URALKALI GROUP

Consolidated financial statements
for the year ended 31 December 2017

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Notes to the Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Public Joint Stock Company "Uralkali"

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Uralkali" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss, other comprehensive income, statement of changes in equity and statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements 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. We do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Assessment of compliance with covenants Refer to Note 2 Basis of preparation and significant accounting policies and Note 15 Borrowings. The Group is highly leveraged with net debt of US$ 5,371,123 thousand as at 31 December 2017 and it has to comply with certain financial and non-financial covenants stipulated in loan agreements. In addition to the analysis of compliance with covenants at the reporting date, Management prepares financial forecasts to assess the Group's ability to comply with covenants in the future. These financial forecasts are particularly sensitive to changes in foreign currency exchange rates and long-term potash prices.	We obtained an understanding of the process of monitoring compliance with financial and non-financial covenants stipulated in loan agreements. We reviewed the terms and conditions of loan agreements and recalculated covenants. We challenged Management's key assumptions used in the financial forecast by: • assessing covenant compliance forecasts, including stress tests scenarios and related mitigation plans; • testing the appropriateness of Management's assumptions including foreign currency exchange rates and potash prices, inflation rate, and discount rate based on the available market information; and • performing our own sensitivity analysis to test the adequacy of the available headroom related to covenant compliance.
Recoverability of the loan issued Refer to Note 4 Critical accounting judgements and key sources of estimation uncertainty in applying accounting policies and Note 5 Related parties. The Group issued a loan to a related party amounting to US$ 379,232 thousand as at 31 December 2017 to finance business operations of the related party. After initial recognition, the loan is measured at amortised cost using the effective interest rate method, less any loss allowances for expected credit losses. This is a key audit matter due to the materiality of the outstanding balance as at 31 December 2017 and the significance of Management's estimates and judgements involved in assessing the recoverability of the loan. These estimates and judgements primarily relate to projections of long-term potash prices and foreign currency exchange rates.	Our audit procedures included, but were not limited to, understanding the methodology and analysing the valuation model and inputs used by Management to assess the recoverability of the loan. We evaluated the appropriateness and consistency of Management's judgments and estimates, including the following: • comparing key assumptions used in the cash flows model to the available market information; • assessing sensitivity of the model to changes in key parameters; • challenging historical accuracy of Management and market forecasts. We assessed the financial condition and financial performance of the related party and obtained confirmation from the related party of the outstanding balance at 31 December 2017. We considered whether subsequent amendments to the loan agreement after the balance-sheet date had any impact on Management's assessment of the recoverability of the loan.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report and Quarterly report for the 1st quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report and Quarterly report for the 1st quarter of 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

- conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Chaban Dmitriy,
Engagement partner

Deloitte & Touche

3 April 2018

Audited entity: Public Joint Stock Company "Uralkali"

Certificate of state registration №. 1128 issued on 14 October 1992 by the Berezniki Administration, Perm region

Certificate of registration in the Unified State Register of Legal Entities № 1025901702188 issued on 11 September 2002

Location: 63 Pyatiletki ul., Berezniki, 618426, the Perm region

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration №. 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484

(in thousands of US dollars, unless otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,461,948	2,244,153
Prepayments for acquisition of property, plant and equipment and intangible assets		221,246	186,831
Goodwill	8	1,024,146	972,536
Intangible assets	9	2,973,680	2,869,387
Deferred income tax asset	25	16,615	47,408
Income tax prepayments		-	26,222
Prepaid transaction costs on bank facilities		70,397	81,410
Loan issued	5	-	188,762
Investment in associate		23,789	23,942
Derivative financial assets	12	6,047	-
Other non-current assets		63,242	3,600
Total non-current assets		**6,861,110**	**6,644,251**
Current assets			
Inventories	10	91,939	162,036
Trade and other receivables	11	533,959	261,554
Advances to suppliers		26,608	27,502
Income tax prepayments		3,812	32,868
Derivative financial assets	12	16,783	-
Loan issued	5	379,232	-
Other financial assets		1,927	68,267
Cash and cash equivalents	13	1,072,609	1,485,521
Total current assets		**2,126,869**	**2,037,748**
TOTAL ASSETS		**8,987,979**	**8,681,999**
EQUITY			
Share capital	14	35,762	35,762
Treasury shares	14	(27,101)	(26,909)
Share premium		483,572	509,484
Currency translation reserve		(3,717,237)	(3,739,971)
Retained earnings		4,362,544	3,486,183
Equity attributable to the company's equity holders		**1,137,540**	**264,549**
Non-controlling interests		12,017	11,533
TOTAL EQUITY		**1,149,557**	**276,082**
LIABILITIES			
Non-current liabilities			
Borrowings	15	3,490,666	4,590,673
Bonds	16	1,059,954	582,357
Post-employment and other long-term benefit obligations		36,604	34,424
Deferred income tax liability	25	645,605	579,237
Provisions	17	221,314	164,683
Derivative financial liabilities	12	11,609	123,753
Other non-current liabilities		14,027	-
Total non-current liabilities		**5,479,779**	**6,075,127**
Current liabilities			
Borrowings	15	1,291,875	1,827,201
Bonds	16	601,237	2,550
Trade and other payables	18	272,918	247,356
Advances received		22,448	49,604
Provisions	17	40,996	43,127
Derivative financial liabilities	12	109,815	153,372
Current income tax payable		19,354	7,580
Total current liabilities		**2,358,643**	**2,330,790**
TOTAL LIABILITIES		**7,838,422**	**8,405,917**
TOTAL LIABILITIES AND EQUITY		**8,987,979**	**8,681,999**

Approved for issue and signed on behalf of the Board of Directors on 3 April 2018:

Dmitry Osipov
Chief Executive Officer

Anton Vishanenko
Chief Financial Officer

The accompanying notes on pages 10 to 49 are an integral part of these consolidated financial statements.

(in thousands of US dollars, unless otherwise stated)

	Note	2017	2016
Revenues	19	2,760,874	2,278,249
Cost of sales	20	(739,076)	(549,766)
Gross profit		**2,021,798**	**1,728,483**
Distribution costs	21	(747,804)	(547,676)
General and administrative expenses	22	(157,390)	(154,082)
Taxes other than income tax		(21,706)	(25,414)
Other operating income/(expenses), net	23	6,404	(12,741)
Operating profit		**1,101,302**	**988,570**
Finance (expenses)/income, net	24	(8,285)	768,126
Profit before income tax		**1,093,017**	**1,756,696**
Income tax expense	25	(218,389)	(329,550)
Net profit for the period		**874,628**	**1,427,146**
Profit/(loss) attributable to:			
Company's equity holders		873,979	1,427,283
Non-controlling interests		649	(137)
Net profit for the period		**874,628**	**1,427,146**
Weighted average number of ordinary shares in issue (million)		1,336	1,417
Earnings per share – basic and diluted (in US cents)		**65.42**	**100.73**

The accompanying notes on pages 10 to 49 are an integral part of these consolidated financial statements.

(in thousands of US dollars, unless otherwise stated)

	2017	2016
Net profit for the period	**874,628**	**1,427,146**
Other comprehensive income/(loss)		
Items that will not be reclassified to profit:		
Remeasurement of post-employment benefit obligations	2,382	1,579
Effect of translation to presentation currency	22,734	(33,475)
Total other comprehensive income/(loss) for the period	**25,116**	**(31,896)**
Total comprehensive income for the period	**899,744**	**1,395,250**
Total comprehensive income/(loss) for the period attributable to:		
Company's equity holders	899,095	1,395,387
Non-controlling interests	649	(137)

(in thousands of US dollars, unless otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Profit before income tax		1,093,017	1,756,696
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	7,9	239,176	194,151
Loss on disposals of property, plant and equipment and intangible assets	23	8,318	9,322
Loss on/(reversal of) impairment of prepayments for acquisition of property, plant and equipment and intangible assets		448	(2,207)
(Reversal)/accrual of provision for obsolete inventories		(798)	3,770
(Reversal)/accrual of impairment of property, plant and equipment and assets under construction		(2,849)	3,191
Accrual/(reversal) of impairment of trade and other receivables and advances to suppliers		1,304	(991)
Change in provisions, net	17	(8,696)	9,436
Fair value gain on derivative financial instruments, net	24	(51,662)	(184,983)
Foreign exchange gain, net	24	(271,908)	(888,967)
Other finance expenses, net		331,855	305,824
Operating cash flows before working capital changes		**1,338,205**	**1,205,242**
(Increase)/decrease in trade and other receivables and advances to suppliers		(277,104)	165,064
Decrease/(increase) in inventories		78,687	(4,042)
Decrease in trade and other payables, advances received and provisions		(18,275)	(4,634)
(Decrease)/increase in other taxes payable/receivable		(6,934)	16,037
Cash generated from operations		**1,114,579**	**1,377,667**
Interest paid		(326,436)	(318,848)
Income taxes paid net of refunds received		(77,643)	(46,835)
Net cash generated from operating activities		**710,500**	**1,011,984**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(269,782)	(317,399)
Acquisition of intangible assets		(1,106)	(5,732)
Proceeds from sales of property, plant and equipment		2,575	590
Loan issued		(333,973)	(477,438)
Proceeds from loan repayments		160,192	292,536
Purchase of other financial assets		(1,704)	-
Proceeds from sale of other financial assets		70,010	-
Dividend and interest received		10,149	13,504
Net cash used in investing activities		**(363,639)**	**(493,939)**
Cash flows from financing activities			
Repayments of borrowings	15	(3,244,000)	(910,977)
Proceeds from borrowings	15	1,603,010	1,370,533
Proceeds from issuance of bonds	16	1,070,181	-
Arrangement fees and other financial charges paid		(32,391)	(112,269)
Cash proceeds from derivatives	12	12,710	14,671
Cash paid for derivatives	12	(151,792)	(215,620)
Purchase of treasury shares	14	(26,104)	(506,134)
Decrease in restricted cash		-	200,000
Acquisition of subsidiaries, net of cash acquired		(165)	-
Finance lease payments		(34)	(40)
Dividends paid to the Company's shareholders		-	(106)
Net cash used in financing activities		**(768,585)**	**(159,942)**
Effect of changes in foreign exchange rate on cash and cash equivalents		8,812	15,540
Net (decrease)/increase in cash and cash equivalents		**(412,912)**	**373,643**
Cash and cash equivalents at the beginning of the period	**13**	**1,485,521**	**1,111,878**
Cash and cash equivalents at the end of the period	**13**	**1,072,609**	**1,485,521**

(in thousands of US dollars, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	Treasury shares	Share premium	Retained earnings	Currency translation reserve	Total	Non-controlling interests	Total
Balance as at 1 January 2016	**35,762**	**(23,953)**	**1,012,662**	**2,057,321**	**(3,706,496)**	**(624,704)**	**11,670**	**(613,034)**
Profit/(loss) for the period	-	-	-	1,427,283	-	1,427,283	(137)	1,427,146
Other comprehensive income/(loss)	-	-	-	1,579	(33,475)	(31,896)	-	(31,896)
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**1,428,862**	**(33,475)**	**1,395,387**	**(137)**	**1,395,250**
Transactions with equity shareholders								
Purchase of treasury shares (Note 14)	-	(2,956)	(503,178)	-	-	(506,134)	-	(506,134)
Total transactions with equity shareholders	**-**	**(2,956)**	**(503,178)**	**-**	**-**	**(506,134)**	**-**	**(506,134)**
Balance as at 31 December 2016	**35,762**	**(26,909)**	**509,484**	**3,486,183**	**(3,739,971)**	**264,549**	**11,533**	**276,082**
Profit for the period	-	-	-	873,979	-	873,979	649	874,628
Other comprehensive income	-	-	-	2,382	22,734	25,116	-	25,116
Total comprehensive income for the period	**-**	**-**	**-**	**876,361**	**22,734**	**899,095**	**649**	**899,744**
Transactions with equity shareholders								
Purchase of non-controlling interest	-	-	-	-	-	-	(165)	(165)
Purchase of treasury shares (Note 14)	-	(192)	(25,912)	-	-	(26,104)	-	(26,104)
Total transactions with equity shareholders	**-**	**(192)**	**(25,912)**	**-**	**-**	**(26,104)**	**(165)**	**(26,269)**
Balance as at 31 December 2017	**35,762**	**(27,101)**	**483,572**	**4,362,544**	**(3,717,237)**	**1,137,540**	**12,017**	**1,149,557**

The accompanying notes on pages 10 to 49 are an integral part of these consolidated financial statements.

