PJSC “PhosAgro”

Consolidated Financial Statements for 2016

Contents

JSC “KPMG”
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors’ Report

To the Shareholders and Board of Directors

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 2016, 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 2016, 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 16 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 interest expense of the Company from financing. 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 to be issued by the Company to Group subsidiaries and financing to be received by the Company. 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 skepticism 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:

КПМГ
KPMG
МОСКВА

I.A. Yagnov

JSC "KPMG"

Moscow, Russia

24 March 2017

	Note	2016 RUB Million	2015 RUB Million
Revenues	6	187,742	189,732
Cost of sales	8	(86,391)	(83,064)
Gross profit		**101,351**	**106,668**
Administrative expenses	9	(13,891)	(12,184)
Selling expenses	10	(21,129)	(17,751)
Taxes, other than income tax		(2,261)	(1,994)
Other expenses, net	11	(2,472)	(1,408)
Operating profit		**61,598**	**73,331**
Finance income	12	909	1,222
Finance costs	12	(4,682)	(6,093)
Foreign exchange gain/(loss), net	28(b)	16,962	(22,178)
Share of profit/(loss) of associates	15	140	(59)
Profit before tax		**74,927**	**46,223**
Income tax expense	13	(15,041)	(9,787)
Profit for the year		**59,886**	**36,436**
Attributable to:			
Non-controlling interests ^		2	(6)
Shareholders of the Parent		59,884	36,442
Other comprehensive income			
Actuarial gains and losses, net of tax	25	(68)	(4)
Foreign currency translation difference		(3,105)	3,405
Other comprehensive (loss)/income for the year		**(3,173)**	**3,401**
Total comprehensive income for the year		**56,713**	**39,837**
Attributable to:			
Non-controlling interests ^		2	(6)
Shareholders of the Parent		56,711	39,843
Basic and diluted earnings per share (in RUB)	23	462	281

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

The consolidated financial statements were approved on 24 March 2017:

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 38.

	Note	31 December 2016 RUB million	31 December 2015 RUB million
Assets			
Property, plant and equipment	14	154,713	120,952
Advances issued for property, plant and equipment		4,684	7,424
Intangible assets		1,165	566
Investments in associates	15	816	810
Deferred tax assets	16	5,110	5,901
Other non-current assets	17	2,226	2,822
Non-current assets		**168,714**	**138,475**
Other current investments	18	3,282	4,902
Inventories	19	19,934	17,814
Current income tax receivable		339	453
Trade and other receivables	20	29,674	25,511
Cash and cash equivalents	21	7,261	29,347
Current assets		**60,490**	**78,027**
Total assets		**229,204**	**216,502**
Equity	22		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		74,932	43,460
Other reserves		5,486	8,659
Equity attributable to shareholders of the Parent		88,284	59,985
Equity attributable to non-controlling interests		137	213
Total equity		**88,421**	**60,198**
Liabilities			
Loans and borrowings	24	98,239	105,565
Defined benefit obligations	25	767	424
Deferred tax liabilities	16	4,600	3,677
Non-current liabilities		**103,606**	**109,666**
Trade and other payables	27	22,803	17,011
Current income tax payable		237	491
Loans and borrowings	24	14,137	28,947
Derivative financial liabilities		-	189
Current liabilities		**37,177**	**46,638**
Total equity and liabilities		**229,204**	**216,502**

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 38.

