PUBLIC JOINT STOCK COMPANY
"ACRON"

Consolidated Financial Statements
for the year ended 31 December 2017
and Independent Auditors' Report

Contents

Independent Auditors' Report

To the Shareholders of Public Joint Stock Company "Acron"

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Impairment testing of mining licence and its fair value measurement for the purpose of valuation of linked derivatives

Please refer to the Notes 3, 10, 13 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group has a significant mining licence for development of Verkhnekamsk potash deposit in the Perm region. There is a risk of irrecoverability of cash generating unit comprising this licence, capitalised exploration and evaluation costs and property plant and equipment due to volatility of potash prices, and due to the uncertainties regarding the volumes, costs and capital expenditures of developing underground mining project. Moreover, the same forecasting and discounting future cash flows model is used as a primary input for fair value measurement of certain derivative financial assets and liabilities arising from the put and call option agreements related to ordinary shares of the Group’s subsidiary JSC Verkhnekamsk Potash Company which holds the licence and develops related potash deposit. In addition, during the reporting period, the model was adjusted to reflect current market conditions, taking into account the results of an open auction, where a 20% stake in ZAO Verkhnekamsk Potash Company was sold. Due to inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis for the assessment of recoverability, this matter represents one of the key judgmental areas our audit is concentrated on.	In this area our audit procedures included testing of the Group's budgeting process upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow model. We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to calculation of WACC and the forecast EBITDA margins. We compared the Group's assumptions to externally derived data as well as to our own assessments in relation to key inputs such as projected extraction volumes, growth rates, inflation and foreign currency exchange rates. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of CGU’s assets. Our audit procedures with regard to derivative financial instruments included the following: – we assessed controls over the identification, measurement and management of derivative financial instruments and assessed the methodologies, inputs and assumptions used by the Group in determining fair values and consistency of their application with previous years; – we compared observable inputs into valuation models such as quoted prices to externally available market data; – we compared the results of the model with the results of the completed open auction; – we assessed whether non-observable inputs are consistent with discounted cash flow projections described above. Additionally, we assessed whether the financial statement disclosures of fair value risks and sensitivities appropriately reflect the Group’s exposure to valuation risk.

The risk of significant and prolonged decline in the fair value of investment in Azoty S.A.	
Please refer to the Notes 3, 29 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The value of shares of Azoty S.A., recognized as available-for-sale investments, undergone a prolonged decline, and therefore there is a risk of impairment, which requires recognition of the accumulated revaluation reserve in profit or loss. Due to significant degree of professional judgment and estimation in determining the presence of impairment, we refer this aspect to the key audit matters.	During the audit, amongst other procedures, we conducted an analysis of management's assessment of the facts and circumstances indicating the presence of impairment. We tested the input data of the model, applied for calculation of the moving average value of the shares. We evaluated the validity of the criteria used by the client, according to which for securities with increased inherent volatility the decrease by more than 25% during 9 months is considered significant and prolonged decline. In our evaluation, we also examined the practice of applying the requirements of IFRS with respect to impairment criteria. We evaluated the analysis carried out by the client, demonstrating the increased historical volatility of the value of these shares. We compared the results of the model with the quantitative criteria of impairment used by the client. We evaluated the adequacy of financial statement's disclosures regarding significant professional judgment and clarification of the accounting policy on this matter.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Ilya O. Belyatski,

JSC “KPMG”

Moscow, Russia

27 March 2018

(in millions of Russian Roubles)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	9	87,820	84,173
Subsoil licences and related costs	10	33,134	32,090
Goodwill	11	1,267	1,267
Available-for-sale investments	12	22,698	17,965
Deferred tax assets	24	172	341
Other non-current assets		1,704	2,231
Total non-current assets		**146,795**	**138,067**
Current assets			
Inventories	8	14,950	14,453
Accounts receivable	7	9,940	8,566
Short-term derivative financial instruments	13	-	5,177
Cash and cash equivalents	6	14,302	27,168
Other current assets		907	856
Total current assets		**40,099**	**56,220**
TOTAL ASSETS		**186,894**	**194,287**
EQUITY			
Share capital	16	3,046	3,046
Treasury shares		(6)	(4)
Retained earnings		68,035	68,439
Revaluation reserve		(2,902)	(7,635)
Other reserves		(3,416)	(1,650)
Cumulative currency translation difference		5,543	4,960
Equity attributable to the Company's owners		**70,300**	**67,156**
Non-controlling interests	17	20,656	20,566
TOTAL EQUITY		**90,956**	**87,722**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	55,593	39,231
Long-term derivative financial instruments	13	-	8,443
Deferred tax liabilities	24	5,446	5,310
Other non-current liabilities		750	788
Total non-current liabilities		**61,789**	**53,772**
Current liabilities			
Accounts payable	14	5,695	7,289
Short-term derivative financial instruments	13	3,359	-
Short-term borrowings	15	18,930	39,886
Advances received		4,041	4,200
Other current liabilities		2,124	1,418
Total current liabilities		**34,149**	**52,793**
TOTAL LIABILITIES		**95,938**	**106,565**
TOTAL LIABILITIES AND EQUITY		**186,894**	**194,287**

Approved for issue and signed on behalf of the Board of Directors on 27 March 2018.

