PJSC “PhosAgro”

Consolidated Financial Statements for 2017

Contents

Independent Auditors' Report

To the Shareholders and Board of Directors of PJSC "PhosAgro"

Opinion

We have audited the consolidated financial statements of PJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Valuation of deferred tax assets	
Please refer to the Note 17 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Group has recognised significant deferred tax assets in respect of tax losses. The recovery of the deferred tax assets depends on achieving sufficient taxable profits in the future. Future taxable profits to be used for utilisation of tax losses accumulated by the Company mainly represent interest income to be received by the Company on the loans issued to the Group subsidiaries less expenses of the Company. The assessment of the potential to utilise the tax losses is dependent on the forecast profitability of the Group subsidiaries, the amount of dividends to be distributed to the Company, expected foreign currency exchange and interest rates for loans. There is inherent uncertainty involved in forecasting timing and quantum of future taxable profits, which support the extent to which tax assets are recognised. Therefore, this is the key judgmental area our audit is concentrated on.	Our audit procedures included the following: We analysed the underlying methodology and tested the mathematical accuracy of the taxable profits forecast model used to estimate the likelihood of the recovery of deferred tax assets. We evaluated the appropriateness of management's key assumptions and estimates, in particular the likelihood of generating sufficient future taxable profits to support the recognition of deferred tax assets, in reference to performance trends and dividend capacity of the Group subsidiaries. We corroborated expected interest rates for loans to be issued and financing to be received by the Company to publicly available market benchmarks. Using KPMG tax specialist, we considered the appropriateness of the application of relevant tax legislation by the Group, in relation to the utilisation of tax losses.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

I.A. Yagnov

JSC "KPMG"

Moscow, Russia

20 March 2018

	Note	2017 RUB Million	2016 RUB Million
Revenues	7	181,351	187,742
Cost of sales	9	(101,429)	(88,044)
Gross profit		**79,922**	**99,698**
Administrative expenses	10	(14,662)	(13,598)
Selling expenses	11	(24,466)	(19,769)
Taxes, other than income tax		(2,679)	(2,261)
Other expenses, net	12	(2,136)	(2,472)
Operating profit		**35,979**	**61,598**
Finance income	13	615	909
Finance costs	13	(6,980)	(4,682)
Foreign exchange gain, net	29(b)	4,141	16,962
Share of profit of associates	16	287	140
Profit before tax		**34,042**	**74,927**
Income tax expense	14	(8,711)	(15,041)
Profit for the year		**25,331**	**59,886**
Attributable to:			
Non-controlling interests ^		(2)	2
Shareholders of the Parent		25,333	59,884
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Actuarial gains and losses	26	(342)	(68)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference		(377)	(3,105)
Other comprehensive loss for the year		**(719)**	**(3,173)**
Total comprehensive income for the year		**24,612**	**56,713**
Attributable to:			
Non-controlling interests ^		(2)	2
Shareholders of the Parent		24,614	56,711
Basic and diluted earnings per share (in RUB)	24	196	462

^ non-controlling interests are the minority shareholders of the subsidiaries of PJSC "PhosAgro"

The consolidated financial statements were approved on 20 March 2018:

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 11 to 39.

	Note	31 December 2017 RUB million	31 December 2016 RUB million
Assets			
Property, plant and equipment	15	175,113	154,713
Advances issued for property, plant and equipment		2,334	4,684
Intangible assets		1,773	1,165
Investments in associates	16	969	816
Deferred tax assets	17	5,371	5,110
Other non-current assets	18	1,955	2,226
Non-current assets		**187,515**	**168,714**
Other current investments	19	352	3,282
Inventories	20	27,345	19,934
Trade and other receivables	21	33,727	30,013
Cash and cash equivalents	22	2,691	7,261
Current assets		**64,115**	**60,490**
Total assets		**251,630**	**229,204**
Equity	23		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		85,480	74,932
Other reserves		4,767	5,486
Equity attributable to shareholders of the Parent		98,113	88,284
Equity attributable to non-controlling interests		129	137
Total equity		**98,242**	**88,421**
Liabilities			
Loans and borrowings	25	76,530	96,409
Finance lease liabilities	27(a)	1,004	1,830
Defined benefit obligations	26	950	767
Deferred tax liabilities	17	7,914	4,600
Non-current liabilities		**86,398**	**103,606**
Loans and borrowings	25	44,025	12,457
Finance lease liabilities	27(a)	1,117	1,680
Trade and other payables	28	21,848	23,040
Current liabilities		**66,990**	**37,177**
Total equity and liabilities		**251,630**	**229,204**

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 11 to 39.