1 The Uralkali Group and its operations

Public Joint Stock Company Uralkali (the "Company") and its subsidiaries (together the "Group") produce mineral fertilizers, which are extracted and processed in the vicinity of the cities of Berezniki and Solikamsk, Russia. They are distributed both on foreign and domestic markets. The Group manufactures various types of products, the most significant being a wide range of potassium salts.

The Company holds operating licences, issued by the Mineral Resource Usage Department in the Privolzhskii Federal district for the extraction of potassium, magnesium and sodium salts from the Durimanskiy, Bigelsko-Troitsky, Solikamskiy (north and south parts) and Novo-Solikamskiy plots of the Verkhnekamskoye field. The licences were prolonged on 1 April 2013 till 2018 – 2021 at nominal cost. In 2016 licences previously valid till 2018 were prolonged till 2043 – 2055 (north part of Solikamskiy plot, Bigelsko-Troitsky and Novo-Solikamskiy plots). In 2017 the licences for the south part of Solikamskiy plot and Durimanskiy plot previously valid till 2021 were prolonged till 2026 and 2024, respectively. The Company also owns licences for the Ust'-Yaivinskiy plot of the Verkhnekamskoye field, which expires in 2024, for the Polovodovskiy plot of the Verkhnekamskoye field, which expires in 2054, and for the Romanovskoye plot of the Verkhnekamskoye field, which expires in 2039. In 2017 the Company received a licence for geological exploration of the Izverski plot on the territory of Usolsky and Alexandrovsky districts of the Perm region, which is valid until 2022.

As at 31 December 2017 and 31 December 2016 the Group had no ultimate controlling party.

The Company was incorporated in the Russian Federation on 14 October 1992 and has its registered office at 63 Pyatiletki St., Berezniki, Perm region, Russian Federation.

2 Basis of preparation and significant accounting policies

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

2.1 Basis of preparation and presentation

Compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

In making its going concern assessment the Group has taken into account its financial position, expected commercial results, its borrowings and available but not yet used credit lines, as well as planned capital expenditures and capital commitments and other risks to which the Group is exposed.

After making appropriate enquires, the Management considers that the Group has adequate resources to cover the working capital deficit and continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. The Group has sufficient available credit lines (including revolving credit lines with Russian and international banks) to cover short term liquidity gaps, if any. For more detailed information refer to the Note 15.

Consequently, Management of the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

2 Basis of preparation and significant accounting policies (continued)

Basis of presentation

The Company and its subsidiaries maintain their books and records in Russian roubles in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from these generally accepted under IFRS. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

2.2 Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its variable returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from equity attributable to the company’s equity holders.

2.4 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment loss. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use. Property, plant and equipment acquired through business combinations are recorded at fair value determined by independent valuation at the date of acquisition, less accumulated depreciation and accumulated impairment since acquisition date.

At each reporting date Management reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the Management estimates the recoverable amount, which is determined as the higher of an asset’s or cash generating unit’s, to which the asset is attributable, fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss within other operating expenses.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use and fair value less costs to sell.

2 Basis of preparation and significant accounting policies (continued)

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised. Gains and losses on disposals are determined by comparing proceeds with the carrying amount are recognised in profit or loss.

Depreciation on property, plant and equipment items is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	10 to 60
Mining assets[1]	5 to 30
Plant and equipment	2 to 30
Transport vehicles	5 to 15
Other	2 to 15
Land	Not depreciated

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.5 Operating leases

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line basis over the lease term to profit or loss. Operating leases include long-term leases of land with rental payments, lease rates are regularly reviewed by the government.

2.6 Finance lease liabilities

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of future finance charges, are included in borrowings.

The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (hereinafter – "CGU") or groups of CGUs that is expected to benefit from the synergies of the combination.

CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

[1] Mining assets include mine infrastructure and present value of future decommissioning and filling cavities costs. Depreciation methods applied to these mining assets as well as their useful lives are stated in Note 4. Future decommissioning costs for buildings and equipment are included in Buildings and Plant and equipment groups.

2 Basis of preparation and significant accounting policies (continued)

2.8 Intangible assets

The Group's intangible assets, other than goodwill, have definite useful lives and primarily include mining licences. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, or, in the case of assets acquired in a business combination, at fair value as at the date of the combination and subsequently on the same basis as intangible assets that are acquired separately.

Expenditure on software, patents, trademarks and non-mineral licences are capitalised and amortised using the straight-line method over their useful lives. Mining licences are amortised under a unit of production method.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

2.9 Financial assets and liabilities

Classification of financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: (a) financial assets at fair value through profit or loss; (b) loans and receivables; (c) investments held-to-maturity; and (d) available-for-sale financial assets.

Derivative financial instruments, represented by cross-currency interest rate and interest rate swaps, are carried at their fair value. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The income received from currency-interest rate swap transactions reduces interest expense. The Group does not apply hedge accounting.

All other financial assets except for loans and receivables and cash are included in the available-for-sale category.

Financial liabilities have the following measurement categories: (a) financial liabilities at fair value through profit or loss (FVTPL) and (b) other financial liabilities. Changes in value are recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

Measurement of financial assets and liabilities

Depending on their classification, financial instruments are carried at fair value, cost or amortised cost, as described below.

Trade and other receivables are measured at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and deposits with original maturity of more than three months held for the purpose of meeting short-term cash needs that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Restricted balances being exchanged or used to settle liabilities at least twelve months after the reporting date are shown separately from cash and cash equivalents for the purposes of the consolidated statement of financial position and are included in non-current assets.

Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

2 Basis of preparation and significant accounting policies (continued)

Pledge agreements

A pledge agreement is a contract that requires the issuer to provide its property as security for debt or other obligation. This pledged property is transferred to the holder as reimbursement for a loss incurred in the event a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Pledge agreements are initially measured at their fair values and, if not designated as at fair value through profit or loss (FVTPL), are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Borrowings are measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time-proportion basis using the effective interest method.

Trade and other payables are accrued when the counterparty has performed its obligations under contract and are carried at amortised cost using the effective interest method.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Financial instruments measured at fair value are analysed by levels of the fair value hierarchy as follows:

(i) level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date,

(ii) level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly, and

(iii) level 3 inputs are unobservable inputs for the asset or liability.

Initial recognition of financial assets and liabilities

Derivatives and other financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets/liabilities are initially recorded at fair value plus/minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. All regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and net amount is presented in the statement of financial position only when there is a legally enforceable right to set-off the recognised amounts, and there is intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business activities, (b) in the event of default and (c) in the case of insolvency or bankruptcy.

2 Basis of preparation and significant accounting policies (continued)

Derecognition of financial assets and liabilities

The Group derecognises financial assets when: (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired; or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets; or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

2.10 Income tax

Income tax has been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date in each of the jurisdictions where the Group's entities are incorporated. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group's uncertain tax positions are assessed by Management at every reporting date. Liabilities are recorded for income tax positions that are determined by Management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditures required to settle the obligations at the reporting date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than income taxes are recorded within operating expenses.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings of subsidiaries unless there is an intention to sell subsidiary in the foreseeable future, since the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.11 Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The cost of finished products and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2 Basis of preparation and significant accounting policies (continued)

The Group has capitalised transportation costs incurred related to finished goods and necessary for their transportation to the warehouses, where the shipment is performed, in the cost of finished goods.

2.12 Share capital

Ordinary shares and Global Depositary Receipts (GDRs) are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as share premium.

2.13 Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements have been authorised for issue.

2.15 Value added tax (VAT)

Output VAT is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis (if the Company has no right to set-off) and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debt, including VAT.

2.16 Borrowing costs

The Group capitalises borrowing costs relating to assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) as part of the cost of the asset. The Group considers a qualifying asset to be an investment project with an implementation period exceeding one year.

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

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that a cash outflow will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

Net present value of provisions is determined by discounting future real cash outflows associated with the specific past event. The Group determined the yield to maturity of the Russian government bonds as a discount factor for discounting the future real cash outflows associated with provisions to reflect the time value of money.

(in thousands of US dollars, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.18 Foreign currency translation

Functional and presentation currency. Functional currency of each entity of the Group is the national currency of the Russian Federation, Russian Rouble ("RR"). The presentation currency of these consolidated financial statements is US dollar ("US$").

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items.

Translation to the presentation currency. The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

(i) assets and liabilities for consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for consolidated statements of profit or loss, other comprehensive income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

Foreign currency exchange rates

The official rates of exchange, as determined by the Central Bank of the Russian Federation (CBRF):

	31 December 2017		**31 December 2016**	
	US$	Euro	US$	Euro
closing rate	57.60	68.87	60.66	63.81
average rate	58.35	65.90	67.03	74.23

2.19 Revenue recognition

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods under the appropriate INCOTERMS specified in the sales contracts, unless other terms are specified in a separate clause in the sales contracts;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales are shown net of VAT, export duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable.

Revenue from sales of products other than potassium chloride (such as carnallite, salts, etc.) is recognised as Other revenue.

2 Basis of preparation and significant accounting policies (continued)

2.20 Transshipment, transport repairs and maintenance costs

Most of the transshipment costs are incurred by JSC "Baltic Bulker Terminal", a 100% subsidiary whose activity is related to the transshipment of fertilisers produced by the Group, and presented within distribution costs. In addition to this, distribution costs include transport repairs and maintenance costs which are incurred by LLC "Vagon Depo Balahonzi", a 100% subsidiary of the Group. These costs include depreciation, payroll, material expenses and various general and administrative expenses.

2.21 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

2.22 Social costs

The Group incurs social costs related to the provision of benefits such as health services and charity costs related to various social programmes. These amounts have been charged to other operating expenses.