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «АКРОН» ОГРН 1025300786610 Россия, г. Великий Новгород

V.Y. Kunitskiy
President

A.V. Milenkov
Finance Director

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of Russian Roubles, except for per share amounts)

	Note	2017	2016
Revenue	4	94,342	89,359
Cost of sales	18	(51,909)	(45,311)
Gross profit		**42,433**	**44,048**
Transportation expenses	20	(13,728)	(11,943)
Selling, general and administrative expenses	19	(7,162)	(7,806)
Other operating expenses, net	22	(366)	(3,401)
Operating profit		**21,177**	**20,898**
Finance income, net	21	358	8,387
Interest expense		(4,110)	(4,573)
(Loss)/gain on disposal of investments		(7)	5,389
Gain/(loss) on derivatives, net		342	(1,803)
Share of profit of equity accounted investees		-	1,544
Derecognition of equity accounted investee and recycling of related cumulative currency translation difference		-	3,268
Profit before taxation		**17,760**	**33,110**
Income tax expense	24	(3,500)	(5,962)
Profit from continuing operations for the year		**14,260**	**27,148**
Loss from discontinued operation		**-**	**(1,623)**
Profit for the year		**14,260**	**25,525**
Other comprehensive (loss)/income on items that will not be reclassified to profit or loss:			
Share of other comprehensive loss of equity-accounted investees		-	(150)
Other comprehensive income/(loss) on items that are or may be reclassified to profit or loss:			
Available-for-sale investments:			
- Gains/(losses) from net change in fair value	12	4,733	(7,635)
- Reclassification of revaluation gain on disposal to profit and loss		-	(4,690)
- Income tax recorded directly in other comprehensive income	24	-	938
Currency translation differences		602	(5 646)
Reclassification of translation differences to profit or loss		-	(8 280)
Other comprehensive income for the year		**5,335**	**(25,463)**
Total comprehensive income for the year		**19,595**	**62**
Profit/(loss) is attributable to:			
Owners of the Company		13,432	26,155
Non-controlling interests		828	(630)
Profit for the year		**14,260**	**25,525**
Total comprehensive income is attributable to:			
Owners of the Company		18,748	851
Non-controlling interests		847	(789)
Total comprehensive income for the year		**19,595**	**62**
Earnings per share			
Basic (expressed in Russian Roubles)	23	339.43	656.21
Diluted (expressed in Russian Roubles)	23	343.01	656.21

(in millions of Russian Roubles)

	Note	2017	2016
Cash flows from operating activities			
Profit for the period		**14,260**	**25,525**
Adjustments for:			
Income tax expense	24	3,500	5,962
Income tax expense on discontinued operation		-	372
Depreciation and amortisation on property, plant and equipment and intangible assets	18	7,957	6,095
Depreciation and amortisation on discontinued operation		-	356
Provision for inventory obsolescence		7	-
Provision for / (reversal of) impairment of accounts receivable		15	(17)
Loss / (gain) on disposal of investments		7	(5,389)
Share of profit of equity-accounted investees		-	(1,544)
Loss on disposal of property, plant and equipment	22	122	213
Interest expense		4,110	4,573
Interest expense on discontinued operation		-	144
Interest income	21	(226)	(521)
(Gain) / loss on derivatives, net		(342)	1,803
Dividend income	21	(224)	(270)
Gain on disposal of discontinued operation		-	(122)
Derecognition of equity accounted investee		-	(3,268)
Other expense		80	-
Unrealised foreign exchange effect on non-operating balances		(945)	(7,228)
Operating cash flows before working capital changes		**28,321**	**26,684**
(Increase)/decrease in gross trade receivables		(827)	1,036
(Increase)/decrease in advances to suppliers		(1,029)	592
Decrease/(increase) in other receivables		281	(1,065)
(Increase)/decrease in inventories		(306)	2,533
Increase in other current assets		(58)	(17)
(Decrease)/increase in trade payables		(1,088)	286
Decrease in other payables		(729)	(817)
Decrease in advances from customers		(159)	(1,442)
(Decrease)/increase in other current liabilities		(94)	13
Cash flows from operations before income taxes and interest paid		**24,312**	**27,803**
Income taxes paid		(2,743)	(3,929)
Interest paid		(4,935)	(5,772)
Net cash from operating activities		**16,634**	**18,102**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(11,299)	(12,128)
Interest received		215	459
Dividend received		224	270
Proceeds from sale of available-for-sale investments		-	6,575
Purchase of available-for-sale investments		-	(694)
Net cash outflow from disposal of discontinued operation		-	(875)
Other proceeds		-	34
Net change in other non-current assets and liabilities		655	(186)
Net cash used in investing activities		**(10,205)**	**(6,545)**
Cash flows from financing activities			
Acquisition of non-controlling interest		(628)	(9,012)
Dividend paid to shareholders		(13,047)	(13,345)
Dividend paid to non-controlling shareholders		(118)	(72)
Acquisition of treasury shares		(1,335)	(442)
Proceeds from borrowings		53,420	27,031
Repayment of borrowings		(56,326)	(14,771)
Loan agreement costs		(733)	-
Security deposit made for auction		(1,060)	-
Repayment of security deposit made for auction		1,060	-
Net cash used in financing activities		**(18,767)**	**(10,611)**
Net (decrease)/increase in cash and cash equivalents		**(12,338)**	**946**
Cash and cash equivalents at 1 January		27,168	30,421
Effect of movements in exchange rates on cash and cash equivalents		(528)	(4,199)
Cash and cash equivalents at 31 December	6	**14,302**	**27,168**

(in millions of Russian Roubles)