	Note	2016 RUB million	2015 RUB million
Cash flows from operating activities			
Profit before tax		74,927	46,223
Adjustments for:			
Depreciation and amortisation	8, 9, 10	10,767	9,133
Loss on disposal of property, plant and equipment and intangible assets	11	614	915
Finance income	12	(909)	(1,222)
Finance costs	12	4,682	6,093
Share of (profit)/loss of associates	15	(140)	59
Foreign exchange (gain)/loss, net		(18,040)	23,663
Operating profit before changes in working capital and provisions		71,901	84,864
Increase in inventories		(2,120)	(5,287)
Increase in trade and other receivables		(4,023)	(6,116)
Increase in trade and other payables		3,019	2,741
Cash flows from operations before income taxes and interest paid		68,777	76,202
Income tax paid		(13,451)	(7,488)
Finance costs paid		(4,965)	(5,453)
Cash flows from operating activities		**50,361**	**63,261**
Cash flows from investing activities			
Loans repaid/(issued), net		253	(151)
Acquisition of property, plant and equipment and intangible assets		(40,246)	(42,668)
Proceeds from disposal of property, plant and equipment		270	170
Proceeds from disposal of investments		1,277	-
Finance income received		432	1,008
Cash of Phosint Group at the date of acquisition		-	10,178
Cash flows used in investing activities		**(38,014)**	**(31,463)**
Cash flows from financing activities			
Proceeds from borrowings		34,149	46,376
Repayment of borrowings		(33,727)	(62,041)
Dividends paid to shareholders of the Parent	22	(27,974)	(18,130)
Dividends paid to non-controlling interests		(9)	-
Payment of finance lease liabilities		(1,951)	(1,905)
Proceeds from/(payments for) settlement of derivatives, net		127	(1,590)
Acquisition of non-controlling interests		(218)	-
Other payments		(243)	(154)
Proceeds from contribution to charter capital of subsidiaries by non-controlling interests		-	71
Cash flows used in financing activities		**(29,846)**	**(37,373)**
Net decrease in cash and cash equivalents		**(17,499)**	**(5,575)**
Cash and cash equivalents at 1 January		29,347	30,687
Effect of exchange rates fluctuations		(4,587)	4,235
Cash and cash equivalents at 31 December	21	**7,261**	**29,347**

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 38.

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 2015	**372**	**7,494**	**22,708**	**(312)**	**5,570**	**149**	**35,981**
Total comprehensive income for the year							
Profit for the year	-	-	36,442	-	-	(6)	36,436
Actuarial gains and losses, net of tax	-	-	-	(4)	-	-	(4)
Foreign currency translation difference	-	-	-	-	3,405	-	3,405
	-	-	36,442	(4)	3,405	(6)	39,837
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent	-	-	(15,540)	-	-	(1)	(15,541)
Additional contribution to charter capital of subsidiaries	-	-	-	-	-	71	71
Other	-	-	(150)	-	-	-	(150)
	-	-	(15,690)	-	-	70	(15,620)
Balance at 31 December 2015	**372**	**7,494**	**43,460**	**(316)**	**8,975**	**213**	**60,198**
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, net of tax	-	-	-	(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, note 22	-	-	(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**

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 38.

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 several 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 and derivative financial instruments 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 2016 were translated at the closing exchange rate of RUB 60.6569 for USD 1 (31 December 2015: RUB 72.8827 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2016 of RUB 67.0349 for USD 1. (for 2015: RUB 60.9579 for USD 1);

- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 27.7487 for USD 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

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

- Assets and liabilities as at 31 December 2016 were translated at the closing exchange rate of RUB 63.8111 for EUR 1 (31 December 2015: RUB 79.6972 for EUR 1);
- Profit and loss items were translated at the average exchange rate for 2016 of RUB 74.2310 for EUR 1. (for 2015: RUB 67.7767 for EUR 1);
- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 37.8409 for EUR 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

(e) Use of estimates and judgments

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

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

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

- note 3(c)(iv) – estimated useful lives of fixed assets;
- note 16 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- note 18 – recognition of bad debt provision on promissory notes: uncertainties associated with the mutual court claims filed by the Group and the bank.

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) Transactions eliminated on consolidation

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

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit 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 and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

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

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

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

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

(d) Intangible assets

(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 and loss as an expense as incurred.

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

(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.

Derivative financial instruments

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

(f) Inventories

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

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

(i) Impairment

Financial assets

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

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

The Group considers 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 and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

(i) Repurchase of share capital

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

(ii) Dividends

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

(k) Loans and borrowings

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

(l) Employee benefits

(i) Pension plans

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised immediately as an expense in the profit and loss. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

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

(ii) Long-term service benefits other than pensions

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

(iii) State pension fund

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

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(p) Revenues

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

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

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

Revenue from services rendered is recognised in the profit 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 and 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, and intangible assets other than goodwill.