	Note	2017 RUB million	2016 RUB million
Cash flows from operating activities			
Profit before tax		34,042	74,927
Adjustments for:			
Depreciation and amortisation	9, 10, 11	15,284	10,767
Loss on disposal of property, plant and equipment and intangible assets	12	614	614
Finance income	13	(615)	(909)
Finance costs	13	6,980	4,682
Share of profit of associates	16	(287)	(140)
Foreign exchange gain, net		(4,371)	(18,040)
Operating profit before changes in working capital and provisions		51,647	71,901
Increase in inventories		(7,409)	(2,120)
Increase in trade and other receivables		(1,240)	(4,023)
(Decrease)/increase in trade and other payables		(119)	3,019
Cash flows from operations before income taxes and interest paid		42,879	68,777
Income tax paid		(8,326)	(13,451)
Finance costs paid		(4,558)	(4,965)
Cash flows from operating activities		**29,995**	**50,361**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(35,918)	(40,246)
Repayment of loans issued, net		475	253
Proceeds from disposal of property, plant and equipment		365	270
Finance income received		371	432
Disposal of investments, net		359	1,277
Cash flows used in investing activities		**(34,348)**	**(38,014)**
Cash flows from financing activities			
Proceeds from borrowings		90,094	34,149
Repayment of borrowings		(74,245)	(33,727)
Dividends paid to shareholders of the Parent	23	(14,763)	(27,974)
Dividends paid to non-controlling interests		(5)	(9)
Finance leases paid		(1,365)	(1,951)
Acquisition of non-controlling interests		-	(218)
Proceeds from settlement of derivatives		-	127
Other payments		(22)	(243)
Cash flows used in financing activities		**(306)**	**(29,846)**
Net decrease in cash and cash equivalents		**(4,659)**	**(17,499)**
Cash and cash equivalents at 1 January		7,261	29,347
Effect of exchange rates fluctuations		89	(4,587)
Cash and cash equivalents at 31 December	22	**2,691**	**7,261**

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 11 to 39.

RUB Million	Attributable to shareholders of the Parent						
	Share capital	Share premium	Retained earnings	Actuarial gains and losses	Foreign currency translation reserve	Attributable to non-controlling interests	Total
Balance at 1 January 2016	**372**	**7,494**	**43,460**	**(316)**	**8,975**	**213**	**60,198**
Total comprehensive income for the year							
Profit for the year	-	-	59,884	-	-	2	59,886
Actuarial gains and losses	-	-	-	(68)	-	-	(68)
Foreign currency translation difference	-	-	-	-	(3,105)	-	(3,105)
	-	-	59,884	(68)	(3,105)	2	56,713
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent	-	-	(27,974)	-	-	(9)	(27,983)
Acquisition of non-controlling interests without a change in control	-	-	(149)	-	-	(69)	(218)
Other	-	-	(289)	-	-	-	(289)
	-	-	(28,412)	-	-	(78)	(28,490)
Balance at 31 December 2016	**372**	**7,494**	**74,932**	**(384)**	**5,870**	**137**	**88,421**
Balance at 1 January 2017	**372**	**7,494**	**74,932**	**(384)**	**5,870**	**137**	**88,421**
Total comprehensive income for the year							
Profit/ (loss) for the year	-	-	25,333	-	-	(2)	25,331
Actuarial gains and losses	-	-	-	(342)	-	-	(342)
Foreign currency translation difference	-	-	-	-	(377)	-	(377)
	-	-	25,333	(342)	(377)	(2)	24,612
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent, note 23	-	-	(14,763)	-	-	(6)	(14,769)
Other	-	-	(22)	-	-	-	(22)
	-	-	(14,785)	-	-	(6)	(14,791)
Balance at 31 December 2017	**372**	**7,494**	**85,480**	**(726)**	**5,493**	**129**	**98,242**

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 11 to 39.

1 BACKGROUND

(a) Organisation and operations

PJSC “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, 119333.

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 two Cyprus entities holding approximately 20% 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.

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value.

(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 presented in RUB 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 2017 were translated at the closing exchange rate of RUB 57.6002 for USD 1 (31 December 2016: RUB 60.6569 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2017 of RUB 58.3529 for USD 1 (for 2016: RUB 67.0349 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 2017 were translated at the closing exchange rate of RUB 68.8668 for EUR 1 (31 December 2016: RUB 63.8111 for EUR 1);
- Profit and loss items were translated at the average exchange rate for 2017 of RUB 65.9014 for EUR 1 (for 2016: RUB 74.2310 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 3(c)(iv) – estimated useful lives of fixed assets;
- 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 debt securities: 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 the respective functional currencies of the Group entities at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the 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 at the exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit or 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 recognised in the statement of profit or loss as they are incurred.

Expenses in connection with periodic maintenance on property, plant and equipment are recognised as assets and depreciated on a 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 capitalised and depreciated on a systematic basis.

(iv) Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month of acquisition or, in respect of internally constructed assets, from the month when 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

(i) 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 or 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 or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(ii) 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.

(iii) 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 or 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.

(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 all individually significant receivables and held-to-maturity investment securities for specific impairment.

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 or 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 or 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 immediately as an expense in the profit or loss. To the extent the benefits vest immediately, the expense is recognised immediately in the profit or 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 or 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 or 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 apatite 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 or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit or 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 or 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.