	Capital and reserves attributable to the Company's owners							
	Share capital	Treasury shares	Retained earnings	Revaluation reserve	Other reserves	Cumulative currency translation difference	Non-controlling interests	Total equity
Balance at 1 January 2016	**3,046**	**(3)**	**60,523**	**3,752**	**(1,209)**	**18,877**	**24,812**	**109,798**
Total comprehensive income								
Profit for the year	-	-	26,155	-	-	-	(630)	25,525
Other comprehensive income								
Fair value gains on available-for-sale investments (Note 12)	-	-	-	(7,635)	-	-	-	(7,635)
Other comprehensive loss of equity-accounted investees	-	-	-	-	-	(150)	-	(150)
Disposal of fair value revaluation gain on available-for-sale investments	-	-	-	(4,690)	-	-	-	(4,690)
Currency translation differences	-	-	-	-	-	(5,487)	(159)	(5,646)
Income tax recorded in other comprehensive income (Note 24)	-	-	-	938	-	-	-	938
Reclassification of currency translation differences to profit or loss	-	-	-	-	-	(8,280)	-	(8,280)
Total other comprehensive income	**-**	**-**	**-**	**(11,387)**	**-**	**(13,917)**	**(159)**	**(25,463)**
Total comprehensive income	**-**	**-**	**26,155**	**(11,387)**	**-**	**(13,917)**	**(789)**	**62**
Acquisition of non-controlling interest	-	-	(4,894)	-	-	-	(4,118)	(9,012)
Dividend declared	-	-	(13,345)	-	-	-	(72)	(13,417)
Acquisition of treasury shares	-	(1)	-	-	(441)	-	-	(442)
Disposal of subsidiary	-	-	-	-	-	-	733	733
Total transactions with Company's owners	**-**	**(1)**	**(18,239)**	**-**	**(441)**	**-**	**(3,457)**	**(22,138)**
Balance at 31 December 2016	**3,046**	**(4)**	**68,439**	**(7,635)**	**(1,650)**	**4,960**	**20,566**	**87,722**
Balance at 1 January 2017	**3,046**	**(4)**	**68,439**	**(7,635)**	**(1,650)**	**4,960**	**20,566**	**87,722**
Total comprehensive income								
Profit for the year	-	-	13,432	-	-	-	828	14,260
Other comprehensive income								
Fair value gains on available-for-sale investments (Note 12)	-	-	-	4,733	-	-	-	4,733
Currency translation differences	-	-	-	-	-	583	19	602
Total other comprehensive income	**-**	**-**	**-**	**4,733**	**-**	**583**	**19**	**5,335**
Total comprehensive income	**-**	**-**	**13,432**	**4,733**	**-**	**583**	**847**	**19,595**
Acquisition of non-controlling interest PJSC Dorogobuzh	-	-	11	-	-	-	(639)	(628)
Loss at recognition of options for CJSC VPC shares	-	-	-	-	(433)	-	-	(433)
Dividend declared (Note 16)	-	-	(13,047)	-	-	-	(118)	(13,165)
Acquisition of treasury shares	-	(2)	-	-	(1,333)	-	-	(1,335)
Other	-	-	(800)	-	-	-	-	(800)
Total transactions with Company's owners	**-**	**(2)**	**(13,836)**	**-**	**(1,766)**	**-**	**(757)**	**(16,361)**
Balance at 31 December 2017	**3,046**	**(6)**	**68,035**	**(2,902)**	**(3,416)**	**5,543**	**20,656**	**90,956**

1 Acron Group and its Operations

These consolidated financial statements for the year ended 31 December 2017 comprise Public Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group"). The Company's shares are traded on the Moscow and London Stock Exchange.

The Group's principal activities include the manufacture, distribution and sale of chemical fertilisers and related mineral primary and by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya, Smolenskaya, and Murmanskaya regions of Russia.

The Company's registered office is at Veliky Novgorod, Russian Federation, 173012.

As at 31 December 2017, the Group`s immediate parent company is Redbrick Investments S.a.r.l. (Luxembourg). Effective 9 June 2017, the Group's ultimate parent is Terasta Enterprises Limited (The Republic of Cyprus). Until 9 June 2017, the Group's ultimate parent was Subero Associates Inc. (British Virgin Islands). In 2016 and 2017, the Group is ultimately controlled by Mr. Viatcheslav Kantor.

2 Basis of accounting

Basis of preparation. These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") under the historical cost convention except as modified by the fair value revaluation of derivatives, available-for-sale and trading investments.

Functional and presentation currency. Functional currency of the Group's consolidated financial statements is the currency of the primary economic environment in which the Group operates. Company's functional currency and presentation currency is the national currency of the Russian Federation - Russian Rouble (RUB).

Unless otherwise indicated, all financial information presented in these consolidated financial statements are presented in millions of Russian Roubles (RUB). These consolidated financial statements have been prepared based on the statutory records, with adjustments and reclassifications recorded for the fair presentation in accordance with IFRS.

3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

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

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Evaluation of put/call options for JSC Verkhnekamsk Potash Company (CJSC VPC) shares. The fair value of stock options is estimated based on Black–Scholes Option Pricing Model which was developed for use in estimating the fair value of short and medium term options on quoted shares. Option pricing method requires use of subjective inputs and assumptions including expected volatility of the share price and share spot price at the date of valuation. Since CJSC VPC shares are not publicly traded, expected volatility was determined based on historical stock quotes of companies in the same industry and estimates. The estimate of the current fair value price of the shares was made on the basis of discounted cash flows attributable to CJSC VPC adjusted for non-controlling discount (Notes 13 and 27).

Accounting treatment for put options, that will be regulated by the Company's shares. In 2012, 2014, and 2017, the Group sold shares of CJSC VPC to the non-controlling shareholders linked to put options, which gave the right to the non-controlling shareholders to sell their shares back to the Group in exchange for the variable amount of shares in PJSC Acron. Because at the option exercise date the Group does not have obligation to deliver cash or another financial asset, the subsidiary's shares that are held by non-controlling interest holders were presented in equity as non-controlling interests and the put options were recognised as derivative financial liabilities (Note 16).

Impairment of subsoil licences and related costs. The Group performed annual impairment test of mining licence and related costs of CJSC VPC. The recoverable amount of the cash-generating unit (CGU) was determined based on value-in-use calculations as at 30 September 2017. These calculations used cash flow projections based on financial budgets approved by management and incorporating expected market prices for key fertilisers for the same period according to leading industry publications. The growth rate did not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used reflected the risks inherent in this CGU, as further disclosed in Note 10.

