 2014: RUB 1,424 million, including interest receivable in the amount of RUB 159 million). Part of these debt securities was owned by Phosint Group prior to its consolidation (see note 33) with the total gross amount of RUB 2,182 million as of 15 November 2015 (31 December 2014: RUB 1,843 million) and respective provision of RUB 1,091 million (31 December 2014: RUB 921 million).

20 INVENTORIES

	31 December 2015 RUB million	31 December 2014 RUB million
Raw materials and spare parts	6,561	5,137
Finished goods:		
Chemical fertilisers	7,664	4,932
Apatite concentrate	299	76
Work-in-progress		
Apatite-nepheline ore	790	991
Chemical fertilisers and other products	1,643	941
Other goods for resale	45	30
Chemical fertilisers for resale, purchased from the third parties	842	611
Provision for obsolescence	(30)	(191)
	17,814	**12,527**

21 TRADE AND OTHER RECEIVABLES

	31 December 2015 RUB million	31 December 2014 RUB million
Trade accounts receivable	11,368	6,867
Taxes receivable	9,429	7,514
Advances issued	4,462	4,721
Other receivables	582	318
Deferred expenses	164	54
Receivables from employees	21	42
Finance lease receivable	12	11
Provision for doubtful accounts	(527)	(534)
	25,511	**18,993**

The movements in provision for doubtful accounts are as follows:

	2015 RUB Million	2014 RUB Million
Balance at 1 January	(534)	(322)
Foreign currency translation difference	(91)	-
Disposal of provision through trade receivables	139	127
Increase in provision for bad debt	(41)	(339)
Balance at 31 December	**(527)**	**(534)**

See note 29(c) for the analysis of overdue trade accounts receivable.

22 CASH AND CASH EQUIVALENTS

	31 December 2015 RUB Million	31 December 2014 RUB Million
Cash in bank	18,900	13,749
Call deposits	10,441	16,931
Petty cash	6	7
	29,347	**30,687**

23 EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2015, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2015, RUB 2.5 par value	994,977,080
Shares on issue at 31 December 2014, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2014, RUB 2.5 par value	994,977,080

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 “Financial Reporting in Hyperinflationary economies”.

(b) Dividend policy

The Company expects to distribute cash dividends in the future and expects the amount of such dividends to be between 30 and 50 per cent of the Group's consolidated profit calculated in accordance with IFRS attributable to shareholders of OJSC “PhosAgro”, adjusted by unrealised foreign exchange loss.

Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2015, the Company had cumulative retained earnings of RUB 31,857 million (31 December 2014: RUB 33,465 million).

In April 2015, the Board of Directors proposed to pay a dividend of RUB 15 per ordinary share. The total amount of proposed dividends was RUB 1,943 million. In June 2015, the proposed dividend payout was approved by a meeting of shareholders.

In May 2015, the Board of Directors proposed to pay a dividend of RUB 48 per ordinary share. The total amount of proposed dividends was RUB 6,216 million. In July 2015, the proposed dividend payout was approved by a meeting of shareholders.

In August 2015, the Board of Directors proposed to pay a dividend of RUB 57 per ordinary share. The total amount of proposed dividends was RUB 7,382 million. In October 2015, the proposed dividend payout was approved by a meeting of shareholders.

In November 2015, the Board of Directors proposed to pay a dividend of RUB 63 per ordinary share. The total amount of proposed dividends was RUB 8,159 million. In January 2016, the proposed dividend payout was approved by a meeting of shareholders.

(d) Other events subsequent to the reporting date

See note 35 for other significant events which took place after 31 December 2015.

24 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated based on the weighted average number of ordinary shares outstanding during the year after adjustment for the share split and issuance of new shares, see note 23(a). Basic and diluted earnings/(loss) per share are the same, as there is no effect of dilution.