2.23 Pension costs

In the normal course of business, the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed as incurred.

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to profit or loss so as to spread the cost over the service period of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities is charged to profit or loss. The liability recognised in the consolidated statement of financial position, in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The plans are not externally funded. The defined benefit obligation is calculated annually by the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the relevant pension liability.

All actuarial gains and losses which arise in calculating the present value of the defined benefit obligation are recognised immediately in other comprehensive income.

2.24 Earnings/loss per share

Earnings per share are determined by dividing the net income attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year. During current and comparative periods diluted earnings per share are not different from basic earnings per share.

2.25 Segment reporting

The Group identifies and presents segments in accordance with the criteria set forth in IFRS 8 "*Operating segments"* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources. The chief operating decision-maker has been determined as Chief Executive Officer (hereinafter – "CEO"). It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilisers.

(in thousands of US dollars, unless otherwise stated)

3 IFRS standards update

The following is a list of new or amended IFRS standards and interpretations that have been applied by the Group for the first time in these annual consolidated financial statements:

Title	Subject	Effect on the consolidated financial statements
Amendments to IAS 7	Statement of cash flows	The Group's liabilities arising from financing activities consist of borrowings (note 15), bonds (note 16) and derivative financial liabilities (note 12). A reconciliation between the opening and closing balances of these items is provided in notes 15, 16 and 12. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in notes 15, 16 and 12, the application of these amendments has had no impact on the Group's consolidated financial statements.
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	No effect.
Amendments to IFRS 12	Disclosure of interests in other entities	No effect.

With the exception of specific items mentioned above, the adoption of these new and revised standards and interpretations had no effect on the amounts reported as well as the presentation and disclosure of information in the consolidated financial statements of the Group.

The following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective:

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
IFRS 9	Financial Instruments	1 January 2018	No significant changes are anticipated, see below.
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Under review, see below.
IFRS 16	Leases	1 January 2019	Under review, see below.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No significant changes are anticipated
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019	Under review
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined later	Not applicable
Amendments to IFRS 9	Prepayment Features With Negative Compensation	1 January 2019	No significant changes are anticipated
Amendments to IAS 28	Long-Term Interests in Associates and Joint Ventures	1 January 2019	Not applicable

IFRS 9 Financial Instruments

IFRS 9 will change the classification and measurement principles for financial assets, but is not anticipated to have a significant impact on the consolidated financial statements. The key areas of IFRS 9 which will impact the Group relate to the classification of financial assets and the application of the expected loss model.

All recognised financial assets currently within the scope of IAS 39 will be subsequently measured at either amortised costs, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVTOCI) under IFRS 9 depending on the contractual cash flows of the instrument and the business model under which it is held.

3 IFRS standards update (continued)

No significant changes are anticipated in classification and measurement of financial instruments, except for classification of factored receivables which will be accounted at FVTOCI.

The impairment model for financial assets under IFRS 9 will reflect expected credit losses and changes in those expected credit losses as opposed to reflecting only for incurred credit losses under IAS 39.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9. In relation to loans to related parties and pledge agreements (Note 5), Management does not expect to recognise any credit losses within the next 12 months.

In general, Management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

The Group has assessed the impact of the adoption of IFRS 9 on the Group's consolidated financial statements as insignificant.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contracts;
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- sale of goods;
- complex service (sale of goods and delivery and package services);
- other revenue.

Management is currently assessing full potential effect of IFRS 15 implementation.

3 IFRS standards update (continued)

IFRS 16 Leases

As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$ 21 million (Note 26). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 26. A preliminary assessment indicates that these arrangements would meet the definition of a lease under IFRS 16, and hence the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements and Management is currently assessing its full potential effect. It is not practicable to provide a reasonable estimate of the financial effect until the Management completes the review.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group Management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Remaining useful life of property, plant and equipment and mining licences

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical condition of assets and estimated period during which these assets will be bringing economic benefits to the Group (Note 7).

The Group holds operating mining licences for the production of potassium salts, magnesium and sodium which were extended to 2018–2021 upon their expiry on 1 April 2013. In 2016 licences previously valid until 2018 were prolonged to 2043–2055 (north part of Solikamskiy plot, Bigelsko-Troitsky and Novo-Solikamskiy plots). Management assesses the remaining useful life of mining licences on the basis of the expected mining reserves.

The estimated remaining useful life of certain property, plant and equipment and mineral resources is beyond the expiry date of the relevant mining licences (Note 1). Management believes that in future the licences will be further renewed in due order at nominal cost. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

4.2 Key sources of estimation uncertainty

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

Provisions for mine Solikamsk-2 flooding

On 18 November 2014, a burst of suprasalt water was detected into the mined-out area of Solikamsk-2 ("SKRU-2"), which was caused by the negative development of the 1995 accident related to a mass collapse of the rock and subsequent substantial destruction of the water-proof layer – emergency circumstances which could not be prevented.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Comprehensive mitigation plan was developed immediately and has been executed throughout 2015–2017.

In line with the accident mitigation plan, the Group continues to comprehensively monitor the situation. Currently the Group is implementing a number of engineering and other arrangements to minimise the impact of the accident and reduce suprasalt water inflows into the mine.

The major uncertainties associated with the provision for mine Solikamsk-2 flooding are as follows:

- amount of expenses which are best available estimates of future costs;
- period of time over which expenses are expected to be incurred. The major cash outflows are expected to be incurred up to 2023; and
- in 2017 Management applied the discount rate of 7.3% based on government bonds interest rates (2016: from 8.2% to 8.4%).

As at the date of approval of these consolidated financial statements there are no lawsuits against the Group for reimbursement of expenses resulting from the negative impact of the accident in the Solikamsk-2 mine.

Management believes that there are no liabilities relating to the Solikamsk-2 flooding other than those disclosed in the consolidated financial statements for the year ended 31 December 2017.

Provisions for mine Berezniki-1 flooding

Since 28 October 2006, the Group ceased production operations at the Berezniki-1 mine due to natural groundwater inflow that reached a level which could not be properly controlled by the Group.

In January 2007 the Government Committee for the prevention of negative consequences of the accident caused by the flooding of a mine in the Verkhnekamskoye field in Perm Region was set up. The Committee is still working, and a series of measures to prevent any negative consequences of the accident in Berezniki-1 are in place. The Company conducts constant monitoring and is involved in other monitoring and prevention activities.

Management believes that as at 31 December 2017 there are no liabilities relating to the Berezniki-1 flooding which are not recorded or not disclosed in the consolidated financial statements.

Provision for filling cavities

A provision has been established in the consolidated financial statements for the Group's obligation to replace the ore and waste extracted from the Solikamsk mines and Berezniki-2 and Berezniki-4 mines (Note 17).

Management initially estimated the amount of legal obligations for filling cavities within fixed assets. Remeasurement of an existing amount of these cavities that result from changes in estimates of mine surveys is recorded as an addition or disposal of an asset and is depreciated over its useful life using the straight-line method of depreciation. Unwinding of the discount is recognised in profit or loss in finance income and finance costs. The amount of expenses incurred due to filling of the cavities for other reasons is recognised in the current period in the consolidated statement of profit or loss.

The major uncertainties that relate to the amount and timing of the cash outflows related to filling cavities and judgements made by Management in respect of these uncertainties are as follows:

- Estimated time to fill cavities. Cash flow payments are expected to occur principally between 2018 and 2044;
- The extent of the filling cavities work which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation to replace the ore and waste mined is consistent with the cavities filling plan agreed with the State Mine Supervisory Body;
- The future unit cost of replacing one cubic meter of the ore and waste mined may vary depending on the technology and the cost of methods utilised. Management estimates that the unit cost of replacing a cubic meter of waste and ore mined in future years, for the period of the current filling cavities plan, adjusted for the effect of inflation, will not be materially different from the actual cost incurred in the current period. The forecasted inflation rate in the Russian Federation is expected to be in the range of 4.0% to 4.9% for the period starting from 2018 till 2020 (2016: from 4.5% to 5.4%). Starting from 2021, the expected inflation rate in the Russian Federation is forecasted to be 4.3% (2016: 4.7%); and
- In 2017, Management applied discount rates ranging from 7.1% to 9.3% based on government bonds interest rates (2016: from 8.2% to 8.6%).

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Restructuring provision

The Group accrued a provision for the closing down of the processing and carnallite plants subdivision at Berezniki 1 (Note 17).

The major uncertainties that relate to the amount and timing of the cash outflows related to the restructuring works and assumptions made by Management in respect of these uncertainties are as follows:

- Estimated costs of dismantling and restoration works for the dismantling of the processing and carnallite plants at Berezniki-1;
- Estimated time to complete works. Major cash outflows are expected to occur till 2019;
- In 2017 Management applied discount rates ranging from 6.6% to 7.0% based on government bonds interest rates (2016: from 8.3% to 8.4%).

Provision for asset retirement obligations

The Group has recorded a provision relating to asset retirement obligations (Note 17), which will be settled at the end of estimated lives of mines, therefore requiring estimates to be made over a long period.

Environmental laws, regulations and interpretations by regulatory authorities, as well as circumstances affecting the Group's operations could change, either of which could result in significant changes to its current mining plans.

The recorded provision is based on the best estimate of costs required to settle the obligations, taking into account the nature, extent and timing of current and proposed restoration and closure techniques in view of present environmental laws and regulations. It is reasonably possible that the ultimate costs could change in the future and that changes to these estimates could have a material effect on the Group's consolidated financial statements.

The estimation of asset retirement obligation costs depends on the development of environmentally acceptable closure and post-closure plans. The Group uses appropriate technical resources, including internal consultants from scientific institutes JSC "NII Galurgii" and JSC "VNII Galurgii", to develop specific site closure and post-closure plans in accordance with the requirements of the legislation of the Russian Federation.

The major uncertainties that relate to the amount and timing of the cash outflows related to the asset retirement obligations and assumptions made by Management in respect of these uncertainties are as follows:

- Mine life estimates. Cash flow payments are expected to occur principally between 2026 and 2069. These estimates are based on Management's current best assessment of the Group's current reserves;
- The extent of the restoration works which will have to be performed in the future may vary depending on the actual environmental situation. Management believes that the legal obligation for decommissioning of the underground and surface complex is consistent with the terms of licences;
- The future unit cost of decommissioning works may vary depending on the technology and the cost of resources used, as well as the inflation rate. The forecasted inflation rate in the Russian Federation is expected to be in the range of 4.0% to 4.9% for the period starting from 2018 till 2020 (2016: from 4.5% to 5.4%). Starting from 2021, the expected inflation rate in the Russian Federation is forecasted to be 4.3% (2016: 4.7%);
- In 2017, Management applied discount rates ranging from 7.6% to 9.3% based on government bonds interest rates (2016: from 8.5% to 8.6%).

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

During 2017, the Group completed its assessment of future costs to fulfil its current decommissioning obligations for Ust'-Yayvinskii mine. Total estimated provision for asset retirement obligations amounts to US$ 613 as at 31 December 2017.