Capitalisation of borrowing costs for subsoil licences. Subsoil licences represent part of investment projects for development of mineral deposits that necessarily take a substantial time to get ready for intended use. Accordingly, management considers exploration rights as qualifying assets for capitalisation of borrowing costs. Management assesses whether capitalisation of borrowing costs shall be continued during periods when active development is interrupted while substantial design or technical work is carried out (Note 10).

Functional currency of foreign operation. On 18 May 2016, the Group reduced its ownership in the company Grupa Azoty S.A to 19.82%. As a result, the Group's significant influence over the investee effectively ceased and the Group discontinued equity accounting. Management exercised professional judgement and concluded that following this transaction, related foreign operation was no longer active. Given the fact that, in the context of IAS 21, management had no immediate plans to resume substantial activity, foreign activities were effectively ceased. Operations of related foreign legal entities registered in Luxembourg and Cyprus in substance represent a passive activity related to holding investment portfolio within the economic environment of the Company. With regard to the above, management concluded that the functional currency of these entities should be the Russian Rouble.

Significant and prolonged decline in the fair value of equity securities. The management clarified the accounting policy for available-for-sale investments by defining quantitative criteria for a significant and prolonged decline in the fair value of equity shares below their historical cost. As a result, a decrease in the average value of shares by more than 25% for securities with inherently high volatility and by more than 20% for all other shares for the period of 9 months were determined as key impairment triggers.

The Management estimates that a significant portion of the Group's available-for-sale investments measured at fair value (Note 12) is characterised by inherently high volatility. During the reporting period, there was no prolonged decline in fair value by more than 25% in these investments, therefore no impairment was recognised in the current period.

4 Segment Information

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that capable to earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker(s) ("CODM") and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group:

- Acron – representing manufacturing and distribution of chemical fertilisers by PJSC Acron;
- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by PJSC Dorogobuzh;
- Logistics – representing transportation an logistic services rendered by Estonian ports of the Group and some minor transportation companies in Russia. Comprises such entities as AS DBT, JSC Acron-Trans, LLC Andrex. Constitutes an aggregation of a number of operating segments;
- Trading – representing overseas & domestic distribution companies of the Group;
- Mining NWPC – representing production of apatite-nepheline ore and subsequent processing in apatite concentrate;
- Mining excluding NWPC - comprise mining entities CJSC VPC, JSC Mining Company Partomchorr, North Atlantic Potash Inc., and other assets in Canada being at the stage of development, exploration and evaluation;
- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit has significant business and risk profile.

Segment financial information is presented and reviewed by the CODM based on the IFRS and includes revenues from sales and EBITDA.

The CODM evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA). Since this term is not a standard IFRS measure Acron Group's definition of EBITDA may differ from that of other companies.

(in millions of Russian Roubles, except for per share amounts)

Information for the reportable segments for the year ended 31 December 2017 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	54,783	(47,459)	7,324	17,764
Dorogobuzh	24,002	(8,889)	15,113	7,063
Logistics	3,771	(3,562)	209	705
Trading	73,302	(3,551)	69,751	1,261
Mining NWPC	8,660	(7,122)	1,538	2,698
Mining excluding NWPC	-	-	-	(40)
Other	1,859	(1,452)	407	366
Total	**166,377**	**(72,035)**	**94,342**	**29,817**

Information for the reportable segments for the year ended 31 December 2016 is set out below:

	Segment sales	Eliminable intersegment sales	External sales	EBITDA
Acron	50,216	(44,410)	5,806	15,928
Dorogobuzh	23,275	(13,628)	9,647	6,198
Logistics	3,803	(3,431)	372	738
Trading	72,504	(2,468)	70,036	554
Mining NWPC	12,108	(9,034)	3,074	6,903
Mining excluding NWPC	-	-	-	(345)
Other	2,248	(1,824)	424	(120)
Total	**164,154**	**(74,795)**	**89,359**	**29,856**

Reconciliation of EBITDA to Profit Before Tax:

	2017	2016
Operating Profit	**21,177**	**20,898**
Depreciation and amortisation of property, plant and equipment and intangible assets	7,957	6,095
Foreign currency loss on operating transactions, net	561	2,650
Loss on disposal of property, plant and equipment	122	213
Total consolidated EBITDA	**29,817**	**29,856**

Information about geographical areas:

The geographic information below analyses the Group's revenue on external sales and non-current assets. In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

	2017	2016
Revenue		
Russia	16,035	20,379
European Union	16,040	11,709
Commonwealth of Independent States	14,044	8,987
USA and Canada	9,296	8,837
Latin America	16,985	18,132
PRC	6,292	6,599
Asia (excluding PRC)	9,777	8,694
Other regions	5,873	6,022
Total	**94,342**	**89,359**

	2017	2016
Non-current assets		
Russia	113,731	110,356
Canada	4,895	3,922
Estonia	3,966	4,092
Total	**122,592**	**118,370**

Non-current assets represent non-current assets other than financial instruments and deferred tax assets.

In the reporting period, there is one individual export customer contributing 16% to the total revenue (2016: 11%).

(in millions of Russian Roubles, except for per share amounts)

5 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2017 or 2016 are detailed below.

The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Statement of financial position caption	Note	Relationship	2017	2016
Trade receivables, gross	7	Companies under common control	5	6
Trade payables	14	Companies under common control	(4)	(4)

ii Transactions with related parties

	Note	Relationship	2017	2016
Sales of chemical fertilisers	4	Companies under common control	8	13
Purchases of raw materials	18	Companies under common control	(71)	(70)
Charity expenses	22	Companies under common control	(65)	(63)

iii Key management personnel compensation

Total key management personnel compensation in the amount of RUB 801 (2016: RUB 1,445) was recorded in general and administrative expenses. Related state social and pension costs amounted to RUB 124 (2016: RUB 221).