(v) Adoption of new and revised standards and interpretations

In preparing these consolidated financial statements the Group has applied the following standards and interpretations which are effective in respect of the financial year beginning 1 January 2017:

- Amendments to IAS 7 *Statement of Cash Flows* require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has added the required disclosure to these consolidated financial statements (see note 25).
- Amendments to IAS 12 *Income Taxes* clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment does not have a significant impact on the Group's consolidated financial statements.
- Annual Improvements to IFRSs (Amendments to IFRS 12 *Disclosure of Interests in Other Entities*).

(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 2017, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning after 1 January 2018 with earlier application permitted) supersedes IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new classification and measurement requirements, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. As a result of preliminary analysis performed this standard does not have a significant impact on the Group's consolidated financial statements.
- IFRS 15 *Revenue from contracts with customers* (effective for annual periods beginning after 1 January 2018 with earlier application permitted) outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. To assess the effect of IFRS 15 on the consolidated financial statements the Group analysed all major classes of transactions. As a result of preliminary analysis performed no significant effect of the adoption of new standard on the Group's consolidated financial statements is expected.
- IFRS 16 *Leases* (effective for annual periods beginning after 1 January 2019 with earlier application permitted, if IFRS 15 is also adopted) supersedes IAS 17 *Leases* and provides a new approach to lease accounting that eliminates the classification of leases as either operating leases or finance leases for a lessee and requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. The Group is currently assessing the impact of the new standard on the consolidated financial statements.

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.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(c). 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 and is categorised as Level 3 of the fair value hierarchy.

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

(b) 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. This fair value is determined for disclosure purposes and is categorised as Level 3 of the fair value hierarchy.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes and categorised as Level 3 of the fair value hierarchy, 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 2016 on materials and services, salaries and social contributions, depreciation, Russian Railways infrastructure tariff and operators' fees, and other expenses between cost of sales, administrative expenses and selling expenses, net in order to align them with the current year's presentation:

	2016		
	As previously presented	Reclassifications	As adjusted
	RUB Million	RUB Million	RUB Million
Cost of sales	(86,391)	(1,653)	(88,044)
Administrative expenses	(13,891)	293	(13,598)
Selling expenses	(21,129)	1,360	(19,769)

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.

Segment information as at 31 December 2017 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:	158,021	22,495	835	181,351
Export	103,910	16,983	-	120,893
Domestic	54,111	5,512	835	60,458
Cost of goods sold	(87,040)	(13,641)	(748)	(101,429)
Gross segment profit	70,981	8,854	87	79,922
Certain items of profit or loss				
Amortisation and depreciation	(10,704)	(4,192)	(388)	(15,284)
Total non-current segment assets	106,811	66,081	3,994	176,886
Additions to property, plant and equipment	26,928	8,955	613	36,496

Segment information of the Group as at 31 December 2016 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:	168,136	18,829	777	187,742
Export	110,458	14,264	-	124,722
Domestic	57,678	4,565	777	63,020
Cost of goods sold	(76,320)	(11,025)	(699)	(88,044)
Gross segment profit	91,816	7,804	78	99,698
Certain items of profit or loss				
Amortisation and depreciation	(8,095)	(2,328)	(344)	(10,767)
Total non-current segment assets	91,880	60,240	3,758	155,878
Additions to property, plant and equipment	23,791	20,967	533	45,291

The analysis of export revenue by regions is as follows:

	2017 RUB million	2016 RUB million
Europe	44,511	46,738
North and South America	40,619	32,992
CIS	17,287	15,883
India	7,087	10,280
Africa	7,058	6,367
Asia	4,331	12,462
	120,893	**124,722**

7 REVENUES

	2017 RUB million	2016 RUB million
Sales of chemical fertilisers	144,993	146,369
Sales of apatite concentrate	21,158	26,037
Sales of sodium tripolyphosphate	2,980	4,839
Sales of ammonium	729	75
Sales of nepheline concentrate	681	825
Other sales	10,810	9,597
	181,351	**187,742**

8 PERSONNEL COSTS

	2017 RUB Million	2016 RUB Million
Cost of sales	(11,234)	(10,937)
Administrative expenses	(8,422)	(7,882)
Selling expenses	(477)	(368)
	(20,133)	**(19,187)**

9 COST OF SALES

	2017 RUB million	2016 RUB million
Materials and services	(31,597)	(27,199)
Depreciation	(13,719)	(9,424)
Salaries and social contributions	(11,234)	(10,937)
Natural gas	(9,715)	(8,084)
Potash	(8,772)	(7,104)
Ammonia	(6,650)	(5,801)
Sulphur and sulphuric acid	(6,471)	(6,065)
Electricity	(5,539)	(4,462)
Chemical fertilisers and other products for resale	(4,753)	(4,254)
Fuel	(3,034)	(2,299)
Ammonium sulphate	(2,424)	(2,547)
Heating energy	(671)	(676)
Other items	(9)	(42)
Change in stock of WIP and finished goods	3,159	850
	(101,429)	**(88,044)**