	2015 RUB million	2014 RUB million
Weighted average number of ordinary shares in issue	129,500,000	129,500,000
Profit/(loss) for the year attributable to shareholders of the Parent, RUB million	36,442	(13,641)
Basic and diluted earnings/(loss) per share, RUB	281	(105)

25 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 27(a). For more information about the Group's exposure to foreign currency risk, interest rate risk and liquidity risk, see note 29.

RUB Million	Contractual interest rate	Year of maturity	31 December 2015	31 December 2014
Current loans and borrowings				
Unsecured bank loans:				
RUB-denominated	9.15%-15%		6,500	9,011
USD-denominated	LIBOR(1M)+1.4%-3.35%		11,783	13,627
USD-denominated	LIBOR(3M)+2.9%-3%		3,644	4,220
USD-denominated	2.2%		-	928
Secured letters of credit:				
USD-denominated	EURIBOR(6M)+2.3%		-	124
Unsecured letters of credit:				
EUR-denominated	EURIBOR(6M)+1.10%-1.15%		317	-
EUR-denominated	EURIBOR(12M)+1.10%-1.83%		2,982	775
Unsecured loans from related parties:				
RUB-denominated	9%-17%		29	46
Unsecured loans from associates:				
USD-denominated	2.25%		-	242
Unsecured loans from other companies:				
USD-denominated	LIBOR(1M)+1.50%		438	-
Finance lease liabilities:				
USD-denominated	3.8%-12.55% [1]		2,351	1,294
Interest payable:				
RUB-denominated			3	8
USD-denominated			900	547
			28,947	**30,822**
Non-current loans and borrowings				
Unsecured bank loans:				
RUB-denominated	12.65%-13.3%	2020	3,000	3,000
USD-denominated	LIBOR(1M)+2%-3.35%	2017-2019	38,506	48,217
USD-denominated	LIBOR(6M)+1.05%	2021	8,700	2,612
USD-denominated	4.17%	2027	13,051	3,919
Secured letters of credit:				
EUR-denominated	EURIBOR(6M)+3.25%		-	208
Unsecured letters of credit:				
EUR-denominated	EURIBOR(6M)+1.1%-1.15%	2017	185	-
EUR-denominated	EURIBOR(12M)+1.1%-1.15%	2017	1,329	2,441
EUR-denominated	1.79%	2019	104	-
Unsecured loans from other companies:				
USD-denominated	LIBOR(12M)+1.25%	2018	742	571
Loan participation notes:				
USD-denominated	4.204% [2]	2018	36,400	28,066
Finance lease liabilities:				
USD-denominated	3.8%-12.55% [1]	2017-2021	3,548	3,968
			105,565	**93,002**
			134,512	**123,824**

[1] Contractual interest rate on financial lease agreements consists of:
- interest rate and fees to a lessor
- insurance of property
- property tax (for lease agreements concluded since 2013 property tax is excluded from the interest rate)

[2] In February 2013, the Company's SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 36,405 million (31 December 2014: RUB 23,800 million).

26 DEFINED BENEFIT OBLIGATIONS

	31 December 2015 RUB Million	31 December 2014 RUB Million
Pension obligations, long-term	345	362
Post-retirement obligations other than pensions	79	91
	424	**453**

Defined benefit pension plans relate to three subsidiaries of the Group: JSC "Apatit", JSC "PhosAgro-Cherepovets" and CJSC "Metachem". The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in JSC "Apatit". This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in JSC "Apatit" upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

	RUB Million
Defined benefit obligations at 1 January 2014	971
Benefits paid	(198)
Current service costs and interest	100
Past service credit	(254)
Actuarial gain in other comprehensive income	(166)
Defined benefit obligations at 1 January 2015	**453**
Benefits paid	(99)
Current service costs and interest	72
Past service credit	(7)
Actuarial loss in other comprehensive income [3]	5
Defined benefit obligations at 31 December 2015	**424**

The key actuarial assumptions used in measurement of the defined benefit obligations are as follows:

	31 December 2015	31 December 2014
Discount rate	10%	13%
Future pension increases	5%	6%

27 LEASES

(a) Finance leases

LLC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,750 railway wagons. Other Group subsidiaries also have entered into lease agreements in 2015 and 2014. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2015		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	2,760	409	2,351
Between one and five years	3,857	441	3,416
More than five years	135	3	132
	6,752	**853**	**5,899**

	2014		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	1,724	430	1,294
Between one and five years	4,309	646	3,663
More than five years	317	12	305
	6,350	**1,088**	**5,262**

[3] The related deferred tax benefit of RUB 1 million (2014: deferred tax expense of RUB 33 million) is recognised in other comprehensive income, see note 17(b)

(b) Operating leases

During 2014-2015, LLC “PhosAgro-Trans”, a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2015, which are recorded in the cost of sales, amounted to RUB 278 million (2014: RUB 489 million).

The non-cancellable operating lease rentals are payable as follows:

	31 December 2015 RUB Million	31 December 2014 RUB Million
Less than one year	62	174
Between one and five years	168	214
	230	**388**

28 TRADE AND OTHER PAYABLES

	31 December 2015 RUB million	31 December 2014 RUB million
Trade accounts payable	4,763	3,902
Advances received	3,901	2,599
Payable for property, plant and equipment	3,282	1,891
Taxes payable	2,617	2,362
Accruals	1,394	1,178
Payables to employees	873	735
Dividends payable	-	2,590
Other payables	181	64
	17,011	**15,321**

29 FINANCIAL RISK MANAGEMENT

(a) Overview

In the normal course of its operations, the Group has exposure to market, credit and liquidity risks.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income 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.

Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk. The Group implemented a natural hedge approach (policy) aiming at reducing its exposure to foreign currency risk by means of borrowing in the same currencies in which sales agreements are denominated.

The Group has the following foreign-currency-denominated financial assets and liabilities:

RUB Million	31 December 2015		31 December 2014	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Non-current assets				
Non-current investments	862	-	440	-
Current assets				
Receivables	1,403	1	2,094	1
Current investments	5	-	1,425	-
Cash and cash equivalents	7,538	298	23,087	1,212
Non-current liabilities				
Loans and borrowings	(100,205)	(1,618)	(86,782)	(2,649)
Current liabilities				
Payables	(1,951)	(358)	(846)	(3,522)
Loans and borrowings	(18,588)	(3,299)	(19,797)	(775)
	(110,936)	**(4,976)**	**(80,379)**	**(5,733)**

Management estimate that a 10% strengthening/(weakening) of RUB against USD and EUR, based on the Group’s exposure as at the reporting date would have increased/(decreased) the Group’s profit for the year by RUB 11,591 million, before any tax effect (2014: would have decreased/(increased) the Group’s loss for the year by RUB 8,611 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014.

In 2015, the Group incurred a significant foreign exchange loss, net in the amount of RUB 22,178 million (2014: RUB 33,545 million) resulting primarily from foreign exchange differences on the Group’s portfolio of loans and borrowings.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The interest rate profile of the Group’s interest-bearing financial instruments is as follows:

	31 December 2015 RUB Million	31 December 2014 RUB Million
Fixed rate instruments		
Long-term loans issued, at amortised cost	381	547
Long-term loans issued to related parties, at amortised cost	862	466
Short-term promissory notes, net of provision	2,874	1,107
Finance lease receivable	25	32
Short-term deposits	10,441	16,931
Financial assets available-for-sale, at fair value	1,636	-
Short-term loans issued to related parties, at amortised cost	-	7
Short-term loans issued to associate, at amortised cost	68	-
Short-term loans issued, at amortised cost	297	159
Long-term borrowings	(56,103)	(38,953)
Short-term borrowings	(8,880)	(11,521)
	(48,399)	**(31,225)**
Variable rate instruments		
Long-term borrowings	(49,462)	(54,049)
Short-term borrowings	(19,164)	(18,746)
	(68,626)	**(72,795)**

At 31 December 2015, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group’s profit or loss and equity by RUB 686 million (31 December 2014: RUB 728 million).