6 Cash and Cash Equivalents

	2017	2016
Cash on hand and bank balances denominated in RUB	2,018	7,954
Bank balances denominated in USD	10,143	17,320
Bank balances denominated in EUR	1,680	1,367
Bank balances denominated in CNY	230	313
Bank balances denominated in other foreign currencies	231	214
Total cash and cash equivalents	**14,302**	**27,168**

Cash and cash equivalents include term deposits of RUB 3,679 (2016: RUB 20,414).

The fair value of cash and cash equivalents is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	2017	2016
A to AAA* rated	1,943	2,406
BBB- to BBB+* rated	10,671	11,328
BB- to BB+* rated	661	12,280
Ba2**	748	797
Unrated	279	357
Total	**14,302**	**27,168**

* Based on the credit ratings of Fitch Ratings, an independent rating agency.

** Based on the credit ratings of Moody’s, an independent rating agency.

7 Accounts Receivable

	2017	2016
Trade accounts receivable	2,317	1,490
Notes receivable	91	138
Other accounts receivable	498	265
Impairment provision	(50)	(41)
Total financial assets	**2,856**	**1,852**
Advances to suppliers	2,515	1,486
Value-added tax recoverable	3,546	4,350
Income tax prepayments	457	654
Other taxes receivable	606	258
Impairment provision	(40)	(34)
Total accounts receivable	**9,940**	**8,566**

(in millions of Russian Roubles, except for per share amounts)

The fair value of accounts receivable does not differ significantly from their carrying amounts.

As at 31 December 2017, trade and other accounts receivable of RUB 50 (31 December 2016: RUB 41) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The aging of trade and other accounts receivable is as follows:

	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	2,750	-	1,691	-
Past due for less than 3 months	-	-	-	-
Past due from 3 to 9 months	14	(5)	9	(2)
Past due from 9 to 12 months	9	(8)	5	(3)
Past due over 12 months	42	(37)	50	(36)
Total	**2,815**	**(50)**	**1,755**	**(41)**

The movements in the provision for impairment of trade and other accounts receivable are as follows:

	2017	2016
Provision for impairment at 1 January	**(41)**	**(572)**
Provision for impairment	(11)	(3)
Provision used	2	6
Disposal of provision on discontinued operation	-	528
Provision for impairment at 31 December	**(50)**	**(41)**

As at 31 December 2017, the Group hold collateral as security for trade receivable in the amount of RUB 685, which is included in advances received (2016: RUB 627).

Besides trade accounts receivable and advances to suppliers, the other classes within accounts receivable do not contain impaired assets.

8 Inventories

	2017	2016
Raw materials and spare parts	8,056	8,174
Work in progress	314	304
Finished products	6,580	5,975
	14,950	**14,453**

Raw materials are shown net of obsolescence provision of RUB 127 (2016: RUB 120). No inventory was pledged as security at 31 December 2017 and 2016.

(in millions of Russian Roubles, except for per share amounts)

9 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under construction	Assets under construction	Total
Cost									
Balance at 1 January 2017	**37,430**	**38,023**	**5,000**	**2,794**	**2,594**	**23,505**	**15,318**	**6,713**	**131,377**
Additions	-	-	-	-	-	-	5,356	6,250	**11,606**
Reclassification	1,104	3,758	64	98	9	5,971	(5,971)	(5,033)	**-**
Disposals	(388)	(627)	(146)	(5)	-	(11)	-	-	**(1,177)**
Translation difference	355	206	15	7	-	-	-	6	**589**
Balance at 31 December 2017	**38,501**	**41,360**	**4,933**	**2,894**	**2,603**	**29,465**	**14,703**	**7,936**	**142,395**
Accumulated Depreciation									
Balance at 1 January 2017	**15,592**	**21,013**	**2,640**	**1,050**	**-**	**6,909**	**-**	**-**	**47,204**
Depreciation charge	2,335	3,290	162	273	-	2,083	-	-	**8,143**
Disposals	(286)	(625)	(135)	(5)	-	(4)	-	-	**(1,055)**
Translation difference	134	133	14	2	-	-	-	-	**283**
Balance at 31 December 2017	**17,775**	**23,811**	**2,681**	**1,320**	**-**	**8,988**	**-**	**-**	**54,575**
Net Book Value									
Balance at 1 January 2017	**21,838**	**17,010**	**2,360**	**1,744**	**2,594**	**16,596**	**15,318**	**6,713**	**84,173**
Balance at 31 December 2017	**20,726**	**17,549**	**2,252**	**1,574**	**2,603**	**20,477**	**14,703**	**7,936**	**87,820**

(in millions of Russian Roubles, except for per share amounts)

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Mining and primary ore dressing assets	Mining assets under construction	Assets under construction	Total
Cost									
Balance at 1 January 2016	**27,642**	**34,815**	**5,097**	**2,636**	**2,583**	**24,648**	**10,483**	**27,574**	**135,478**
Prior years corrections	-	-	-	-	-	(2,396)	2,396	-	**-**
Additions	-	-	-	-	-	-	3,761	8,943	**12,704**
Reclassification	14,331	13,989	289	435	11	1,322	(1,322)	(29,055)	**-**
Disposals	(161)	(443)	(114)	(22)	-	(69)	-	-	**(809)**
Disposals on discontinued operation	(3,199)	(8,396)	(243)	(205)	-	-	-	(674)	**(12,717)**
Translation difference	(1,183)	(1,942)	(29)	(50)	-	-	-	(75)	**(3,279)**
Balance at 31 December 2016	**37,430**	**38,023**	**5,000**	**2,794**	**2,594**	**23,505**	**15,318**	**6,713**	**131,377**
Accumulated Depreciation									
Balance at 1 January 2016	**15,597**	**25,482**	**2,448**	**990**	**-**	**4,986**	**-**	**-**	**49,503**
Depreciation charge	1,455	1,786	345	225	-	1,952	-	-	**5,763**
Depreciation charge on discontinued operation	53	280	12	11	-	-	-	-	**356**
Disposals	(133)	(349)	(68)	(17)	-	(29)	-	-	**(596)**
Disposals charge on discontinued operation	(976)	(5,124)	(87)	(125)	-	-	-	-	**(6,312)**
Translation difference	(404)	(1,062)	(10)	(34)	-	-	-	-	**(1,510)**
Balance at 31 December 2016	**15,592**	**21,013**	**2,640**	**1,050**	**-**	**6,909**	**-**	**-**	**47,204**
Accumulated Impairment Loss									
Balance at 1 January 2016	**483**	**782**	**-**	**7**	**-**	**-**	**-**	**23**	**1,295**
Disposals on discontinued operation	(434)	(702)	-	(6)	-	-	-	(12)	**(1,154)**
Translation difference	(49)	(80)	-	(1)	-	-	-	(11)	**(141)**
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net Book Value									
Balance at 1 January 2016	**11,562**	**8,551**	**2,649**	**1,639**	**2,583**	**19,662**	**10,483**	**27,551**	**84,680**
Balance at 31 December 2016	**21,838**	**17,010**	**2,360**	**1,744**	**2,594**	**16,596**	**15,318**	**6,713**	**84,173**