10 ADMINISTRATIVE EXPENSES

	2017 RUB million	2016 RUB million
Salaries and social contributions	(8,422)	(7,882)
Professional services	(1,958)	(1,555)
Depreciation and amortisation	(943)	(798)
Other	(3,339)	(3,363)
	(14,662)	**(13,598)**

11 SELLING EXPENSES

	2017 RUB million	2016 RUB million
Freight, port and stevedoring expenses	(11,482)	(9,997)
Russian Railways infrastructure tariff and operators’ fees	(9,185)	(7,402)
Materials and services	(2,700)	(1,457)
Depreciation	(622)	(545)
Salaries and social contributions	(477)	(368)
	(24,466)	**(19,769)**

12 OTHER EXPENSES, NET

	2017 RUB million	2016 RUB million
Social expenditures	(2,139)	(2,081)
Loss on disposal of property, plant and equipment and intangible assets	(614)	(614)
Increase in provision for bad debt	(164)	(85)
Decrease/ (increase) in provision for inventory obsolescence	85	(151)
Other income, net	696	459
	(2,136)	**(2,472)**

13 FINANCE INCOME AND FINANCE COSTS

	2017 RUB million	2016 RUB million
Interest income	254	479
Unwind of discount of financial assets	89	95
Dividend income	4	-
Gain from operations with derivative financial instruments	-	210
Other finance income	268	125
Finance income	615	909
Interest expense	(4,347)	(4,365)
Provision for bad debt on financial investments (note 19)	(2,243)	-
Bank fees	(355)	(315)
Other finance costs	(35)	(2)
Finance costs	(6,980)	(4,682)
Net finance costs	**(6,365)**	**(3,773)**

14 INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (2016: 20%).

	2017 RUB million	2016 RUB million
Current tax expense	(5,803)	(13,311)
Origination and reversal of temporary differences, including change in unrecognised assets	(2,908)	(1,730)
	(8,711)	**(15,041)**

Reconciliation of effective tax rate:

	2017 RUB million	2017 %	2016 RUB million	2016 %
Profit before tax	34,042	100	74,927	100
Income tax at applicable tax rate	(6,808)	(20)	(14,985)	(20)
Under provided in respect of prior years	29	-	76	-
Unrecognised tax liability on profit from associates	57	-	28	-
Non-deductible items	(1,361)	(4)	(697)	(1)
Change in unrecognised deferred tax assets	13	-	(15)	-
Effect of tax rates in foreign jurisdictions	38	-	28	-
Reduction in tax rate	144	-	524	1
Recognition of previously unrecognised deferred tax liabilities	(823)	(2)	-	-
	(8,711)	**(26)**	**(15,041)**	**(20)**

15 PROPERTY, PLANT AND EQUIPMENT

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2016	30,821	74,712	6,749	58,500	**170,782**
Additions	-	248	1,696	43,347	**45,291**
Transfers	14,674	10,441	-	(25,115)	**-**
Disposals	(616)	(1,232)	(148)	(409)	**(2,405)**
At 1 January 2017	44,879	84,169	8,297	76,323	**213,668**
Additions	752	392	2,874	32,478	**36,496**
Transfers	22,018	44,630	-	(66,648)	**-**
Disposals	(474)	(2,168)	(93)	(295)	**(3,030)**
At 31 December 2017	67,175	127,023	11,078	41,858	**247,134**
Accumulated depreciation					
At 1 January 2016	(7,923)	(37,660)	(4,247)	-	**(49,830)**
Depreciation charge	(1,983)	(7,669)	(1,027)	-	**(10,679)**
Disposals	269	1,157	128	-	**1,554**
At 1 January 2017	(9,637)	(44,172)	(5,146)	-	**(58,955)**
Depreciation charge	(3,155)	(10,718)	(1,250)	-	**(15,123)**
Disposals	357	1,614	86	-	**2,057**
At 31 December 2017	(12,435)	(53,276)	(6,310)	-	**(72,021)**
Net book value at 1 January 2016	22,898	37,052	2,502	58,500	**120,952**
Net book value at 1 January 2017	35,242	39,997	3,151	76,323	**154,713**
Net book value at 31 December 2017	54,740	73,747	4,768	41,858	**175,113**

As at 31 December 2017, the balance of the construction in progress account includes the accumulated costs related to

in Cherepovets:

- The construction of ammonium sulphate plant in the amount of RUB 1,823 million;

- Replacement of reaction tubes and catalyzers in the amount of RUB 1,558 million;

- Development programme of production facilities for sulphuric acid in the amount of RUB 1,129 million;

- The construction of service infrastructure of ammonia plant in the amount of RUB 979 million;

- Development programme of production facilities for extraction of phosphoric acid and fertilizers in the amount of RUB 662 million;

- The construction of service infrastructure of urea plant in the amount of RUB 288 million,

in Kirovsk:

- Underground mine extension in the amount RUB of 9,848 million;

- The construction of apatit-nepheline beneficiation plant in the amount of RUB 5,686 million;

- The development of Rasvumchorrskiy mine in the amount of RUB 3,789 million.