(v) Adoption of new and revised standards and interpretations

No new standards and amendments became effective for the Group from 1 January 2016.

(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 2016, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement.* The standard introduces new classification and measurement requirements, a single forward-looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting. Effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- IFRS 15 *Revenue from contracts with customers* outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- IFRS 16 *Leases* outlines a single lessee accounting model and requires to bring most leases on-balance sheet. Effective for annual periods beginning on or after 1 January 2019 with early adoption permitted if IFRS 15 is also applied at or before the date of initial application of IFRS 16.
- Amendments to IAS 12 *Income Taxes* clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.
- Amendments to IAS 7 *Statement of Cash Flows* requires entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. Effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.

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

4 DETERMINATION OF FAIR VALUES

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(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.

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.

(c) Non-derivative financial liabilities

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

5 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 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	168,136	18,829	777	187,742
Segment external revenues, thereof:				
Export	110,458	14,264	-	124,722
Domestic	57,678	4,565	777	63,020
Cost of goods sold	(74,667)	(11,025)	(699)	(86,391)
Gross segment profit	93,469	7,804	78	101,351
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 non-current assets	23,791	20,967	533	45,291

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

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

The analysis of export revenue by regions is as follows:

	2016 RUB million	2015 RUB million
Europe	46,738	47,303
North and South America	32,992	44,430
CIS	15,883	10,740
Asia	12,462	5,724
India	10,280	18,185
Africa	6,367	12,475
	124,722	**138,857**

6 REVENUES

	2016 RUB million	2015 RUB million
Sales of chemical fertilisers	146,369	154,312
Sales of apatite concentrate	26,037	19,155
Sales of sodium tripolyphosphate	4,839	5,803
Sales of nepheline concentrate	825	737
Sales of ammonium	75	115
Other sales	9,597	9,610
	187,742	**189,732**

7 PERSONNEL COSTS

	2016 RUB Million	2015 RUB Million
Cost of sales	(10,784)	(10,155)
Administrative expenses	(7,882)	(6,784)
Selling expenses	(511)	(373)
	(19,177)	**(17,312)**

8 COST OF SALES

	2016 RUB million	2015 RUB million
Materials and services	(25,746)	(22,905)
Salaries and social contributions	(10,784)	(10,155)
Depreciation	(9,377)	(8,057)
Natural gas	(8,084)	(7,484)
Potash	(7,104)	(7,559)
Sulphur and sulphuric acid	(6,065)	(8,385)
Ammonia	(5,801)	(8,190)
Electricity	(4,462)	(3,927)
Chemical fertilisers and other products for resale	(4,254)	(4,091)
Ammonium sulphate	(2,547)	(2,176)
Fuel	(2,299)	(2,865)
Heating energy	(676)	(718)
Other items	(42)	(23)
Change in stock of WIP and finished goods	850	3,471
	(86,391)	**(83,064)**

9 ADMINISTRATIVE EXPENSES

	2016 RUB million	2015 RUB million
Salaries and social contributions	(7,882)	(6,784)
Professional services	(1,555)	(2,003)
Depreciation and amortisation	(798)	(606)
Other	(3,656)	(2,791)
	(13,891)	**(12,184)**

10 SELLING EXPENSES

	2016 RUB million	2015 RUB million
Freight, port and stevedoring expenses	(9,358)	(9,185)
Russian Railways infrastructure tariff and operators’ fees	(8,169)	(6,099)
Materials and services	(2,499)	(1,624)
Depreciation	(592)	(470)
Salaries and social contributions	(511)	(373)
	(21,129)	**(17,751)**

11 OTHER EXPENSES, NET

	2016 RUB million	2015 RUB million
Social expenditures	(2,081)	(1,821)
Loss on disposal of property, plant and equipment and intangible assets	(614)	(915)
(Increase)/decrease in provision for inventory obsolescence	(151)	161
Increase in provision for bad debt	(85)	(41)
Fines and penalties received	268	956
Other income, net	191	252
	(2,472)	**(1,408)**