Provision for resettlement

On 12 July 2017 the Company, the Government of the Perm Region and the Administration of the town of Berezniki signed an agreement according to which the Company shall provide additional financing for: (1) the relocation of people living in inadequate housing facilities in Berezniki due to the accident at the Berezniki-1 mine; (2) the construction of new infrastructure facilities which will support well-being of resettled people at their new place of residence; (3) demolition of the houses.

Under this agreement the Company will allocate up to RR 1,264 mln (US$ 21.9 mln at the exchange rate as at 31 December 2017) in addition to previously allocated funds according to the agreement concluded as at 5 December 2013. The expenses in the amount of RR 422 mln (US$ 7.2 mln at the average exchange rate for 2017) are expected to be incurred not earlier than 2019 and were recognized in long-term provisions as at 31 December 2017 on a discounted basis.

Annual impairment test of goodwill

The Group tests goodwill for impairment at least annually. The main assumptions used in value-in-use calculations are described in Note 8.

Mining licences

Management makes estimates, judgements and significant assumptions to assess whether the recoverable amount of the licences exceeds their carrying value. This largely depends on the estimates about a range of technical and economic factors, including technology for construction of the mines, the level of capital expenditure needed to develop the deposit, the expected start of the production, the future potash prices and exchange rates. Since the assumptions used to estimate the above factors might change from period to period, the results of Management estimates might also change from period to period.

Review of impairment indicators for property, plant and equipment

The Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired as at each reporting date. No impairment indicators were identified as at 31 December 2017.

Classification and recoverability of a loan issued to a related party

In 2016 the Group issued an unsecured revolving loan facility to a related party for a period of 2 years. Management considered among other things, the interest rate, maturity of the loan and payment history of the debtor and concluded that the loan was issued at market terms and should be classified as a financial asset in the consolidated financial statement of financial position, rather than a transaction accounted for as a distribution to owners in the consolidated statement of changes in equity.

At the end of each reporting period, Management considers the financial position and financial performance of the debtor to identify whether the loan is recoverable. The ability of the debtor to repay the loan depends on returns from its investments in companies operating in the fertiliser industry. Management applied a number of significant assumptions in their financial model to assess the recoverability of the loan which are disclosed in Note 8.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 26.2).

(in thousands of US dollars, unless otherwise stated)

5 Related parties

Related parties include shareholders, associates and entities under control of the Group's major shareholders and key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

On 8 July 2016, Onexim Group Limited ceased to be related party of the Group following disposal of 18.66% of the Company's share through Rinsoco Trading Limited.

Details of outstanding balances between the Group and its related parties are disclosed below.

Outstanding balances with related parties under control of shareholders with significant influence over the Group	31 December 2017	31 December 2016
Loan issued including interest receivable	379,232	188,762
Trade and other receivables and other financial assets	17,776	39
Other non-current liabilities	14,026	-
Trade and other payables	5,308	4,163
Advances received	1,115	1,317

Outstanding balances with associate	31 December 2017	31 December 2016
Accrued liabilities	4,274	-
Trade and other payables	160	-
Trade and other receivables	83	-

The loan to a related party is a US$ denominated unsecured revolving loan facility granted in April 2016 for a period of 2 years under market conditions and was prolonged in 2018 till 2023 (Note 30). The loan is given at a market rate with interests payable at the maturity date.

In December 2017, the Group entered into a share pledge agreement with PJSC "Sberbank of Russia" (hereinafter – "Sberbank") whereby the Company pledged some of its own shares held by JSC Uralkali-Technologiya as security for loans of a related party, as follows:

- 41,104,223 shares of PJSC Uralkali representing 1.4% of Company's share capital as primary pledge; and
- 252,497,366 shares of PJSC Uralkali representing 8.6% of Company's share capital as secondary pledge, which are also pledged as primary security for credit facilities received by the Group from Sberbank in 2016 (Note 15).

The pledge was provided at market terms and expires in 2023. As at 31 December 2017, the fair value of the pledged agreement of US$ 17.7 mln for 6 years was recognised in other non-current assets, other payables and other non-current liabilities.

Details of significant transactions between the Group and its related parties are disclosed below.

Transactions with related parties under control of shareholders with significant influence over the Group	2017	2016
Revenue (sales of potassium chloride)	39,357	27,497
Other revenue	1,355	1,264
Interest income	17,411	4,128
Purchase of inventories	11,156	7,416
Transportation expenses	10,406	6,365
Purchase of property, plant and equipment and assets under construction	2,077	1,651
General and administrative expenses	1,603	1,450
Other expenses	209	88

(in thousands of US dollars, unless otherwise stated)

5 Related parties (continued)

Transactions with associate	**2017**	**2016**
Other income	-	6,317
Transshipment	4,920	4,288
Other distribution costs	5,081	4,686

Key management's compensation

Key management personnel compensation consists of remuneration paid to executive directors and other directors for their services in full- or part-time positions. Compensation is made up of annual remuneration and a performance bonus depending on operating results.

Key management's compensation is presented below:

	Expenses		**Accrued liabilities**	
	2017	**2016**	**31 December 2017**	**31 December 2016**
Short-term employee benefits	7,071	7,412	4,837	4,866
Termination benefits	137	134	-	-
Total	**7,208**	**7,546**	**4,837**	**4,866**

6 Segment information

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and based on operating segments. The Company's operating segment has been determined based on reports reviewed by CEO, assessed to be Company's chief operating decision maker ("CODM"), that are used to make strategic decisions.

It was determined, that the Group has one operating segment – the extraction, production and sales of potash fertilizers.

The financial information reported on operating segments is based on the management accounts which are based on IFRS. The CODM performs an analysis of the operating results based on the measurements of:

- revenues;
- revenues net of freight, railway tariff and transshipment costs;
- operating profit;
- cash capital expenditures net of VAT ("Cash CAPEX").

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in this Note.

a) The following is an analysis of the Group's revenue and results from continuing operations for the reportable segment:

	Note	**2017**	**2016**
Revenues	19	2,760,874	2,278,249
Revenues net of freight, railway tariff and transshipment costs	19, 21	2,182,680	1,850,970
Operating profit		1,101,302	988,570
Cash CAPEX		270,888	323,130

(in thousands of US dollars, unless otherwise stated)

6 Segment information (continued)

b) Geographical information

The analysis of Group sales by region was:	**2017**	**2016**
Russia	412,953	350,800
China, India, South East Asia	1,032,799	952,949
Latin America, USA	936,119	632,751
Europe, other countries	379,003	341,749
Total revenues	**2,760,874**	**2,278,249**

The sales are allocated by region based on the destination country.

c) Major customers

The Group had no external customers which represented more than 10% of the Group's revenues in the years ended 31 December 2017 and 2016.

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment

	Buildings	Mining assets	Plant and equipment	Transport	Other	Land	Assets under construction	Total
Cost								
Balance as at 1 January 2016	**488,916**	**631,832**	**817,040**	**155,474**	**20,578**	**6,271**	**488,528**	**2,608,639**
Additions	74	-	1,558	139	-	-	323,884	325,655
Changes in estimates added to property, plant and equipment (Note 17)	634	46,676	-	-	-	-	-	47,310
Commissioning of assets and transfers	105,932	1,915	157,932	17,116	(3,735)	74	(289,752)	(10,518)
Disposals	(4,000)	(996)	(18,445)	(2,468)	(226)	(14)	(6,678)	(32,827)
Effect of translation to presentation currency	110,991	123,964	185,732	32,530	3,347	1,270	101,110	558,944
Balance as at 31 December 2016	**702,547**	**803,391**	**1,143,817**	**202,791**	**19,964**	**7,601**	**617,092**	**3,497,203**
Additions	29	-	33	-	-	-	244,644	244,706
Changes in estimates added to property, plant and equipment (Note 17)	(12,566)	71,466	(1,177)	-	-	-	-	57,723
Recognition of asset related to decommissioning obligations (Note 17)	201	-	-	-	-	-	412	613
Commissioning of assets and transfers	38,135	115,622	55,869	3,334	(927)	24	(212,057)	-
Disposals	(548)	(7,963)	(16,965)	(7,810)	(105)	-	(3,629)	(37,020)
Effect of translation to presentation currency	37,610	44,974	61,145	10,703	1,094	406	33,112	189,044
Balance as at 31 December 2017	**765,408**	**1,027,490**	**1,242,722**	**209,018**	**20,026**	**8,031**	**679,574**	**3,952,269**

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment (continued)

	Buildings	Mining assets	Plant and equipment	Transport	Other	Land	Assets under construction	Total
Accumulated depreciation and impairment								
Balance as at 1 January 2016	**110,886**	**263,025**	**470,206**	**71,777**	**8,222**	**-**	**1,549**	**925,665**
Depreciation charge	21,910	50,332	69,785	11,968	959	-	-	154,954
Disposals	(1,590)	(398)	(15,129)	(2,095)	(83)	-	-	(19,295)
Transfers	11,456	(82,315)	61,371	(1,829)	(716)	-	1,516	(10,517)
(Reversal of impairment)/impairment	(1,229)	4,663	(5,347)	512	-	-	4,592	3,191
Effect of translation to presentation currency	26,601	42,234	112,320	15,191	1,605	-	1,101	199,052
Balance as at 31 December 2016	**168,034**	**277,541**	**693,206**	**95,524**	**9,987**	**-**	**8,758**	**1,253,050**
Depreciation charge	27,603	82,396	73,795	12,585	1,268	-	-	197,647
Disposals	(186)	(6,610)	(15,149)	(4,178)	(102)	-	-	(26,225)
Transfers	29	81	370	(315)	(182)	-	17	-
(Reversal of impairment)/impairment	(14)	(137)	(568)	(589)	-	-	(1,541)	(2,849)
Effect of translation to presentation currency	9,275	15,718	37,549	5,199	514	-	443	68,698
Balance as at 31 December 2017	**204,741**	**368,989**	**789,203**	**108,226**	**11,485**	**-**	**7,677**	**1,490,321**
Net Book Value								
Balance as at 1 January 2016	**378,030**	**368,807**	**346,834**	**83,697**	**12,356**	**6,271**	**486,979**	**1,682,974**
Balance as at 31 December 2016	**534,513**	**525,850**	**450,611**	**107,267**	**9,977**	**7,601**	**608,334**	**2,244,153**
Balance as at 31 December 2017	**560,667**	**658,501**	**453,519**	**100,792**	**8,541**	**8,031**	**671,897**	**2,461,948**

In 2016 the Group changed the classification between groups of fixed assets due to the changes to approach of classification of assets as Mining assets.

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment (continued)

Allocation of depreciation charge for the period	2017	2016
Cost of sales (Note 20)	169,512	130,724
Distribution costs (Note 21)	11,847	10,719
General and administrative expenses (Note 22)	7,862	6,784
Other operating expenses (Note 23)	1,364	885
Capitalised within assets under construction	7,062	5,842
Total	**197,647**	**154,954**

Fully depreciated assets still in use

As at 31 December 2017 and 31 December 2016 the gross carrying value of fully depreciated property, plant and equipment still in use was US$ 416,046 and US$ 385,964 respectively.