(a) Leasing

Plant and equipment with the carrying value of RUB 5,422 million (31 December 2016: RUB 5,778 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:

	2017 RUB million	2016 RUB million
Balance at 1 January	816	810
Share in profit for the year	287	140
Dividends accrued	-	(47)
Foreign currency translation difference	(134)	(87)
Balance at 31 December	**969**	**816**

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

	31 December 2017 RUB Million	31 December 2016 RUB Million
JSC Khibinskaya Teplovaya Kompaniya	398	386
LLC PHOSAGRO-UKRAINE	488	312
JSC Giproruda	25	69
OJSC Soligalichskiy izvestkovyi kombinat	58	49
	969	**816**

Summary financial information for associates is as follows:

2017	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	2,128	(1,384)	744	751	23
LLC PHOSAGRO-UKRAINE	2,611	(1,170)	1,441	13,996	777
JSC Giproruda	132	(23)	109	99	(16)
OJSC Soligalichskiy izvestkovyi kombinat	425	(196)	229	500	5
	5,296	**(2,773)**	**2,523**	**15,346**	**789**

2016	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	2,376	(1,655)	721	699	(29)
LLC PHOSAGRO-UKRAINE	2,247	(1,465)	782	9,496	386
JSC Giproruda	326	(201)	125	102	(16)
OJSC Soligalichskiy izvestkovyi kombinat	299	(81)	218	483	43
	5,248	**(3,402)**	**1,846**	**10,780**	**384**

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 2017	Liabilities 2017	Net 2017	Assets 2016	Liabilities 2016	Net 2016
Property, plant and equipment	78	(8,893)	(8,815)	27	(5,688)	(5,661)
Other long-term assets	6	(28)	(22)	17	(31)	(14)
Current assets	469	(549)	(80)	822	(488)	334
Liabilities	947	(36)	911	1,238	(33)	1,205
Tax loss carry-forwards	5,486	-	5,486	4,682	-	4,682
Unrecognised deferred tax assets	(23)	-	(23)	(36)	-	(36)
Tax assets/(liabilities)	6,963	(9,506)	(2,543)	6,750	(6,240)	510
Set off of tax	(1,592)	1,592	-	(1,640)	1,640	-
Net tax assets/(liabilities)	**5,371**	**(7,914)**	**(2,543)**	**5,110**	**(4,600)**	**510**

The deferred tax assets on tax loss carry-forwards relate to the Russian entities. Due to recent amendments to the Russian tax legislation, starting from 1 January 2017, tax losses for Russian tax purposes carried forward existing as at 31 December 2017 do not expire.

Management has developed a tax strategy to utilise the tax losses above. In assessing the recoverability of the tax losses, management considers a forecast of future taxable profits of the Company (the “forecast”) and the Group’s tax position. The forecast is reviewed at each reporting date to ensure that the related tax benefit will be realised. Future taxable profits are expected to be generated from an excess of interest income on loans, to be issued by the Company to the Group subsidiaries, over expenses of the Company. When developing the forecast, management has evaluated profitability and dividend capacity of the Group subsidiaries, and considered expected rates of interest for loans and expected foreign currency rates.

As at 31 December 2017, no deferred tax liability for taxable temporary differences of RUB 48,502 million has been recognised (31 December 2016: RUB 29,869 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 2017	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2017
Property, plant and equipment	(8,815)	(3,154)	-	(5,661)
Other long-term assets	(22)	(8)	-	(14)
Current assets	(80)	(414)	-	334
Liabilities	911	(149)	(145)	1,205
Tax loss carry-forwards	5,486	804	-	4,682
Unrecognised deferred tax assets	(23)	13	-	(36)
Net tax (liabilities)/assets	**(2,543)**	**(2,908)**	**(145)**	**510**

RUB million	31 December 2016	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2016
Property, plant and equipment	(5,661)	(433)	-	(5,228)
Other long-term assets	(14)	(80)	-	66
Current assets	334	(219)	-	553
Liabilities	1,205	(367)	16	1,556
Tax loss carry-forwards	4,682	(616)	-	5,298
Unrecognised deferred tax assets	(36)	(15)	-	(21)
Net tax assets	**510**	**(1,730)**	**16**	**2,224**

18 OTHER NON-CURRENT ASSETS

	31 December 2017 RUB million	31 December 2016 RUB million
Financial assets available-for-sale, at cost	595	595
Loans issued to third parties, at amortised cost	232	266
Financial assets available-for-sale, at fair value	181	138
Loans issued to related parties, at amortised cost	97	330
Loans issued to employees, at amortised cost	77	103
Loans issued to associates, at amortised cost	20	40
Other long-term assets	753	754
	1,955	**2,226**