12 FINANCE INCOME AND FINANCE COSTS

	2016 RUB million	2015 RUB million
Interest income	479	933
Gain from operations with derivative financial instruments	210	-
Unwind of discount of financial assets	95	128
Other finance income	125	161
Finance income	909	1,222
Interest expense	(4,365)	(5,198)
Loss from operations with derivative financial instruments	-	(310)
Bank fees	(315)	(277)
Other finance costs	(2)	(308)
Finance costs	(4,682)	(6,093)
Net finance costs	**(3,773)**	**(4,871)**

13 INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (2015: 20%).

	2016 RUB million	2015 RUB million
Current tax expense	(13,311)	(9,879)
Origination and reversal of temporary differences, including change in unrecognised assets	(1,730)	92
	(15,041)	**(9,787)**

Reconciliation of effective tax rate:

	2016 RUB million	2016 %	2015 RUB million	2015 %
Profit before tax	74,927	100	46,223	100
Income tax at applicable tax rate	(14,985)	(20)	(9,245)	(20)
Reversal of income tax on intra-group dividends	-	-	399	1
Under provided in respect of prior years	76	-	(250)	(1)
Unrecognised tax liability/(asset) on profit/(loss) from associates	28	-	(12)	-
Non-deductible items	(697)	(1)	(638)	(1)
Change in unrecognised deferred tax assets	(15)	-	-	-
Effect of tax rates in foreign jurisdictions	28	-	(41)	-
Reduction in tax rate	524	1	-	-
	(15,041)	**(20)**	**(9,787)**	**(21)**

14 PROPERTY, PLANT AND EQUIPMENT

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2015	25,663	67,061	5,373	31,212	**129,309**
Additions	10	741	1,544	41,898	**44,193**
Consolidation of Phosint Group	-	747	-	-	**747**
Transfers	5,392	8,574	-	(13,966)	**-**
Disposals	(244)	(2,411)	(168)	(644)	**(3,467)**
At 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 31 December 2016	44,879	84,169	8,297	76,323	**213,668**
Accumulated depreciation					
At 1 January 2015	(6,564)	(33,044)	(3,615)	-	**(43,223)**
Depreciation charge	(1,434)	(6,778)	(777)	-	**(8,989)**
Disposals	75	2,162	145	-	**2,382**
At 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 31 December 2016	(9,637)	(44,172)	(5,146)	-	**(58,955)**
Net book value at 1 January 2015	19,099	34,017	1,758	31,212	**86,086**
Net book value at 1 January 2016	22,898	37,052	2,502	58,500	**120,952**
Net book value at 31 December 2016	35,242	39,997	3,151	76,323	**154,713**

As at 31 December 2016, the balance of the construction in progress account includes the accumulated costs related to the construction of ammonia plant in the amount of RUB 34,222 million and urea plant in the amount of RUB 11,925 million in Cherepovets, as well as underground mine extension in the amount RUB of 6,113 million, the development of Rasvumchorrskiy mine in the amount of RUB 4,163 million and the construction apatit-nepheline beneficiation plant in the amount of RUB 3,853 million in Kirovsk.

(a) Leasing

Plant and equipment with the carrying value of RUB 5,778 million (31 December 2015: RUB 6,008 million) is leased under various finance lease agreements, see note 26(a).

15 INVESTMENTS IN ASSOCIATES

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

	2016 RUB million	2015 RUB million
Balance at 1 January	810	12,975
Share in profit/(loss) for the year	140	(59)
Dividends accrued	(47)	-
Foreign currency translation difference	(87)	1,941
Consolidation of Phosint Limited	-	(14,047)
Balance at 31 December	**816**	**810**

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

	31 December 2016 RUB Million	31 December 2015 RUB Million
JSC Khibinskaya Teplovaya Kompaniya	386	400
LLC PHOSAGRO-UKRAINE	312	245
JSC Giproruda	69	116
OJSC Soligalichskiy izvestkovyi kombinat	49	49
	816	**810**

Summary financial information for associates is as follows:

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**

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

16 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	Liabilities	Net	Assets	Liabilities	Net
	2016	2016	2016	2015	2015	2015
Property, plant and equipment	27	(5,688)	(5,661)	7	(5,235)	(5,228)
Other long-term assets	17	(31)	(14)	85	(19)	66
Current assets	822	(488)	334	958	(405)	553
Liabilities	1,238	(33)	1,205	1,566	(10)	1,556
Tax loss carry-forwards	4,682	-	4,682	5,298	-	5,298
Unrecognised deferred tax assets	(36)	-	(36)	(21)	-	(21)
Tax assets/(liabilities)	6,750	(6,240)	510	7,893	(5,669)	2,224
Set off of tax	(1,640)	1,640	-	(1,992)	1,992	-
Net tax assets/(liabilities)	**5,110**	**(4,600)**	**510**	**5,901**	**(3,677)**	**2,224**

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 2016 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 interest expense on loans and borrowings, currently held or to be obtained by 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 to be issued or obtained by the Company and expected foreign currency rates.

As at 31 December 2016, no deferred tax liability for taxable temporary differences of RUB 29,869 million has been recognised (31 December 2015: no deferred tax liability for deductible taxable temporary differences of RUB 29,090 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 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/(liabilities)	**510**	**(1,730)**	**16**	**2,224**

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

17 OTHER NON-CURRENT ASSETS

	31 December 2016 RUB million	31 December 2015 RUB million
Financial assets available-for-sale, at cost	595	596
Loans issued to related parties, at amortised cost	330	862
Loans issued to third parties, at amortised cost	266	248
Financial assets available-for-sale, at fair value	138	81
Loans issued to employees, at amortised cost	103	133
Loans issued to associates, at amortised cost	40	-
Finance lease receivable	-	13
Other long-term receivables	754	889
	2,226	**2,822**

18 OTHER CURRENT INVESTMENTS

	31 December 2016 RUB million	31 December 2015 RUB million
Investments in debt securities, at amortised cost	4,656	5,671
Financial assets available-for-sale, at fair value	424	1,636
Loans issued to related parties, at amortised cost	218	-
Loans issued to third parties, at amortised cost	162	183
Loans issued to employees, at amortised cost	115	114
Interest receivable	35	27
Loans issued to associates, at amortised cost	-	68
Provision for doubtful accounts	(2,328)	(2,797)
	3,282	**4,902**

As at 31 December 2016 and 31 December 2015 the Group held debt securities issued by entities affiliated to a bank, which at the end of 2014 went into a financial recovery procedure, monitored by the Russian Deposit Insurance Agency, finalised in June 2015. Taking into account the uncertainties associated with the mutual court claims filed by the Group and the bank, the Group recognised a provision of 50% of the nominal value of the debt securities in the amount of RUB 2,328 million (31 December 2015: RUB 2,797 million).

19 INVENTORIES

	31 December 2016 RUB million	31 December 2015 RUB million
Raw materials and spare parts	7,586	6,561
Finished goods:		
Chemical fertilisers	8,274	7,664
Apatite concentrate	219	299
Work-in-progress:		
Apatite-nepheline ore	1,329	790
Chemical fertilisers and other products	1,296	1,643
Other goods for resale	173	45
Chemical fertilisers for resale, purchased from the third parties	1,238	842
Provision for obsolescence	(181)	(30)
	19,934	**17,814**

20 TRADE AND OTHER RECEIVABLES

	31 December 2016 RUB million	31 December 2015 RUB million
Trade accounts receivable	12,770	11,368
Taxes receivable	11,932	9,429
Advances issued	4,693	4,462
Other receivables	513	582
Deferred expenses	229	164
Receivables from employees	36	21
Finance lease receivable	-	12
Provision for doubtful accounts	(499)	(527)
	29,674	**25,511**

The movements in provision for doubtful accounts are as follows:

	2016 RUB Million	2015 RUB Million
Balance at 1 January	(527)	(534)
Foreign currency translation difference	67	(91)
Disposal of provision through trade receivables	46	139
Increase in provision for bad debt	(85)	(41)
Balance at 31 December	**(499)**	**(527)**

See note 28(c) for the analysis of overdue trade accounts receivable.