8 Goodwill

	2017	2016
Carrying value as at 1 January	**972,536**	**809,397**
Effect of translation to presentation currency	51,610	163,139
Carrying value as at 31 December	**1,024,146**	**972,536**

The goodwill is primarily attributable to the expected future operational and marketing synergies arising from the business combinations with Silvinit Group and not to individual assets of the subsidiaries and was allocated to CGU – PJSC "Uralkali". The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on actual financial results, budget approved by Management and discount rates reflecting time value of money and inherent risks.

Management analysed the impact of changes in key assumptions on the value-in-use amount. Changes in key assumptions which may lead to potential impairment of goodwill are not probable considering current market estimates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2017	2016
RR/US$ exchange rate (till 2040)	From 61 to 138	From 65 to 123
Growth rate beyond one year	4.0% p.a.	4.0% p.a.
US$ weighted average cost of capital	10.2% p.a.	10.9% p.a.
Long-term inflation rate	4.0% p.a.	From 3.0% to 6.4% p.a.

The Group did not recognise any impairment of goodwill in the consolidated financial statements for the years ended 31 December 2017 and 31 December 2016.

(in thousands of US dollars, unless otherwise stated)

9 Intangible assets

	Note	Mining licences	Software	Other	Total
Cost					
Balance as at 1 January 2016		**2,674,962**	**9,354**	**9,961**	**2,694,277**
Additions		-	6,336	132	6,468
Disposals		-	(1,608)	(2,292)	(3,900)
Effect of translation to presentation currency		539,156	2,391	1,775	543,322
Balance as at 31 December 2016		**3,214,118**	**16,473**	**9,576**	**3,240,167**
Additions		-	603	903	1,506
Disposals		-	(946)	(209)	(1,155)
Effect of translation to presentation currency		170,566	874	508	171,948
Balance as at 31 December 2017		**3,384,684**	**17,004**	**10,778**	**3,412,466**
Accumulated amortisation					
Balance at 1 January 2016		**(263,547)**	**(3,354)**	**(2,393)**	**(269,294)**
Amortisation charge	20, 21, 22	(40,671)	(2,448)	(1,920)	(45,039)
Disposals of accumulated amortisation		-	1,372	956	2,328
Effect of translation to presentation currency		(57,396)	(789)	(590)	(58,775)
Balance as at 31 December 2016		**(361,614)**	**(5,219)**	**(3,947)**	**(370,780)**
Amortisation charge	20, 21, 22	(45,327)	(2,394)	(870)	(48,591)
Disposals of accumulated amortisation		-	884	2	886
Effect of translation to presentation currency		(19,782)	(296)	(223)	(20,301)
Balance as at 31 December 2017		**(426,723)**	**(7,025)**	**(5,038)**	**(438,786)**
Net book value					
As at 1 January 2016		**2,411,415**	**6,000**	**7,568**	**2,424,983**
As at 31 December 2016		**2,852,504**	**11,254**	**5,629**	**2,869,387**
As at 31 December 2017		**2,957,961**	**9,979**	**5,740**	**2,973,680**

10 Inventories

	31 December 2017	31 December 2016
Raw materials and spare parts	65,213	72,754
Finished products	16,986	77,330
Work in progress	3,671	4,553
Other inventories	6,069	7,399
Total inventories	**91,939**	**162,036**

(in thousands of US dollars, unless otherwise stated)

11 Trade and other receivables

	31 December 2017	31 December 2016
Financial receivables		
Trade receivables	484,536	209,630
Other receivables	11,936	17,315
Less: provision for doubtful debt	(14,010)	(13,313)
Total financial receivables	**482,462**	**213,632**
Non-financial receivables		
VAT recoverable	49,570	47,286
Other taxes recoverable	1,927	636
Total non-financial receivables	**51,497**	**47,922**
Total trade and other receivables	**533,959**	**261,554**

As at 31 December 2017 trade receivables of US$ 464,628 (31 December 2016: US$ 189,513), net of provision for impairment, were denominated in foreign currencies; 89% of this balance was denominated in US$ (31 December 2016: 88%) and 11% was denominated in Euro (31 December 2016: 12%).

Movements of the provision for doubtful debt were as follows:

	2017		2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Balance as at 1 January	**(6,673)**	**(6,640)**	**(8,503)**	**(4,755)**
Provision accrued	(762)	(1,138)	(7,585)	(2,858)
Provision reversed	490	345	10,618	892
Provision utilised	188	710	90	40
Foreign exchange gain/(loss), net	190	(13)	83	1,087
Effect of translation to presentation currency	(353)	(354)	(1,377)	(1,045)
Balance as at 31 December	**(6,920)**	**(7,090)**	**(6,674)**	**(6,639)**

The accrual and reversal of the provision for doubtful debt have been included in other operating expenses in the consolidated statement of profit or loss (Note 23). Amounts charged to the provision account are written off when there is no expectation of recovering additional cash.

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2017		31 December 2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Current and not impaired				
Insured	335,235	139	85,068	158
Not insured or factored	130,516	2,572	97,787	9,978
Total current and not impaired	**465,751**	**2,711**	**182,855**	**10,136**
Past due but not impaired				
less than 45 days overdue	11,024	1,333	12,319	404
45 to 90 days overdue	132	209	902	52
over 90 days overdue	709	593	6,880	84
Total past due but not impaired	**11,865**	**2,135**	**20,101**	**540**
Impaired				
45 to 90 days overdue	12	604	9	50
over 90 days overdue	6,908	6,486	6,665	6,589
Total amount of impaired accounts receivable	**6,920**	**7,090**	**6,674**	**6,639**
Total accounts receivable (gross)	**484,536**	**11,936**	**209,630**	**17,315**
Impairment provision	(6,920)	(7,090)	(6,674)	(6,639)
Total accounts receivable	**477,616**	**4,846**	**202,956**	**10,676**

(in thousands of US dollars, unless otherwise stated)

11 Trade and other receivables (continued)

As at 31 December 2017 and 2016 no trade and other receivables were pledged as collateral.

Management carried out an assessment of past due but not impaired trade and other receivables, as a result of which concluded that no impairment is needed due to stable financial position and solvency of counterparties.

12 Derivative financial instruments

As at 31 December 2017, the derivative financial instruments were represented by:

					Notional amount	
	The Group pays	**The Group receives**	**Issue**	**Maturity**	**31 December 2017**	**31 December 2016**
Cross-currency interest rate swap	US$ at floating rate US$-ISDA+4.2%	RR at floating rate MosPrime 3m+2.59%	2013	2018	US$ 250 mln (RR 8,213 mln)	US$ 583 mln (RR 19,163 mln)
	US$ at fixed rate 3.6%	RR at fixed rate 8.8%	2017	2020	US$ 265 mln (RR 15,000 mln)	-
Interest rate swap	US$ at fixed rate 1.52%-1.54%	US$ at floating rate USD-Libor 3M	2016	2019	US$ 833 mln (RR 47,981 mln)	-
	US$ at fixed rate 1.82%-1.8425%	US$ at floating rate USD-Libor 3M	2017	2020	US$ 1,000 mln (RR 57,600 mln)	-

In 2017 in order to reduce the currency risk the Company concluded a zero-cost collar agreement (a combination of buying an option to sell and selling an option to purchase) for monthly sale of US$ 25 mln for a 12 month period. The lower limit of the agreement RR 56.00 per US dollar and the upper limit is RR 76.25 – 79.9 per US dollar.

In these consolidated financial statements derivative financial instruments were as follows:

	31 December 2017	**31 December 2016**
Assets		
Current derivative financial assets	16,783	-
Non-currentderivative financial assets	6,047	-
Total derivative financial assets	**22,830**	**-**
Liabilities		
Current derivative financial liabilities	109,815	153,372
Non-current derivative financial liabilities	11,609	123,753
Total derivative financial liabilities	**121,424**	**277,125**

Movements of the carrying amounts of derivative financial assets and liabilities were as follows:

	Note	**2017**	**2016**
Balance as at 1 January		**277,125**	**585,603**
Cash proceeds from derivatives		12,710	14,671
Cash paid for derivatives		(151,792)	(215,620)
Changes in the fair value	28	(51,662)	(184,983)
Effect of translation to presentation currency		12,213	77,454
Balance as at 31 December		**98,594**	**277,125**

13 Cash and cash equivalents

	Interest rates	31 December 2017	31 December 2016
Cash on hand and bank balances			
RR denominated cash on hand and bank balances		73,165	47,176
US$ denominated bank balances		856,422	1,035,325
EUR denominated bank balances		32,387	45,281
Other currencies denominated balances		110	12,390
Highly liquid risk-free bonds		70,158	-
Term deposits			
US$ term deposits	0.60% p.a. – 1.38% p.a. (31 December 2016: 0.51% p.a. – 1.73% p.a.)	39,134	312,000
RR term deposits	5.70% p.a. – 6.52% p.a. (31 December 2016: 5.21% p.a. – 9.40% p.a.)	1,233	33,349
Total cash and cash equivalents		**1,072,609**	**1,485,521**

As at 31 December 2017 and 31 December 2016, all term deposits have maturity within three months.

In 2017, the Group purchased US government bonds. These bonds are short-term, highly liquid with AAA rating from Fitch and Moody's agencies and are considered risk-free.

14 Equity

	Number of ordinary shares (in millions)	Number of treasury shares (in millions)	Ordinary shares	Treasury shares	Total
As at 1 January 2016	**2,936**	**(1,425)**	**35,762**	**(23,953)**	**11,809**
Treasury shares purchased	-	(171)	-	(2,956)	(2,956)
As at 1 January 2017	**2,936**	**(1,596)**	**35,762**	**(26,909)**	**8,853**
Treasury shares purchased	-	(11)	-	(192)	(192)
As at 31 December 2017	**2,936**	**(1,607)**	**35,762**	**(27,101)**	**8,661**

The number of unissued authorised ordinary shares is 1,730 million (31 December 2016: 1,730 million) with a nominal value per share of 0.868 US cents (0.5 RR) (31 December 2016: 0.824 US cents (0.5 RR)). All shares stated in the table above have been issued and fully paid.

The number of unissued authorised preference shares is 150 million (31 December 2016: 0) with a nominal value per share of 0.868 US cents (0.5 RR) (31 December 2016: 0). At the reporting date preference shares were not issued.

Treasury shares. On 23 November 2015, the Company's Board of Directors approved an open market buyback programme in respect of shares and GDRs. The programme commenced on 24 November 2015 and expired on 31 March 2016. Since the launch of the Company's open market buyback programme, an aggregate of 101,117,702 shares and 8,506,136 GDRs representing 4.9% of the Company's share capital have been purchased (including 28,428,735 shares and 8,430,936 GDRs that were purchased during November-December 2015).

On 18 May 2016 the Company's Board of Directors approved another open market buyback programme in respect of Company's ordinary shares. This programme included the purchase of GDRs in privately negotiated transactions. The programme was open from 19 May to 19 September 2016. During this period the Group purchased 92,272,796 shares and 1,215,191 GDRs that in aggregate constitute 3.4% of the Company's share capital.

During 2016 and 2017 the Company purchased 46,211 and 11,109,568 ordinary shares correspondingly as a result of redemption right exercise pursuant to Joint Stock Company Law.