19 OTHER CURRENT INVESTMENTS

	31 December 2017 RUB million	31 December 2016 RUB million
Investments in debt securities, at amortised cost	4,421	4,656
Loans issued to related parties, at amortised cost	213	218
Loans issued to third parties, at amortised cost	43	162
Interest receivable	42	35
Loans issued to employees, at amortised cost	35	115
Loans issued to associates, at amortised cost	23	-
Financial assets available-for-sale, at fair value	-	424
Provision for doubtful accounts	(4,425)	(2,328)
	352	**3,282**

As at 31 December 2017 and 31 December 2016 the Group held debt securities issued by entities affiliated to a Russian bank with the total amount of RUB 4,421 million (31 December 2016: 4,656 million). Taking into account the uncertainties associated with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 100% of the nominal value of the debt securities in the amount of RUB 4,421 million (31 December 2016: RUB 2,328 million) (note 13).

20 INVENTORIES

	31 December 2017 RUB million	31 December 2016 RUB million
Raw materials and spare parts	11,712	7,586
Finished goods:		
Chemical fertilisers	10,623	8,274
Apatite concentrate	200	219
Work-in-progress:		
Apatite-nepheline ore	1,820	1,329
Chemical fertilisers and other products	1,723	1,296
Other goods for resale	84	173
Chemical fertilisers for resale, purchased from the third parties	1,279	1,238
Provision for obsolescence	(96)	(181)
	27,345	**19,934**

21 TRADE AND OTHER RECEIVABLES

	31 December 2017 RUB million	31 December 2016 RUB million
Trade accounts receivable	15,507	12,770
VAT and other taxes receivable	10,306	11,932
Advances issued	4,662	4,693
Income tax receivable	2,734	339
Deferred expenses	210	229
Receivables from employees	26	36
Other receivables	818	513
Provision for doubtful accounts	(536)	(499)
	33,727	**30,013**

The movements in provision for doubtful accounts are as follows:

	2017 RUB Million	2016 RUB Million
Balance at 1 January	(499)	(527)
Foreign currency translation difference	17	67
Disposal of trade receivables through provision	110	46
Increase in provision for bad debt	(164)	(85)
Balance at 31 December	**(536)**	**(499)**

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

22 CASH AND CASH EQUIVALENTS

	31 December 2017 RUB Million	31 December 2016 RUB Million
Cash in bank	2,459	4,860
Call deposits	227	2,395
Petty cash	5	6
	2,691	**7,261**

23 EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2017, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2017, RUB 2.5 par value	994,977,080
Shares on issue at 31 December 2016, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2016, RUB 2.5 par value	994,977,080

(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 PJSC "PhosAgro", adjusted by unrealised foreign exchange gain/(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 2017, the Company had cumulative retained earnings of RUB 32,102 million (31 December 2016: RUB 37,046 million).

Proposed by the Board of Directors in	Approved by shareholders in	Amount per share RUB	Amount of dividends RUB million
Total dividends approved during the reporting period			
November 2016	January 2017	39	5,051
March 2017	May 2017	30	3,885
May 2017	July 2017	21	2,719
August 2017	October 2017	24	3,108
			14,763
Total dividends approved subsequent to the reporting date			
November 2017	February 2018	21	2,719
March 2018	To be approved in May 2018	15	1,943
			4,662

24 EARNINGS PER SHARE

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

	2017 RUB million	2016 RUB million
Weighted average number of ordinary shares in issue	129,500,000	129,500,000
Profit for the year attributable to shareholders of the Parent, RUB million	25,333	59,884
Basic and diluted earnings per share, RUB	196	462

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.

	31 December 2017 RUB million	31 December 2016 RUB million
Current loans and borrowings:		
Loan participation notes[1]	28,800	-
Unsecured bank loans	14,266	10,418
Unsecured letters of credit issued by banks	-	1,278
Unsecured loans from other companies	13	9
Interest payable	946	752
	44,025	**12,457**
Non-current loans and borrowings:		
Unsecured bank loans	46,561	65,002
Loan participation notes [1, 2]	28,714	30,308
Unsecured letters of credit issued by banks	1,255	485
Unsecured loans from other companies	-	614
	76,530	**96,409**
	120,555	**108,866**

The breakdown of the loans and borrowings denominated in different currencies is as follows:

	31 December 2017 RUB million	31 December 2016 RUB million
USD-denominated	100,874	95,193
RUB-denominated	13,325	7,018
EUR-denominated	6,356	6,655
	120,555	**108,866**

The maturity of the loans and borrowings is as follows:

	31 December 2017 RUB million	31 December 2016 RUB million
Less than 1 year	44,025	12,457
1-2 years	9,430	47,336
2-3 years	16,265	20,339
3-4 years	31,822	12,654
4-5 years	5,064	2,305
More than 5 years	13,949	13,775
	120,555	**108,866**

Reconciliation of liabilities arising from financing activities:

	31 December 2016 RUB million	Cash inflows RUB million	Cash outflows RUB million	Foreign exchange (gain)/loss RUB million	Foreign currency translation RUB million	31 December 2017 RUB million
Loans and borrowings (excluding interest payable)	108,114	90,094	(74,245)	(4,163)	(191)	119,609
Finance lease liabilities	3,510	-	(1,365)	(24)	-	2,121
	111,624	**90,094**	**(75,610)**	**(4,187)**	**(191)**	**121,730**

[1] 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 29,342 million (31 December 2016: RUB 31,337 million).