21 CASH AND CASH EQUIVALENTS

	31 December 2016 RUB Million	31 December 2015 RUB Million
Cash in bank	4,860	18,900
Call deposits	2,395	10,441
Petty cash	6	6
	7,261	**29,347**

22 EQUITY

(a) Share capital

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

(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 2016, the Company had cumulative retained earnings of RUB 37,046 million (31 December 2015: RUB 31,857 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 2015	January 2016	63	8,159
March 2016	May 2016	57	7,382
May 2016	July 2016	63	8,159
August 2016	October 2016	33	4,274
			27,974
Total dividends approved subsequent to the reporting date			
November 2016	January 2017	39	5,051
March 2017	To be approved in May 2017	30	3,885
			8,936

23 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.

	2016 RUB million	2015 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	59,884	36,442
Basic and diluted earnings per share, RUB	462	281

24 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 26(a). For more information about the Group's exposure to foreign currency risk, interest rate risk and liquidity risk, see note 28.

RUB Million	Contractual interest rate	Year of maturity	31 December 2016	31 December 2015
Current loans and borrowings				
Unsecured bank loans:				
RUB-denominated	5.75%-12.95%		3,000	6,500
EUR-denominated	0.21%		1,861	-
USD-denominated	LIBOR(1M)+1.18%-3.35%		4,221	11,783
USD-denominated	LIBOR(3M)+3%		-	3,644
USD-denominated	LIBOR(6M)+1.05%		1,336	-
Unsecured letters of credit issued by banks:				
EUR-denominated	EURIBOR(3M)+1.10%		952	-
EUR-denominated	EURIBOR(6M)+1.10%-1.15%		-	317
EUR-denominated	EURIBOR(12M)+1.10%-1.15%		326	2,982
Unsecured loans from related parties:				
RUB-denominated	9%-17%		-	29
Unsecured loans from other companies:				
RUB-denominated	12%		9	-
USD-denominated	LIBOR(1M)+1.50%		-	438
Finance lease liabilities:				
USD-denominated	1.17%-14.77% [1]		1,680	2,351
Interest payable:				
RUB-denominated			9	3
USD-denominated			743	900
			14,137	**28,947**
Non-current loans and borrowings				
Unsecured bank loans:				
RUB-denominated	11.50%-12.65%	2020-2021	4,000	3,000
EUR-denominated	EURIBOR(6M)+2.15%	2027	3,031	-
USD-denominated	LIBOR(1M)+1.18%-3.35%	2018-2020	21,028	38,506
USD-denominated	LIBOR(3M)+2.85%	2020	15,021	-
USD-denominated	LIBOR(6M)+1.05%	2021	7,967	8,700
USD-denominated	4.17%	2027	13,955	13,051
Unsecured letters of credit issued by banks:				
EUR-denominated	EURIBOR(6M)+1.1%-1.18%	2019	485	185
EUR-denominated	EURIBOR(12M)+1.1%-1.15%	2017	-	1,329
EUR-denominated	1.79%	2019	-	104
Unsecured loans from other companies:				
USD-denominated	LIBOR(12M)+1.25%	2018	614	742
Loan participation notes:				
USD-denominated	4.204% [2]	2018	30,308	36,400
Finance lease liabilities:				
USD-denominated	3.8%-12.55% [1]	2018-2021	1,830	3,548
			98,239	**105,565**
			112,376	**134,512**

[1] Contractual interest rate on financial lease agreements consists of:

- interest rate and fees to a lessor
- insurance of property
- property tax (for lease agreements concluded since 2013 property tax is excluded from the interest rate)

[2] In February 2013, the Company's SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 31,337 million (31 December 2015: RUB 36,405 million).

25 DEFINED BENEFIT OBLIGATIONS

	31 December 2016 RUB Million	31 December 2015 RUB Million
Pension obligations, long-term	535	345
Post-retirement obligations other than pensions	232	79
	767	**424**

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

	RUB Million
Defined benefit obligations at 1 January 2015	453
Benefits paid	(99)
Current service costs and interest	72
Past service credit	(7)
Actuarial gain in other comprehensive income [3]	5
Defined benefit obligations at 1 January 2016	**424**
Benefits paid	(73)
Current service costs and interest	57
Past service credit	275
Actuarial loss in other comprehensive income [3]	84
Defined benefit obligations at 31 December 2016	**767**

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

	31 December 2016	31 December 2015
Discount rate	8.5%	9.6%
Future pension increases	4.5%	5.4%

26 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.