(in millions of Russian Roubles, except for per share amounts)

Included in the 2017 additions to assets under constructions is approximately RUB 793 of capitalised borrowing costs in accordance with IAS 23, Borrowing costs (2016: RUB 1,090) at the average borrowing rate of 6.19% to 9.05% (2016: 6.88%).

At 31 December 2017 and 2016, no pledges over property, plant and equipment.

No impairment loss in respect of individual assets was recognised in 2017 and 2016.

Non-current assets impairment test. Cash-generating units (CGUs) represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

Management concluded that there were no impairment indicators for CGUs as at on 31 December 2017, except for CJSC VPC (Note 10), where development phase determines the necessity to perform impairment testing. Goodwill is tested for impairment subject to IFRS requirements to perform annual impairment test for goodwill.

10 Subsoil Licences and Related Costs

Licence of CJSC Verkhnekamsk Potash Company (CJSC VPC)

In May 2008, the Group's subsidiary, CJSC VPC, following an auction process, acquired a licence for the exploration and development of the Talitsky section of the Verkhnekamsk potash deposit, located in Perm region, Russian Federation. The licence expires in April 2053. In 2016 CJSC VPC agreed on a technical project for the development of the Talitsky section. In accordance with the amended conditions of the licence changed in 2016 CJSC VPC has the commitment that no later than 2025 the mine output shall be brought to a designed capacity levels.

The Group did not capitalise borrowing costs during the reporting period (2016: nil). In 2016 the Group finished project documentation. The capitalisation of interest on loans will be continued in 2018 after the resumption of active construction stage.

Exploration Licences in Canada

In 2017, the Group continued exploration of potash deposits in the Canadian province of Saskatchewan. The term of permits expired in 2016, and the Group exercised the pre-emptive right for registration of exploration licences. As of 31 December 2017, the Group holds 13 exploration licences on potash deposits for RUB 4,894 (31 December 2016: RUB 3,921).

	2017	**2016**
Cost		
Balance at 1 January	**33,242**	**33,372**
Additions	978	514
Currency translation difference	78	(644)
Balance at 31 December	**34,298**	**33,242**
Accumulated Amortisation and Impairment Loss		
Balance at 1 January	**(1,152)**	**(1,140)**
Amortisation charge	(12)	(12)
Balance at 31 December	**(1,164)**	**(1,152)**
Net Book Value		
Balance at 1 January	**32,090**	**32,232**
Balance at 31 December	**33,134**	**32,090**

Subsoil licences and related costs comprise of:

	2017	**2016**
Apatite-nepheline deposits (production / development stage)	824	836
Potash deposits (development stage)	26,211	26,211
Exploration licences in Canada	4,894	3,921
Licence and expenditure on deposit in exploration and evaluation stage	940	852
Asset related to the discharge of licence obligations	265	270
	33,134	**32,090**

Impairment test of CJSC VPC

Since the assets of CJSC VPC are under development, Management of the Group performed an annual testing of this cash-generating unit (CGU) for impairment as at 30 September 2017. Management believes that in October-December 2017 there were no events that required to repeat the test as of 31 December 2017.

(in millions of Russian Roubles, except for per share amounts)

The recoverable amount of this CGU was determined on the basis of the value in use. In these calculations, cash flow forecasts, prepared in nominal terms, were used based on the financial budgets approved by management. The growth rate does not exceed the long-term average growth rates for the economic sector in which the CGU operates.

Based on these estimates, management of the Group concluded that no impairment charge is required. The main assumptions for calculating the value in use are presented below:

	30 September 2017	**30 November 2016**
EBITDA margin range over the forecast period	63-69%	73-78%
Revenue growth rate beyond forecast period	2%	3%
Start of production	2021	2021
Discount rate	12.0%	13.1%

Management determined the target EBITDA based on its most realistic expectations regarding market development. The weighted average growth rates used in the calculations are in line with the forecast calculations in industry reports. Discount rates used are post-tax rates reflecting the specific risks inherent in the CGU and estimated on the basis of the weighted average cost of capital.

The estimated recoverable amount of the CGU exceeded its carrying value by approximately RUB 41,719 (2016: RUB 38,898). Management identified that the recoverable amount is strongly dependent on changes in export price expressed in roubles and discount rates. Decrease of over 18.4% (2016: over 23%) in the export prices or increase of over 3.3 percentage points (2016: over 3.8 percentage points) in the discount rate used would have caused the recoverable amount to equal the carrying amount.