[2] In May 2017, the Company's SPV issued a USD 500 million 4,5-year Eurobond with a coupon rate of 3.95%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 29,258 million.

Management believes that the fair value of the Group's loans and borrowings approximates their carrying amounts.

26 DEFINED BENEFIT OBLIGATIONS

	31 December 2017 RUB Million	31 December 2016 RUB Million
Pension obligations, long-term	701	535
Post-retirement obligations other than pensions	249	232
	950	**767**

The Group has defined benefit plans at JSC "Apatit", Kirovsk Branch of JSC "Apatit" and JSC "Metachem" which stipulate payment of a lump sum allowance to employees who have a specified period of service in these companies 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 2016	424
Benefits paid	(73)
Current service costs and interest	57
Past service costs	275
Actuarial loss in other comprehensive income	84
Defined benefit obligations at 1 January 2017	**767**
Benefits paid	(81)
Current service costs and interest	79
Past service costs	(12)
Actuarial loss in other comprehensive income	197
Defined benefit obligations at 31 December 2017	**950**

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

	31 December 2017	31 December 2016
Discount rate	7.7%	8.5%
Future pension increases	4.2%	4.5%

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 2014 and 2015. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2017		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	1,247	130	1,117
Between one and five years	1,059	55	1,004
	2,306	**185**	**2,121**

	2016		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	1,900	220	1,680
Between one and five years	1,994	164	1,830
	3,894	**384**	**3,510**

(b) Operating leases

During 2016-2017, LLC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2017, which are recorded in the cost of sales, amounted to RUB 215 million (2016: RUB 240 million).

The non-cancellable operating lease rentals (net of VAT) are payable as follows:

	31 December 2017 RUB Million	31 December 2016 RUB Million
Less than one year	314	208
Between one and five years	2,270	244
	2,584	**452**

28 TRADE AND OTHER PAYABLES

	31 December 2017 RUB million	31 December 2016 RUB million
Trade accounts payable	6,291	5,574
Payable for property, plant and equipment	5,838	7,141
Advances received	4,414	5,203
Taxes payable	2,014	2,328
Payables to employees	1,675	1,167
Accruals	1,309	1,231
Income tax payable	109	237
Other payables	198	159
	21,848	**23,040**

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 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 2017		31 December 2016	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Non-current assets	97	-	330	-
Current assets	1,802	51	3,768	6
Non-current liabilities				
Loans and borrowings	(68,705)	(5,807)	(88,278)	(3,516)
Finance lease liability	(1,004)	-	(1,830)	-
Current liabilities				
Payables	(74)	(321)	(1,227)	(719)
Loans and borrowings	(32,169)	(549)	(6,264)	(3,139)
Finance lease liability	(1,117)	-	(1,680)	-
	(101,170)	**(6,626)**	**(95,181)**	**(7,368)**

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 10,780 million, before any tax effect (2016: would have increased/(decreased) the Group’s profit for the year by RUB 10,255 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

The foreign exchange gain recognised in profit or loss of RUB 4,141 million (RUB 16,962 million for the comparative period) resulted from the appreciation of the Russian Rouble against major currencies during the reporting and the comparative periods. In addition, the net assets of the Group’s foreign subsidiaries denominated in USD amount to RUB 18,429 million as at the reporting date (31 December 2016: RUB 12,454 million).

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 2017 RUB Million	31 December 2016 RUB Million
Fixed rate instruments		
Other non-current assets	406	699
Other current investments	541	5,642
Long-term borrowings	(64,378)	(48,263)
Short-term borrowings	(40,035)	(4,870)
Finance lease liabilities	(2,121)	(3,510)
	(105,587)	**(50,302)**
Variable rate instruments		
Long-term borrowings	(12,152)	(48,146)
Short-term borrowings	(3,044)	(6,835)
	(15,196)	**(54,981)**

At 31 December 2017, a 1% increase/ (decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group’s profit or loss and equity by RUB 152 million (31 December 2016: RUB 550 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.

In addition, the major part of trade receivables in the Group’s foreign subsidiaries is insured.

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 component of this allowance is a specific loss component that relates to individually significant exposures.