(in thousands of US dollars, unless otherwise stated)

14 Equity (continued)

The total amount spent on purchase of ordinary shares and GDRs of the Company during 2017 was US$ 26,104 (2016: US$ 506,134). All transaction costs were included into the purchase price of shares and GDRs. The difference between the purchase price of US$ 26,104 and the nominal value of the shares of US$ 192 was accounted for as a decrease in Share premium.

Treasury shares as at 31 December 2017 comprise 1,607,926,530 ordinary shares (31 December 2016: 1,596,816,962) represented by shares and GDRs of the Company owned by JSC "UK-Technologia", wholly owned subsidiary of the Group.

Preference shares. On 18 December 2017 the extraordinary general shareholders' meeting (the "EGM") made decision to increase the share capital of the Company by way of issuance of 150,000,000 non-convertible preferred shares, which will be placed by way of closed subscription to major shareholders of the Company at a price to be determined by the Board of Directors prior to the offering.

Delisting. The listing and admission to trading of the Company's Rule 144A and Regulation S GDRs on the London Stock Exchange have been cancelled with effect from start of trading on 22 December 2015. The Company's Rule 144A GDR programme has been terminated with effect from 12 January 2016.

The Moscow Stock Exchange made decision to downgrade the listing of Company's shares from Level 1 to Level 3 effective from 26 June 2017 following the decrease of the free float of the Company's shares to 7.5% of the issued capital for a period longer than 6 months. Taking into account this fact and the reduced volume of trading in the Company's shares on the stock exchange, the Board of Directors unanimously recommended to the Company's shareholders to approve the delisting of the Company's shares from the Moscow Exchange. On 18 December 2017 EGM made decision on delisting of the Company's shares from Moscow stock exchange.

Dividends. All dividends are declared and paid in RR. The current dividend policy provides flexibility to the Board of Directors in determining the amount of dividend payments.

In 2017 and 2016, at the General Meeting of Shareholders of the Company Shareholders resolved not to pay any dividends.

15 Borrowings

	31 December 2017	31 December 2016
Bank loans	**4,773,344**	**6,409,114**
Short-term bank loans	1,291,857	1,827,100
Long-term bank loans	3,481,487	4,582,014
Finance lease payable	**9,197**	**8,760**
Short-term finance lease payable	18	101
Long-term finance lease payable	9,179	8,659
Total borrowings	**4,782,541**	**6,417,874**

Bank loans

	2017	2016
Balance as at 1 January	**6,409,114**	**5,897,427**
Bank loans received, denominated in US$	1,603,010	1,370,533
Bank loans repaid, denominated in US$	(3,056,349)	(714,065)
Bank loans repaid, denominated in RR	(187,651)	(196,912)
Interest accrued	278,922	294,949
Interest paid	(293,041)	(296,476)
Recognition of syndication fees and other financial charges	(13,486)	(19,831)
Amortisation of syndication fees and other financial charges	20,727	12,338
Foreign exchange gain, net	(292,516)	(1,055,914)
Effect of translation to presentation currency	304,614	1,117,065
Balance as at 31 December	**4,773,344**	**6,409,114**

(in thousands of US dollars, unless otherwise stated)

15 Borrowings (continued)

The table below shows interest rates as at 31 December 2017 and 31 December 2016 and the split of bank loans into short-term and long-term.

Short-term bank loans	**Interest rates**	**31 December 2017**	**31 December 2016**
Bank loans in US$: floating interest	From 1 month Libor + 2.2% to 3 month Libor + 3.55% (31 December 2016: From 1 month Libor +2.15% to 6 month Libor +4.65%)	1,145,987	1,641,788
Bank loans in US$: fixed interest	From 3,8% to 4.61%	1,852	-
Bank loans in RR: floating interest	MosPrime 3M + 2.59% (31 December 2016: MosPrime 3M + 2.59%)	144,018	185,312
Total short-term bank loans		**1,291,857**	**1,827,100**

Long-term bank loans			
Bank loans in US$: floating interest	From 1 month Libor +2.2% to 3 month Libor +3.55% (31 December 2016: From 1 month Libor +2.15% to 6 month Libor +4.65%)	2,731,858	4,447,492
Bank loans in US$: fixed interest	From 3,8% to 4.61%	749,629	-
Bank loans in RR: floating interest	31 December 2016: MosPrime 3M + 2.59%	-	134,522
Total long-term bank loans		**3,481,487**	**4,582,014**

As at 31 December 2017 and 2016 no equipment or inventories were pledged as security for bank loans.

As at 31 December 2017, bank loans amounting US$ 2,025,340 (31 December 2016: US$ 2,138,964) were collateralised by future sales proceeds of the Group under export contracts with certain customers.

In March 2016 a credit line agreement with PJSC "Sberbank" was signed in the amount of up to US$ 3.9 billion for the purpose of refinancing of other loans received from the bank as well as for other general corporate purposes, which, together with related agreements, were secured by way of pledge to PJSC "Sberbank" of the Company shares and GDRs constituting 28.6% of the Company's issued ordinary shares (equivalent of 389,981,286 ordinary shares and 89,959,526 GDRs). In 2017 amendments to Sberbank facilities were signed – the term of the credit facility was extended and the interest rate was decreased. Funds under the committed credit line in the amount of US$ 2.0 billion are available to be drawn down from 1 January 2019 till 31 December 2020; funds in the amount of US$ 1.9 billion are available to be drawn down from 23 November 2019 till 19 June 2020. As at 31 December 2017, the Company has not yet used the facility.

On 29 August 2016 the Extraordinary General Meeting of the Company's shareholders approved a number of interrelated transactions in respect of the placement of the Company's Exchange Traded Bonds in favor of JSC "Uralkali-Technologia" with a total nominal value of US$ 800 mln and with a value of US$ 1 per one bond. The purpose of this placement was to replace the Company's shares/GDRs with the Exchange Traded Bonds in the US$ 800 mln REPO agreement signed on 23 September 2015 between JSC "Uralkali-Technologia" and JSC "VTB Capital". JSC "Uralkali-Technologia" terminated the pledge over the Company's GDRs and released the Company's ordinary shares from REPO, constituting totally 20% of the Company's issued ordinary shares. In October 2017 the liability under the REPO agreement between JSC "Uralkali-Technologia" and JSC "VTB Capital" was repaid.

In April 2017 the Company signed a revolving credit line agreement in the amount of up to US$ 750 mln with PJSC Sberbank of Russia, Sberbank AG (Switzerland) and SIB LIMITED (CYPRUS). The availability period of the credit line is 3 years, during which the Company can borrow funds in tranches and with different maturities within the limit and the tenor of the credit line availability. The funds raised can be used for the Company's general corporate purposes, including refinancing of its current debt obligations. As at 31 December 2017 the credit line was fully utilised in two tranches, each for a period of 3 years.

(in thousands of US dollars, unless otherwise stated)

15 Borrowings (continued)

On 16 August 2017 the Company signed a US$ 850 mln 5-year pre-export facility with 11 international banks. The interest rate is 1M LIBOR + 2.2%. The loan was used for refinancing of the Company's existing loans including PXF facilities of 2013 and 2015 and for general corporate purposes.

In October 2017 the Company signed up to US$ 500 mln revolving facility agreement with Gazprombank with the availability period from the signing date to and including 23 months from the signing date. The borrower shall apply all amounts borrowed by it under the facility towards its general corporate purposes (including, but not limited to, refinancing of its existing indebtedness). As at 31 December 2017 the line was not utilized.

In January 2018 the Company signed an uncommitted revolving credit facility in the amount of up to $100 mln with Credit Agricole, which is available for one year (Note 30).

During 2016 the Group signed amendments to change the definition of Net Debt/Net Worth in several facilities. The amendments changed the calculation of Net Worth by excluding from the calculation foreign exchange losses/gains and fair value loss/gain on derivatives from 1 January 2013. Under several other amendments Net Worth was adjusted to exclude treasury shares and share premium.

The Group was in compliance with all financial and non-financial covenants as at 31 December 2017.

16 Bonds

In April 2013 the Group issued US$ denominated Eurobonds at the nominal value of US$ 650 million bearing a coupon of 3.723% p.a. maturing in 2018.

In May 2017 the Company issued ruble bonds in the amount of RR 15 billion under its exchange bond programme. The coupon rate was 8.80% p.a., coupon period is 182 days. Nominal value of the bond is RR 1,000. The bond matures in 3 years. The Group has concluded the cross-currency interest rate swap agreements to translate to dollars debt and interest payments (Note 12).

In October 2017 JSC "Uralkali-Technologia" sold bonds issued by the Company to JSC "VTB Capital". At the same time the Company entered into an interest rate swap to exchange the coupon rate with the interest rate of financing (Note 12).

	2017	2016
Balance as at 1 January	**584,907**	**584,668**
Issuance of bonds	1,070,181	-
Interest accrued	44,125	21,325
Interest paid	(32,480)	(21,215)
Recognition of syndication fees and other financial charges	(745)	-
Amortisation of syndication fees	604	476
Foreign exchange gain	(31,019)	(107,001)
Effect of translation to presentation currency	25,618	106,654
Balance as at 31 December	**1,661,191**	**584,907**

	31 December 2017	31 December 2016
Short-term bonds		
Short-term bonds quoted on Irish Stock Exchange	585,329	2,550
Short-term bonds quoted on Moscow Stock Exchange	15 908	-
Total short-term bonds	**601,237**	**2,550**
Long-term bonds		
Long-term bonds quoted on Irish Stock Exchange	-	582,357
Long-term bonds quoted on Moscow Stock Exchange	1,059,954	-
Total long-term bonds	**1,059,954**	**582,357**
Total bonds	**1,661,191**	**584,907**

(in thousands of US dollars, unless otherwise stated)

17 Provisions

	Note	Provision for filling cavities	Restructuring provision	Resettlement provision	Mine flooding provision	Legal provision	Provision for asset retirement obligations	Total
Balance as at 1 January 2016		**58,296**	**5,611**	**-**	**7,823**	**14,244**	**35,084**	**121,058**
Recognition of asset retirement obligations and changes in estimates added to property, plant and equipment	7	31,094	-	-	-	-	16,216	47,310
Changes in estimates		-	(703)	-	207	140	-	(356)
Accrual of provision		-	-	9,792	-	-	-	9,792
Utilisation of provision		(11,997)	(318)	-	(1,219)	-	-	(13,534)
Unwinding of the present value discount		6,345	611	-	850	1,570	3,818	13,194
Effect of translation to presentation currency		14,444	1,086	1,030	1,562	3,052	9,172	30,346
Current liabilities		**11,639**	**200**	**10,822**	**1,460**	**19,006**	**-**	**43,127**
Non-current liabilities		**86,543**	**6,087**	**-**	**7,763**	**-**	**64,290**	**164,683**
Balance as at 31 December 2016		**98,182**	**6,287**	**10,822**	**9,223**	**19,006**	**64,290**	**207,810**
Changes in estimates added to property, plant and equipment	7	77,675	-	-	-	-	(19,952)	57,723
Changes in estimates		-	(32)	(817)	(3,152)	-	-	(4,001)
Accrual of provision		-	-	10,084	-	6,084	613	16,781
Reversal of provision		-	-	-	-	(21,476)	-	(21,476)
Utilisation of provision		(18,079)	(140)	(3,397)	(896)	(66)	-	(22,578)
Unwinding of the present value discount		8,522	555	54	799	808	5,724	16,462
Effect of translation to presentation currency		6,100	339	652	447	817	3,234	11,589
Current liabilities		**23,314**	**297**	**11,179**	**1,033**	**5,173**	**-**	**40,996**
Non-current liabilities		**149,086**	**6,712**	**6,219**	**5,388**	**-**	**53,909**	**221,314**
Balance as at 31 December 2017		**172,400**	**7,009**	**17,398**	**6,421**	**5,173**	**53,909**	**262,310**

(in thousands of US dollars, unless otherwise stated)

18 Trade and other payables

	31 December 2017	31 December 2016
Trade payables	66,334	61,098
Accrued liabilities	90,552	77,990
Salary payable and related accruals	53,798	50,493
Other payables	37,716	32,232
Total financial payables	**248,400**	**221,813**
Other taxes payable	19,342	24,097
Other non-financial payables	5,176	1,446
Total non-financial payables	**24,518**	**25,543**
Total trade and other payables	**272,918**	**247,356**

As at 31 December 2017 trade and other payables of US$ 42,716 (31 December 2016: US$ 13,437) were denominated in foreign currencies: 38% of this balance was denominated in US$ (31 December 2016: 79%) and 54% was denominated in Euro (31 December 2016: 8%).