	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**

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

[3] The related deferred tax benefit of RUB 16 million (2015: deferred tax expense of RUB 1 million) is recognised in other comprehensive income, see note 16(b)

(b) Operating leases

During 2015-2016, LLC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2016, which are recorded in the cost of sales, amounted to RUB 240 million (2015: RUB 278 million).

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

	31 December 2016 RUB Million	31 December 2015 RUB Million
Less than one year	208	62
Between one and five years	244	168
	452	**230**

27 TRADE AND OTHER PAYABLES

	31 December 2016 RUB million	31 December 2015 RUB million
Payable for property, plant and equipment	6,060	3,282
Trade accounts payable	5,574	4,763
Advances received	5,203	3,901
Taxes payable	3,409	2,617
Accruals	1,231	1,394
Payables to employees	1,167	873
Other payables	159	181
	22,803	**17,011**

28 FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

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

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

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

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

RUB Million	31 December 2016		31 December 2015	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Non-current assets				
Non-current investments	330	-	862	-
Current assets				
Receivables	1,517	4	1,403	1
Current investments	218	-	5	-
Cash and cash equivalents	2,033	2	7,538	298
Non-current liabilities				
Loans and borrowings	(90,108)	(3,516)	(100,205)	(1,618)
Current liabilities				
Payables	(1,227)	(719)	(1,951)	(358)
Loans and borrowings	(7,944)	(3,139)	(18,588)	(3,299)
	(95,181)	**(7,370)**	**(110,936)**	**(4,976)**

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 10,255 million, before any tax effect (2015: would have increased/(decreased) the Group's profit for the year by RUB 11,591 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

The foreign exchange gain recognised in profit or loss of RUB 16,962 million and the foreign exchange loss of RUB 22,178 million for the comparative period resulted from the appreciation of the Russian Rouble against major currencies during the reporting period and its devaluation during the comparative period. In addition, the net assets of the Group's foreign subsidiaries denominated in USD amount to RUB 12,454 million as at the reporting date (31 December 2015: RUB 14,655 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 2016 RUB Million	31 December 2015 RUB Million
Fixed rate instruments		
Long-term loans issued, at amortised cost	369	381
Long-term loans issued to related parties, at amortised cost	330	862
Investments in debt securities, at amortised cost, net of provision	2,328	2,874
Finance lease receivable	-	25
Short-term deposits	2,395	10,441
Financial assets available-for-sale, at fair value	424	1,636
Short-term loans issued to related parties, at amortised cost	218	-
Short-term loans issued to associates, at amortised cost	-	68
Short-term loans issued, at amortised cost	277	297
Long-term borrowings	(50,093)	(56,103)
Short-term borrowings	(6,550)	(8,880)
	(50,302)	**(48,399)**
Variable rate instruments		
Long-term borrowings	(48,146)	(49,462)
Short-term borrowings	(6,835)	(19,164)
	(54,981)	**(68,626)**

At 31 December 2016, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 550 million (31 December 2015: RUB 686 million).

(c) Credit risk

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

Trade and other receivables

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

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

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

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

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

The analysis of overdue trade accounts receivable is as follows:

	31 December 2016 RUB Million	31 December 2015 RUB Million
Not past due	10,695	8,624
Past due 0-90 days	795	1,789
Past due 91-180 days	452	215
Past due 181-365 days	302	205
More than one year	526	535
	12,770	**11,368**

Current and non-current financial assets

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

As at 31 December 2016 and 31 December 2015 the Group held promissory notes issued by an entity affiliated to a bank, which at the end of 2014 went into a financial recovery procedure, monitored by the Russian Deposit Insurance Agency, finalised in June 2015. Taking into account the uncertainties associated with the outcome of this procedure and mutual court claims filed by the Group and the bank, the Group recognised a provision of 50% of the nominal value of the promissory notes in the amount of RUB 2,328 million (31 December 2015: RUB 2,797 million).