The analysis of overdue trade accounts receivable is as follows:

	31 December 2017 RUB Million	31 December 2016 RUB Million
Not past due	14,358	10,695
Past due 0-90 days	589	795
Past due 91-180 days	32	452
Past due 181-365 days	58	302
More than one year	470	526
	15,507	**12,770**

Current and non-current financial assets

The Group lends money to related parties and to the third 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 and third party loans.

As at 31 December 2017 and 31 December 2016 the Group held debt securities issued by entities affiliated to a Russian bank with the total amount of RUB 4,421 million (31 December 2016: RUB 4,656 million). Taking into account the uncertainties associated with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 100% of the nominal value of the debt securities in the amount of RUB 4,421 million (31 December 2016: RUB 2,328 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 (note 32).

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, which are converted at the closing exchange rates, where applicable:

RUB Million	31 December 2017							
	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	60,827	68,260	16,236	9,647	17,478	3,929	5,767	15,203
Unsecured loans from other companies	13	14	14	-	-	-	-	-
Unsecured letters of credit	1,255	1,276	14	1,262	-	-	-	-
Interest payable	946	946	946	-	-	-	-	-
Secured finance leases	2,121	2,306	1,247	734	217	108	-	-
Loan participation notes	57,514	62,166	30,133	1,094	1,119	29,820	-	-
Trade and other payables	12,327	12,327	12,327	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,374	1,697	301	455	461	480	-	-
	136,377	**148,992**	**61,218**	**13,192**	**19,275**	**34,337**	**5,767**	**15,203**

RUB Million	31 December 2016							
	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	75,420	84,790	12,975	18,682	21,433	13,690	2,915	15,095
Unsecured loans from other companies	623	668	43	625	-	-	-	-
Unsecured letters of credit	1,763	1,782	1,288	5	489	-	-	-
Interest payable	752	752	752	-	-	-	-	-
Secured finance leases	3,510	3,894	1,900	1,032	624	226	112	-
Loan participation notes	30,308	31,787	1,263	30,524	-	-	-	-
Trade and other payables	12,874	12,874	12,874	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,667	2,291	344	380	485	458	528	96
	126,917	**138,838**	**31,439**	**51,248**	**23,031**	**14,374**	**3,555**	**15,191**

(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 26,637 million (31 December 2016: RUB 16,609 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

	2017 RUB million	2016 RUB million
Sales of goods and services	9,262	7,849
Interest income	15	11
Dividends income	-	47
Purchases of goods and services	(393)	(467)

(ii) Balances with associates

	31 December 2017 RUB million	31 December 2016 RUB million
Trade and other receivables	573	968
Long-term loans issued, at amortised cost	20	40
Short-term loans issued, at amortised cost	23	-
Trade and other payables	(13)	(30)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,318 million (31 December 2016: RUB 1,580 million).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2017 RUB million	2016 RUB million
Sales of goods and services	1,135	1,268
Interest income	28	48
Purchases of goods and services	(1,340)	(1,316)
Interest expenses (finance lease)	(54)	(71)

(ii) Balances with other related parties

	31 December 2017 RUB million	31 December 2016 RUB million
Long-term loans issued, at amortised cost	97	330
Short-term loans issued, at amortised cost	213	218
Trade and other receivables	1	2
Trade and other payables	(65)	(115)
Short-term loans received	(5)	-
Finance lease liabilities	(285)	(587)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 56 million (31 December 2016: RUB 87 million).

The balances and transactions with related parties are usually unsecured and denominated in RUB.

(c) Key management remuneration

The remuneration of the Board of Directors and key management personnel amounted to RUB 1,422 million (2016: RUB 892 million).

33 SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2017 Effective ownership (rounded)	31 December 2016 Effective ownership (rounded)
Apatit, JSC (including Balakovo and Kirovsk branchs)	Russia	100%	100%
PhosAgro-Cherepovets, JSC *	Russia	-	100%
Metachem, JSC	Russia	100%	100%
NIUIF, JSC	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%
PhosAgro Trading SA	Switzerland	100%	97.6%
Phosint Limited	Cyprus	100%	95%
PhosAgro Logistics SA	Switzerland	100%	95%
Phosagro Baltic Sp.z o.o.	Poland	100%	95%
Phosagro Deutschland GmbH	Germany	100%	95%
Phosagro France SAS	France	100%	95%
PhosAgro Balkans	Belgrad	100%	-

* JSC "PhosAgro-Cherepovets" merged with JSC "Apatit" on 1 November, 2017.

34 EVENTS SUBSEQUENT TO THE REPORTING DATE

In January 2018 the Company's SPV issued a USD 500 million 5.25-year Eurobond with a coupon rate of 3.949%, which is listed on the Irish Stock Exchange.

In February 2018 the Company redeemed the USD 500 million 5-year Eurobond issued through SPV in February 2013 with a 4.204% coupon rate (see note 25). The redemption was financed by the Eurobond placed in January 2018.

In March 2018, the Board of Directors proposed paying a dividend of RUB 15 per ordinary share. The total amount of proposed dividends was RUB 1,943 million (see note 23).