19 Revenues

	2017	2016
Potassium chloride	1,710,530	1,482,803
Potassium chloride (granular)	959,164	736,041
Other revenues	91,180	59,405
Total revenues	**2,760,874**	**2,278,249**

20 Cost of sales

	Note	2017	2016
Depreciation	7	169,512	130,724
Employee benefits		168,708	138,381
Materials and components		123,929	89,526
Fuel and energy		108,085	81,471
Repairs and maintenance		43,526	36,054
Amortisation of licences	9	45,327	40,671
Change in work in progress, finished goods and goods in transit		36,951	4,578
Transportation between mines by railway		12,228	9,061
Other costs		30,810	19,300
Total cost of sales		**739,076**	**549,766**

(in thousands of US dollars, unless otherwise stated)

21 Distribution costs

	Note	2017	2016
Railway tariff and rent of wagons		301,033	214,641
Freight		248,343	183,318
Transport repairs and maintenance		31,892	25,055
Transshipment		28,817	29,320
Commissions and marketing expenses		23,003	11,148
Employee benefits		10,855	16,468
Depreciation	7	8,567	7,398
Storage expenses		4,872	13,722
Other costs		90,422	46,606
Total distribution costs		**747,804**	**547,676**

Depreciation in the amount of US$ 3,280 is included into Transport repairs and maintenance and Transshipment costs (2016: US $3,321).

22 General and administrative expenses

	Note	2017	2016
Employee benefits		89,953	87,354
Depreciation	7	7,862	6,784
Security		6,475	6,041
Mine rescue crew		6,134	5,123
Materials and fuel		5,182	4,263
Communication and information system services		4,413	4,016
Consulting, audit and legal services		4,349	8,713
Amortisation of intangible assets	9	3,264	4,368
Repairs and maintenance		3,167	3,059
Other expenses		26,591	24,361
Total general and administrative expenses		**157,390**	**154,082**

23 Other operating income and expenses

	Note	2017	2016
Other operating expenses/(income) related to non-current assets			
Loss on disposals of property, plant and equipment and intangible assets		8,318	9,322
(Reversal)/accrual of impairment loss on property, plant and equipment and assets under construction		(2,849)	3,773
Other operating expenses/(income) related to non-current assets		1,812	(1,904)
Other operating expenses/(income) related to accounting estimates and accrued liabilities			
Accrual of resettlement provision	17	9,267	9,792
(Reversal)/accrual of legal provision	17	(15,392)	140
Other operating income related to provisions and accrued liabilities		(1,848)	(7,241)
Other operating expenses/(income)			
Social cost and charity		6,242	7,742
Other income, net		(11,954)	(8,883)
Total other operating (income)/expenses, net		**(6,404)**	**12,741**

(in thousands of US dollars, unless otherwise stated)

24 Finance income and expenses

	Note	2017	2016
Foreign exchange gain		271,908	888,967
Fair value gain on derivative financial instruments, net	12	51,662	184,983
Interest income		25,600	17,260
Gain on disposal of other financial assets		862	-
Dividend income		104	172
Gain from discounting and unwinding, net		-	1,694
Income from associate		-	279
Total finance income		**350,136**	**1,093,355**
Interest expense		(286,767)	(289,685)
Syndication fees and other financial charges		(50,243)	(30,407)
Loss from discounting and unwinding, net		(14,590)	-
Letters of credit fees		(4,349)	(4,043)
Loss from associate		(1,463)	-
Finance lease expense		(915)	(797)
Fair value losses on investments		(61)	(297)
Other finance expenses		(33)	-
Total finance expenses		**(358,421)**	**(325,229)**
Total finance (expenses)/income, net		**(8,285)**	**768,126**

The syndication fees and other financial charges include the write-off of the prepaid commission in the amount of US$ 16,641 related to a US$ 1.5 billion credit line from PJSC “Sberbank of Russia”. The credit line was available for utilisation till 3 March 2017. This credit line has not been used due to it being more costly as compared to other funding options.

Capitalised interest expense and foreign exchange gain/loss in the cost of assets under construction were as follows:

	2017	2016
Capitalised interest expenses	36,280	26,949
Capitalised foreign exchange losses	600	-
Total capitalised borrowing costs	**36,880**	**26,949**

25 Income tax expense

	2017	2016
Current income tax expense	156,527	197,124
Adjustments recognised in the period for current income tax of prior periods	(6,187)	(449)
Deferred income tax expense	68,049	132,875
Income tax expense	**218,389**	**329,550**

Income before taxation and non-controlling interests for consolidated financial statements purposes is reconciled to income tax as follows:

	2017	2016
Profit before income tax	**(1,093,017)**	**(1,756,696)**
Theoretical tax charge at a rate of 16.5% (2016: 15.5%)	180,348	272,288
Corrections of profit tax for prior years	(6,187)	(449)
Tax effect of expenses which are not deductible, net	14,567	13,721
Effect of different tax rates in countries and regions	(3,565)	176
Effect of changes in tax rate	457	39,452
Write-off of deferred tax asset	27,779	6,006
Effect of previously unrecognised tax losses for disposed entities	5,501	-
Other	(511)	(1,644)
Income tax expense	**218,389**	**329,550**

(in thousands of US dollars, unless otherwise stated)

25 Income tax expense (continued)

As at 31 December 2017 and 2016, most companies of the Group were registered in the Russian Federation, Perm region and were taxed at a rate from 16.5% to 19.5% on taxable profits as at 31 December 2017 and at a rate from 15.5% to 17.0% as at 31 December 2016. However, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period. In 2015, a new law was adopted by Legislative Assembly of Perm region which determined the income tax rate of 17.0% in 2016 up to 20.0% in 2018 and further. However, for those taxpayers which make significant capital investments and/or donate to charity on the territory of Perm region, the tax rate can be decreased by a certain percentage (which is calculated using the formula stated in the law). The decreased tax rate cannot be lower than 15.5% in 2016 and 16.5% starting from 2017.

Management of the Group performed an analysis using the forecasts of capital expenditure and profits based on which they expect to utilize the tax benefit for some of the entities of the Group registered in Perm region, including the Company.

In 2017 and 2016, foreign subsidiaries were taxed applying respective national income tax rates.

The tax effect of the movements in the temporary differences for the year ended 31 December 2017 was the following:

	31 December 2016	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2017
Tax effects of taxable and deductible temporary differences				
Property, plant and equipment	(153,573)	(27,356)	(8,507)	(189,436)
Intangible assets	(473,305)	7,840	(25,015)	(490,480)
Inventories	6,029	(4,054)	267	2,242
Borrowings	(6,290)	51	(333)	(6,572)
Trade and other receivables	(2,027)	6,489	(14)	4,448
Prepaid transaction costs on bank facilities	(13,432)	2,498	(689)	(11,623)
Derivative financial instruments	45,726	(31,463)	2,015	16,278
Trade and other payables	1,510	(2,025)	54	(461)
Tax loss carry-forward	19,651	(18,687)	798	1,762
Provisions	34,294	8,942	1,937	45,173
Other	9,588	(10,284)	375	(321)
Total net deferred tax liability	**(531,829)**	**(68,049)**	**(29,112)**	**(628,990)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2016 was the following:

	31 December 2015	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2016
Tax effects of taxable and deductible temporary differences				
Property, plant and equipment	(104,222)	(25,647)	(23,704)	(153,573)
Intangible assets	(374,959)	(20,604)	(77,742)	(473,305)
Inventories	30,487	(27,691)	3,233	6,029
Borrowings	(3,869)	(1,485)	(936)	(6,290)
Trade and other receivables	(3,173)	1,617	(471)	(2,027)
Prepaid transaction costs on bank facilities	(408)	(11,711)	(1,313)	(13,432)
Derivative financial instruments	90,762	(57,305)	12,269	45,726
Trade and other payables	590	725	195	1,510
Tax loss carry-forward	23,215	(7,459)	3,895	19,651
Provisions	18,756	10,639	4,899	34,294
Other	2,410	6,046	1,132	9,588
Total net deferred tax liability	**(320,411)**	**(132,875)**	**(78,543)**	**(531,829)**

(in thousands of US dollars, unless otherwise stated)

25 Income tax expense (continued)

Deferred tax balances presented in the consolidated statement of financial position were as follows:

	31 December 2017	31 December 2016
Deferred income tax asset	16,615	47,408
Deferred income tax liability	(645,605)	(579,237)
Deferred income tax liability, net	**(628,990)**	**(531,829)**

As at 31 December 2017 the Group has not recognised a deferred income tax liability in respect of taxable temporary differences associated with investments in subsidiaries in the amount of US$ 177,482 (31 December 2016: US$ 200,565). The Group controls the timing of the reversal of these temporary differences and does not expect their reversal in the foreseeable future.

26 Contingencies, commitments and operating risks

26.1 Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group which have not been disclosed in these consolidated financial statements.

26.2 Tax legislation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the consolidated financial statements could be significant.

According to the amendments introduced into the Russian tax legislation, the undistributed profits of the Group foreign subsidiaries, recognised as controlled foreign companies, may result in an increase of the tax base of the controlling entities. According to current forecasts the profits of controlled foreign companies does not increase the taxable profits of the Company due to application of appropriate norms of tax legislation of the Russian Federation. Despite the fact that the Group has developed a tax planning strategy with regard to the legislation on controlled foreign companies applicable to the Group foreign subsidiaries, Management of the Group does not exclude the fiscal approach of regulating authorities to the order of determination of taxable profits in controlling entities of the Group in Russia.