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Group's receivables from customers, loans issued to related parties, current and non-current financial assets and cash and cash equivalents.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee or set up letter of credit with an acceptable bank.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The analysis of overdue trade accounts receivable is as follows:

	31 December 2015 RUB Million	31 December 2014 RUB Million
Not past due	8,624	5,966
Past due 0-90 days	1,789	257
Past due 91-180 days	215	68
Past due 181-365 days	205	103
More than one year	535	473
	11,368	**6,867**

Current and non-current financial assets

The Group lends money to related parties, who have good credit standing. Based on the prior experience, management believes that there is no significant credit risk in respect of related party loans.

As at 31 December 2015 and 31 December 2014 the Group held promissory notes issued by an entity affiliated to a bank, which at the end of 2014 went into a financial recovery procedure, monitored by the Russian Deposit Insurance Agency, finalised in June 2015. Taking into account the uncertainties associated with the outcome of this procedure and mutual court claims filed by the Group and the bank, the Group recognised a provision of 50% of the nominal value of the promissory notes in the amount of RUB 2,797 million (31 December 2014: RUB 1,424 million, including interest receivable in the amount of RUB 159 million).

Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group's policy is to provide financial guarantees only to the subsidiaries or related parties.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

	31 December 2015							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	85,184	95,401	25,480	24,053	16,459	10,333	4,601	14,475
Unsecured loans from other companies	1,180	1,221	460	14	747	-	-	-
Unsecured loans from related parties	29	34	34	-	-	-	-	-
Letters of credit	4,917	4,980	3,351	1,522	2	105	-	-
Interest payable	903	903	903	-	-	-	-	-
Secured finance leases	5,899	6,752	2,760	1,574	1,259	754	270	135
Loan participation notes	36,400	39,758	1,523	1,518	36,717	-	-	-
Trade and other payables	9,620	9,620	9,620	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,795	1,795	2	1	30	1,762	-	-
	145,927	**160,464**	**44,133**	**28,682**	**55,214**	**12,954**	**4,871**	**14,610**

	31 December 2014							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	85,534	91,329	30,946	27,847	19,699	6,932	1,578	4,327
Unsecured loans from associates	242	243	243	-	-	-	-	-
Unsecured loans from other companies	571	607	11	11	11	574	-	-
Unsecured loans from related parties	46	50	50	-	-	-	-	-
Letters of credit	3,548	3,781	1,083	2,444	254	-	-	-
Interest payable	555	555	555	-	-	-	-	-
Secured finance leases	5,262	6,350	1,724	1,581	1,234	925	569	317
Loan participation notes	28,066	32,200	1,166	1,169	1,166	28,699	-	-
Trade and other payables	9,625	9,625	9,625	-	-	-	-	-
Financial guarantees issued for associates and related parties	2,058	2,058	-	5	1	49	2,003	-
	135,507	**146,798**	**45,403**	**33,057**	**22,365**	**37,179**	**4,150**	**4,644**

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends to shareholders.

There were no changes in the Board's approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the country of their domicile and the bank covenants.

(f) Fair values

Unless stated otherwise, management believes that the fair value of the Group’s financial assets and liabilities approximates their carrying amounts.

30 COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 35,854 million (31 December 2014: RUB 28,766 million).

31 CONTINGENCIES

(a) Litigation

The Group has a number of small claims and litigations 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.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental contingencies

The environmental legislation, currently effective in the Russian Federation, is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigations with the Russian environmental authorities. The management believes that based on its interpretations of applicable Russian legislation, official pronouncements and court decisions no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management’s position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

32 RELATED PARTY TRANSACTIONS

(a) Transactions and balances with associates

(i) Transactions with associates

	2015 RUB million	2014 RUB million
Sales of goods and services	5,382	1,589
Interest income	114	31
Purchases of goods and services	(492)	(225)