11 Goodwill

	2017	**2016**
Cost and carrying amount at 1 January	1,267	1,267
Cost and carrying amount at 31 December	1,267	1,267

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	2017	**2016**
LLC Andrex	52	52
PJSC Dorogobuzh / CGU Dorogobuzh	972	972
AS DBT / CGU DBT	243	243
Total carrying amount of goodwill	**1,267**	**1,267**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections, prepared in nominal terms, based on financial budgets approved by management covering a five year period. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

The Group concluded that the last detailed calculation of the recoverable amount of the CGU to which goodwill was allocated in 2016 could be used in the impairment test of that unit in the current period. This decision is related to the fulfillment of the following criteria:

- the amount of each CGU goodwill has not changed since last year;
- the last recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin;
- the Group believes that the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

Based on above the Group concluded that no repeat test on impairment was required.

The key assumptions used for value-in-use calculations in 2016 are as follows:

- EBITDA margin range over the forecast period: 9%-19%;
- Growth rate beyond five years: 3.2%;
- Discount rate: 13%.

Management determined budgeted EBITDA margin based on past performance and its most realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are after-tax, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.

As the result of the annual testing performed at 31 December 2016 there was no need to recognise impairment of goodwill, as there would be no such need if the projected sales growth rate used in calculating the value in use for each cash-generating unit would be 3.6% less than management estimates. Impairment would also be not recognised if the estimated after-tax discount rate applied to the discounted cash flows for any CGU was 1.4% higher than management expectations.

(in millions of Russian Roubles, except for per share amounts)

12 Available-for-Sale Investments

	2017	2016
Balance at 1 January	**17,965**	**4,956**
Fair value gain/(loss) recognised directly in OCI	4,733	(7,635)
Reclassification from equity accounted investments	-	25,783
Additions	-	694
Disposals	-	(5,833)
Balance at 31 December	**22,698**	**17,965**

The Group has investments in the following companies:

Name	Activity	Country of registration	31 December 2017	31 December 2016
Non-current				
Grupa Azoty S.A.	Fertilisers manufacture	Poland	22,557	17,824
Other		Russia	141	141
Total non-current			**22,698**	**17,965**
Total			**22,698**	**17,965**

The fair value of investment in Grupa Azoty S.A. was determined by reference to their quoted market prices as at 31 December 2017. As at 31 December 2017, the share price of Grupa Azoty S.A. on Warsaw Stock Exchange was RUB 1,147.51 (31 December 2016: RUB 906.76).

13 Derivative Financial Assets and Liabilities

Options for the purchase and sale of shares are recognised as part of a transaction to sell shares of CJSC VPC to holders of non-controlling interests. The net liability as at 31 December 2017 is represented by one call option, which gives Group the right to purchase from non-controlling shareholders the 20% stake in CJSC VPC up to August 2018 and two put options that give non-controlling shareholders the right to sell to the Group their 19.9% and 20% stakes of their interest in CJSC VPC correspondingly in May and August 2018.

In the reporting period the term of the call option, recognised as at 31 December 2016, has expired.

During the reporting period, Vnesheconombank, the holder of the put option for 20% stake, carried out an open auction for the sale of its stake in CJSC VPC. The winner of the auction was determined with the price of RUB 10,620. Then, in August 2017, Sberbank Investments LLC exercised its pre-emptive right to purchase this stake, thereby increasing its stake in CJSC VPC to 39.9%. As a result of the change of the holder of this stake, in accordance with the terms of the option agreement, the put option, recognised on 31 December 2016, has expired. As part of the above stated transaction, Sberbank Investments LLC entered into new long-term option agreements with the Group for the purchase/sale of the acquired 20% of stake. Because the terms of the option agreements require parties to agree certain parameters for further exercise price calculation in August 2018, management classifies these options as short-term.

The put option agreement concluded with the Sberbank Investments LLC in the reporting period is similar to the previous agreements under which the Group had an unconditional right to fulfil its obligations by transferring to the option holders Company's own equity instruments (ordinary shares of PJSC Acron) in amount, calculated based on the total amount of obligation and the fair value of equity instruments to be transferred at a future date. Accordingly, as at 31 December 2017, the funds received from investors in 2012 and 2014 remain in the Group's equity as non-controlling interest.

(in millions of Russian Roubles, except for per share amounts)

	31 December 2017			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on CJSC VPC shares	-	-	-	(3,359)
	-	**-**	**-**	**(3,359)**

	31 December 2016			
	Assets		Liabilities	
	Non-Current	Current	Non-Current	Current
Put/call options on CJSC VPC shares	-	5,177	(8,443)	-
	-	**5,177**	**(8,443)**	**-**

14 Accounts Payable

	2017	2016
Trade accounts payable	3,247	4,335
Dividend payable	40	22
Notes payable	21	34
Total financial payables	**3,308**	**4,391**
Payables to employees	1 263	1,251
Accrued liabilities and other creditors	717	694
Other taxes payable	407	953
Total accounts payable and accrued expenses	**5,695**	**7,289**

15 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2017	2016
Bonds issued	23,767	18,772
Credit lines	5,890	5,237
Term loans	44,866	55,108
	74,523	**79,117**

The Group's borrowings mature as follows:

	2017	2016
Borrowings due:		
- within 1 year	18,930	39,886
- between 1 and 5 years	55,382	38,820
- after 5 years	211	411
	74,523	**79,117**

The Group's borrowings are denominated in currencies as follows:

	2017	2016
Borrowings denominated in:		
- RUB	30,422	32,090
- EUR	3,551	4,061
- USD	40,550	42,966
	74,523	**79,117**

The Group did not enter into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2017, unused credit lines available under the long-term loan facilities were RUB 18,614 (31 December 2016: RUB 26,881). The terms and conditions of unused credit lines are consistent with other borrowings.