26.3 Insurance

The Company generally enters into insurance agreements when it is required by statutory legislation. The insurance agreements do not cover the risks of damage to third parties' property resulting from the Group's underground activities and the risks reflected in Note 4.

26.4 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. In the current enforcement climate under existing legislation, Management believes that there are no significant liabilities for environmental damage due to legal requirements except for those mentioned in Note 4. The Group's mining activities and the recent mine flooding may cause subsidence that may affect the Group's facilities, and those of the cities of Berezniki and Solikamsk, State organisations and others.

(in thousands of US dollars, unless otherwise stated)

26 Contingencies, commitments and operating risks (continued)

26.5 Operating environment of the Group

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014, the oil price decreased significantly.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

26.6 Capital expenditure commitments

As at 31 December 2017 the Group had contractual commitments for the purchase of property, plant and equipment and intangible assets for US$ 485,160 (31 December 2016: US$ 426,016) from third parties. As at 31 December 2017 and 31 December 2016, the Group had no contractual commitments for the purchase of property, plant and equipment from related parties.

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

26.7 Operating lease commitments

As at 31 December 2017 and 2016 the Group leased property, plant and equipment, mainly land plots. The future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017	**31 December 2016**
Not later than 1 year	3,139	3,198
Later than 1 year and not later than 5 years	8,724	9,958
Later than 5 years	9,355	16,074
Total operating lease commitments	**21,218**	**29,230**

27 Financial risk management

27.1 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital.

(in thousands of US dollars, unless otherwise stated)

27 Financial risk management (continued)

27.2 Categories of financial instruments

	Note	31 December 2017	31 December 2016
Financial assets			
Loan issued	5	379,232	188,762
Trade and other receivables	11	482,462	213,632
Derivative financial assets	12	22,830	-
Other financial assets		1,927	68,267
Cash and cash equivalents	13	1,072,609	1,485,521
Financial liabilities			
Borrowings	15	4,782,541	6,417,874
Bonds	16	1,661,191	584,907
Derivative financial liabilities	12	121,424	277,125
Trade and other payables	18	248,400	221,813

27.3 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Market risk is the possibility that currency exchange rates, reduction in the prices of potash products and changes in interest rates will adversely affect the value of assets, liabilities or expected future cash flows. Overall risk management procedures adopted by the Group focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group.

The Group operates internationally and exports significant part of potash fertilizers sales. As a result the Group is exposed to foreign exchange risk arising from various currency exposures. Export sales are primarily denominated in US$ or Euro. The Group is exposed to the risk of significant RR/US$ and RR/Euro exchange rates fluctuations. The Group's operating profit benefits from the weak exchange rate of the RR against the US$ and Euro, since all the Group major operating expenses are denominated in RR. The net profit suffers from the weak Rouble exchange rate mainly due to the foreign exchange differences on the Group's loans which are predominantly denominated in USD.

For the year ended 31 December 2017, if during the year the US$ and Euro had strengthened by 10% against the RR with all other variables held constant, the net profit for the year would have been US$ 386,626 lower (31 December 2016: US$ 416,066 lower), if during the year the US$ and Euro had weakened by 10% against the RR with all other variables held constant, the net profit for the year would have been US$ 392,556 higher (31 December 2016: US$ 416,066 higher), mainly as a result of foreign exchange gains/losses on the translation of US$ and Euro denominated trade receivables, cash in bank, deposits, foreign exchange losses/gains on the translation of US$ denominated borrowings and bonds issued and changes of fair value of derivative financial assets and liabilities.

(ii) Price risk

The Group is not exposed to commodity price risk, since the Group does not enter in any operations with financial instruments whose value is exposed to the value of commodities traded on the public market.

27 Financial risk management (continued)

(iii) Interest rate risk

The Group's income and operating cash flows are exposed to market interest rates changes. The Group is exposed to fair value interest rate risk through market value fluctuations of interest bearing short- and long-term borrowings, whose interest rates comprise a fixed component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk (Notes 15, 16). The Group uses cross-currency interest rate and interest rate swaps to reduce interest payments (Note 12). The objective of managing interest rate risk is to prevent losses due to adverse changes in market interest rates. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, the renewal of existing positions and alternative financing.

For the year ended 31 December 2017, if LIBOR and ISDA rates on US$ denominated borrowings had been 200 basis points higher/lower with all other variables held constant, net profit for the year would have been US$ 98,430 lower/higher (year ended 31 December 2016: net profit for the year would have been US$ 106,299 lower/higher).

The effect is mainly as a result of higher/lower interest expense on floating rate borrowings and changes in the fair value of derivative financial assets and liabilities with floating rates terms.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing credit risk is to prevent losses of liquid funds deposited in counterparties.

Financial assets, which potentially subject Group entities to credit risk, consist primarily of loan issued, trade receivables, cash and bank deposits.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets of US$ 1,959,060 (31 December 2016: US$ 1,956,182).

The Group is not exposed to significant concentrations of credit risk. As at 31 December 2017 the Group had 63 counterparties (31 December 2016: 28 counterparties), each of them having receivables balances above US$ 1,000. The total aggregate amount of these balances was US$ 462,644 (31 December 2016: US$ 181,529) or 98% of the total amount of financial trade and other receivables (31 December 2016: 85%). Cash and short-term deposits are placed in banks and financial institutions, which are considered at the time of deposit to have optimal balance between rate of return and risk of default. The Group has no other significant concentrations of credit risk.

As at 31 December 2017 the Group has a loan issued to a related party which gives exposure to credit risk at the amount of US$ 379,232.

Loans to related parties and pledge agreements (Note 5) involve related parties without publicly available credit ratings. Management therefore prepared financial models to assess the credit risk associated with loans to related parties and pledged agreements which involved a number of judgements as described in Note 4. Management does not expect to recognise any credit losses in relation to loans to related parties and pledge agreements within the next 12 months.

Trade receivables are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation while at the same time maintaining risk at an acceptable level.

The effective monitoring and controlling of credit risk is performed by the Group's corporate treasury function. The credit quality of each new customer is analysed before the Group enters into contractual agreements. The credit quality of customers is assessed taking into account their financial position, past experience, country of origin and other factors. Management believes that the country of origin is one of the major factors affecting a customer's credit quality and makes a corresponding analysis (Note 11). Most customers from developing countries are supplied on secured payment terms, including letters of credit or factoring arrangements. These terms include deliveries against opened letters of credit and arrangements with banks on non-recourse discounting of promissory notes received from customers.

Although the collection of receivables could be influenced by economic factors, Management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 11).

(in thousands of US dollars, unless otherwise stated)

27 Financial risk management (continued)

The table below shows the credit quality of cash, cash equivalents, deposits and restricted cash balances neither past due nor impaired on the reporting date, based on the credit ratings of independent agencies as at 31 December 2017 and 2016, if otherwise not stated in table below:

Rating - Moody's, Fitch, Standard&Poor's	31 December 2017	31 December 2016
From AAA / Aaa to A- / A3	172,577	255,146
From BBB+ / Baa1 to BBB- / Baa3	836,201	629,599
From BB+ / Ba1 to B- / B3	7,716	133,211
Unrated*	56,115	467,565
Total cash and cash equivalents, not past due nor impaired	**1,072,609**	**1,485,521**

* Unrated balance contains cash on hand and other cash equivalents.

(c) Liquidity risk

In accordance with prudent liquidity risk Management, the Management of the Group aims to maintain sufficient cash in order to meet its obligations. Group treasury aims to maintain sufficient level of liquidity based on monthly cash flow budgets, which are prepared for the year ahead and continuously updated during the year.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates.

As at 31 December 2017	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	18	248,400	-	-	**248,400**
Borrowings		1,485,196	3,631,248	60,509	**5,176,953**
Bonds		662,368	1,119,912		**1,782,280**
Finance lease liabilities		941	3,765	34,416	**39,122**
Derivative financial liabilities		106,987	1,851	-	**108,838**
Total		**2,503,892**	**4,756,776**	**94,925**	**7,355,593**

As at 31 December 2016	Note	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	18	221,813	-	-	**221,813**
Borrowings		2,149,567	5,050,662	79,925	**7,280,154**
Bonds		26,397	658,679	-	**685,076**
Finance lease liabilities		894	3,576	33,576	**38,046**
Derivative financial liabilities		146,923	114,248	-	**261,171**
Total		**2,545,594**	**5,827,165**	**113,501**	**8,486,260**

28 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information in estimating the fair value of financial instruments.

(in thousands of US dollars, unless otherwise stated)

28 Fair value of financial instruments (continued)

Financial assets and liabilities carried at fair value. Derivatives (Level 2) are carried in the consolidated statement of financial position at their fair value. Fair values of derivative financial assets and liabilities were determined using discounting cash flows valuation techniques with inputs (discount rates for RR and US$, exchange and interest rates) observable in markets.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

			31 December 2017		31 December 2016	
Financial assets	**Stated at**	**Level**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loan issued	Amortised cost	3	379,232	383,413	188,762	188,762
Derivative financial assets	Fair value	2	16,783	16,783	-	-
Trade and other receivables	Amortised cost	3	482,427	482,427	213,632	213,632
Other financial assets	Amortised cost	3	1,912	1,912	68,267	68,770
Total			**880,354**	**884,535**	**470,661**	**471,164**

			31 December 2017		31 December 2016	
Financial liabilities	**Stated at**	**Level**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Borrowings	Amortised cost	3	4,782,541	4,771,134	6,417,874	6,417,874
Bonds	Amortised cost	1	1,661,191	1,645,938	584,907	580,084
Derivative financial liabilities	Fair value	2	121,424	121,424	277,125	277,125
Trade and other payables	Amortised cost	3	248,402	248,402	221,813	221,813
Total			**6,813,558**	**6,786,898**	**7,501,719**	**7,496,896**

29 Principal subsidiaries

The Group had the following principal subsidiaries as at 31 December 2017:

Name	**Nature of business**	**Percentage of voting rights**	**Percentage of ownership**	**Country of registration**
LLC "SMT "BSHSU"	Construction	100.00%	100.00%	Russia
LLC "Vagon Depo Balahonzi"	Repair and maintenance	100.00%	100.00%	Russia
LLC "Uralkali-Remont"	Repair and maintenance	100.00%	100.00%	Russia
LLC "Avtotranskali"	Transportation	100.00%	100.00%	Russia
JSC "Baltic Bulker Terminal"	Sea terminal	100.00%	100.00%	Russia
LLC "Satellit-service"	IT services	100.00%	100.00%	Russia
JSC "NII Galurgii"	Scientific institute	100.00%	100.00%	Russia
JSC "VNII Galurgii"	Scientific institute	85.25%	85.25%	Russia
Uralkali Trading SIA	Trading	100.00%	100.00%	Latvia
Uralkali Trading Chicago	Trading	100.00%	100.00%	USA

30 Events after reporting date

In January 2018 the Company signed an uncommitted revolving credit facility in the amount of up to US$100 mln with Credit Agricole, which is available for one year. Amounts borrowed can be used to finance working capital, capital expenditures or to refinance existing indebtedness.

In February 2018, the loan issued to a related party was prolonged till 2023 (Note 5).