Guarantees

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

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

(d) Liquidity risk

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

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

The table below illustrates the contractual maturities of financial liabilities, including interest payments, which are converted at the closing exchange rates, where applicable:

	31 December 2016							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	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	13,024	13,024	13,024	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,667	2,291	344	380	485	458	528	96
	127,067	**138,988**	**31,589**	**51,248**	**23,031**	**14,374**	**3,555**	**15,191**

	31 December 2015							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	85,184	95,401	25,480	24,053	16,459	10,333	4,601	14,475
Unsecured loans from other companies	1,180	1,221	460	14	747	-	-	-
Unsecured loans from related parties	29	34	34	-	-	-	-	-
Unsecured letters of credit	4,917	4,980	3,351	1,522	2	105	-	-
Interest payable	903	903	903	-	-	-	-	-
Secured finance leases	5,899	6,752	2,760	1,574	1,259	754	270	135
Loan participation notes	36,400	39,758	1,523	1,518	36,717	-	-	-
Trade and other payables	9,620	9,620	9,620	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,795	2,637	301	345	393	516	458	624
	145,927	**161,306**	**44,432**	**29,026**	**55,577**	**11,708**	**5,329**	**15,234**

(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.

29 COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 16,609 million (31 December 2015: RUB 35,854 million).

30 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.

31 RELATED PARTY TRANSACTIONS

(a) Transactions and balances with associates

(i) Transactions with associates

	2016 RUB million	2015 RUB million
Sales of goods and services	7,849	5,382
Interest income	11	114
Dividends income	47	-
Purchases of goods and services	(467)	(492)

(ii) Balances with associates

	31 December 2016 RUB million	31 December 2015 RUB million
Trade and other receivables	968	595
Long-term loans issued, at amortised cost	40	-
Short-term loans issued, at amortised cost	-	68
Trade and other payables	(30)	(22)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,580 million (31 December 2015 RUB 1,661 million).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2016 RUB million	2015 RUB million
Sales of goods and services	1,238	965
Interest income	48	36
Purchases of goods and services	(1,359)	(919)

(ii) Balances with other related parties

	31 December 2016 RUB million	31 December 2015 RUB million
Long-term loans issued, at amortised cost	330	862
Short-term loans issued, at amortised cost	218	-
Trade and other receivables	2	5
Trade and other payables	(115)	(358)
Short-term loans received	-	(29)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 87 million (31 December 2015: RUB 134 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 13 members of key management personnel amounted to RUB 892 million (2015: RUB 535 million).

32 SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2016 Effective ownership (rounded)	31 December 2015 Effective ownership (rounded)
Apatit, JSC (including Balakovo branch)	Russia	100%	100%
PhosAgro-Cherepovets, JSC	Russia	100%	100%
Metachem, JSC	Russia	100%	100%
NIUIF, OJSC	Russia	94%	94%
PhosAgro-Trans, LLC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Belgorod, LLC	Russia	100%	100%
PhosAgro-Don, LLC	Russia	100%	100%
PhosAgro-Kuban, LLC	Russia	100%	100%
PhosAgro-Kursk, LLC	Russia	100%	100%
PhosAgro-Lipetsk, LLC	Russia	100%	100%
PhosAgro-Oryol, LLC	Russia	100%	100%
PhosAgro-Stavropol, LLC	Russia	100%	100%
PhosAgro-Volga, LLC	Russia	100%	100%
PhosAgro-SeveroZapad, LLC	Russia	100%	100%
PhosAgro-Tambov, LLC	Russia	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%
Phosint Trading Limited	Cyprus	100%	100%
Phosagro Asia Pte Ltd	Singapore	100%	100%
PhosAgro Trading SA	Switzerland	97.6%	97.6%
Phosint Limited	Cyprus	95%	95%
PhosAgro Chartering SA	Switzerland	95%	95%
Phosagro Baltic Sp.z o.o.	Poland	95%	-
Phosagro Deutschland GmbH	Germany	95%	-
Phosagro France SAS	France	95%	-

33 EVENTS SUBSEQUENT TO THE REPORTING DATE

In March 2017, the Board of Directors proposed paying a dividend of RUB 30 per ordinary share. The total amount of proposed dividends was RUB 3,885 million, see note 22.