(ii) Balances with associates

	31 December 2015 RUB million	31 December 2014 RUB million
Trade and other receivables	595	156
Short-term loans issued, at amortised cost	68	-
Trade and other payables	(22)	(19)
Short-term loans received	-	(242)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,661 million (31 December 2014: RUB 1,880 million).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2015 RUB million	2014 RUB million
Sales of goods and services	965	340
Interest income	36	4
Purchases of goods and services	(919)	(83)

(ii) Balances with other related parties

	31 December 2015 RUB million	31 December 2014 RUB million
Long-term loans issued, at amortised cost	862	466
Trade and other receivables	5	81
Short-term loans issued, at amortised cost	-	7
Trade and other payables	(358)	(21)
Short-term loans received	(29)	(46)
Dividends payable to shareholders of the Parent	-	(2,590)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 134 million (31 December 2014: RUB 178 million).

(c) Key management remuneration

The remuneration of the Board of Directors and 13 members of key management personnel amounted to RUB 535 million (2014: RUB 394 million).

33 ACQUSITION OF SUBSIDIARIES

Consolidation of Phosint Group

In November 2015, the Group increased the ownership share from 49% to 95% in PhosInt Limited which has control ownership in PhosAsset GmbH and PhosAgro Trading SA. Phosint Limited acquired its own shares from the previous controlling shareholder for the nominal value of USD 400 thousand (RUB 27 million), which remained outstanding as at the reporting date. As a result, the Group decreased the investments in associates by RUB 14,047 million. The financial effect of this transaction is an increase in retained earnings by RUB 28 million. As of the date of consolidation Phosint Group held primarily machinery, USD-denominated equity and debt instruments, loans issued and cash.

Management believes that there is no material difference between the book value and the fair value of the net assets of the acquired companies. The provisionally determined fair value of the identifiable assets and liabilities of PhosInt Group at the date of consolidation is as follows:

	RUB Million
Property, plant and equipment	747
Investments in debt securities, at amortised cost	1,154
Financial assets available-for-sale, at fair value	1,528
Loans issued to third parties, at amortised cost	145
Trade and other receivables	960
Cash and cash equivalents	10,178
Loans and borrowings	(481)
Trade and other payables	(129)
Net identifiable assets and liabilities	14,102
Less consideration payable	(27)
Less fair value of the investment in associate at the date of consolidation	(14,047)
Result from consolidation	28
Cash and cash equivalents acquired	10,178
Net cash inflow	10,178

34 SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2015 Effective ownership (rounded)	31 December 2014 Effective ownership (rounded)
Apatit, JSC (including Balakovo branch)	Russia	100%	100%
PhosAgro-Cherepovets, JSC	Russia	100%	100%
Metachem, CJSC	Russia	100%	100%
NIUIF, OJSC	Russia	94%	94%
PhosAgro-Trans, LLC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Belgorod, LLC	Russia	100%	100%
PhosAgro-Don, LLC	Russia	100%	100%
PhosAgro-Kuban, LLC	Russia	100%	100%
PhosAgro-Kursk, LLC	Russia	100%	100%
PhosAgro-Lipetsk, LLC	Russia	100%	100%
PhosAgro-Oryol, LLC	Russia	100%	100%
PhosAgro-Stavropol, LLC	Russia	100%	100%
PhosAgro-Volga, LLC	Russia	100%	100%
PhosAgro-SeveroZapad, LLC	Russia	100%	100%
PhosAgro-Tambov, LLC	Russia	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%
Phosint Trading Limited	Cyprus	100%	100%
Phosagro Asia Pte Ltd	Singapore	100%	100%
Phosint Limited	Cyprus	95%	49%
PhosAgro Trading SA	Switzerland	97.6%	74%

35 EVENTS SUBSEQUENT TO THE REPORTING DATE

In February 2016, dividends in the amount of RUB 8,159 million, approved by a meeting of shareholders in January 2016, were fully paid to shareholders.

In March 2016, the Board of Directors proposed paying a dividend of RUB 57 per ordinary share. The total amount of proposed dividends was RUB 7,382 million.