(in millions of Russian Roubles, except for per share amounts)

The details of the significant short-term loan balances are summarised below:

	2017	2016
Short-term borrowings		
RUB		
Bonds with fixed interest rates of 9.1% per annum (2016:11.6%)	9,995	10,000
Loans with fixed interest rates from 9.75% to 14% per annum	115	5,118
Loans with floating interest rates from the key rate of the Bank of Russia+1.4% to the key rate of the Bank of Russia+1.6% per annum	5,811	2,600
EUR		
Loans with floating interest rates from 6M EURIBOR+0.75% to 6M EURIBOR+2.85% per annum	371	344
Loans with floating interest rates from 3M EURIBOR+1.35% to 3M EURIBOR+1.7% per annum	243	1,567
Loans with fixed interest rates of 5.27% per annum	217	201
USD		
Loans with fixed interest rates from 2.48% to 5.61% per annum	1,015	764
Loans with floating interest rates from LIBOR O/N+2.05% to 1M LIBOR+4.6% per annum	1,163	19,292
Total short-term borrowings	**18,930**	**39,886**

The details of the significant long-term loan balances are summarised below:

	2017	2016
Long-term borrowings		
RUB		
Bonds with fixed interest rates from 8.6% to 10.2% per annum	13,772	8,772
Loans with floating interest rates from the key rate of the Bank of Russia +1.5% to the key rate of the Bank of Russia+2.5% per annum	729	5,600
EUR		
Loans with floating interest rates of 6M EURIBOR+0.75% to 6M EURIBOR+2.85% per annum	1,379	1,622
Loans with floating interest rates of 3M EURIBOR+1.35% to 3M EURIBOR+1.7% per annum	1,233	26
Loans with fixed interest rates of 5.27% per annum	108	301
USD		
Loans with fixed interest rates of 5.11% to 5.61% per annum	68	229
Loans with floating interest rates of 3M LIBOR+2.9% to 3M LIBOR+3.65% per annum	2,016	303
Loans with floating interest rates of 1M LIBOR+2.8% to 1M LIBOR+4.6% per annum	36,288	22,378
Total long-term borrowings	**55,593**	**39,231**

In May 2011, the Group placed through an offering to the public under an open subscription RUB non-convertible bonds with a face value of RUB 7,500 to be redeemed in May 2021. In 2012, the Group redeemed bonds in the amount of RUB 3,377. The holders of this bond issue were granted an option to redeem the bonds in May 2015 and May 2016 which resulted in early redemption of bonds for RUB 1,354. The Group further placed the bonds of this issue for RUB 1,354. At 31 December 2017, the Group’s subsidiary PJSC Dorogobuzh held bonds in the amount of RUB 351.

In November 2015, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 10,000 to be redeemed in November 2018. The bonds were placed at 9.1%. In May 2017, partial redemption took place during buyback option period for RUB 5.

In October 2016, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 5,000 to be redeemed in September 2026. The bonds were placed at 9.55% with the option of early redemption in October 2020.

In June 2017, the Group placed non-convertible interest-bearing documentary bonds in the amount of RUB 5,000 to be redeemed in May 2027. The bonds were placed at 8.6% with the option of early redemption in December 2021.

All of the above bonds were admitted to the quotation list B and are traded on Moscow Stock Exchange. The fair value of the outstanding bonds as at 31 December 2017 was RUB 24,450 with reference to Moscow Stock Exchange quotations as of this date (31 December 2016: RUB 18,944).

In the reporting period, the Group borrowed funds under a new agreement on a 5-year syndicated pre-export loan in the amount of USD 630 million at 1M LIBOR+2.8% rate per annum with the purpose to refinance previous syndicated pre-export loan as well as to satisfy general corporate finance requirements.

Significant loan agreements contain certain covenants including those which require the Group and the Group entities to maintain a minimum level of net assets, net debt/EBITDA ratio, and EBITDA/interest expense ratio. Some of the loan agreements provide for the borrower's obligation to maintain the required level of inflows through the accounts opened with the lending banks. The loan agreements also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on significant transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the loans. The Group is in compliance with the covenants.

(in millions of Russian Roubles, except for per share amounts)

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Loans	Bonds	Total
Balance at 1 January 2017	**60,345**	**18,772**	**79,117**
Changes from financing cash flows			
Proceeds from borrowings	48,420	5,000	**53,420**
Repayment of borrowings	(56,321)	(5)	**(56,326)**
Total changes from financing cash flows	**52,444**	**23,767**	**76,211**
The effect of changes in foreign exchange rates	**(1,656)**	**-**	**(1,656)**
Other changes			
Capitalised borrowing costs (Note 9)	793	-	**793**
Interest expense	2,004	2,106	**4,110**
Interest paid	(2,829)	(2,106)	**(4,935)**
Total liability-related other changes	**(32)**	**-**	**(32)**
Balance at 31 December 2017	**50,756**	**23,767**	**74,523**

16 Capital and Reserves

The total authorised number of ordinary shares is 40,534,000 shares (31 December 2016: 40,534,000) with a par value of RUB 5 per share. All authorised shares have been issued and fully paid.

Total number of outstanding shares comprises (par value is expressed in roubles per one share):

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
At 1 January 2016	**40,534,000**	**(601,880)**	**3,046**	**(3)**	**3,043**
Redemption of treasury shares	-	-	-	-	-
Acquisition	-	(124,328)	-	(1)	(1)
At 31 December 2016	**40,534,000**	**(726,208)**	**3,046**	**(4)**	**3,042**
Redemption of treasury shares	-	-	-	-	-
Acquisition	-	(420,244)	-	(2)	(2)
At 31 December 2017	**40,534,000**	**(1,146,452)**	**3,046**	**(6)**	**3,040**

In May 2017, dividend was declared and paid in amount of RUB 95 per ordinary share for 2016. In September 2017, dividend was declared and paid in amount of RUB 235 per ordinary share for previous years. In January 2018, subsequent to reporting period, dividend was declared and paid in amount of RUB 112 per ordinary share for previous years.

Shares issue to non-controlling interest

In 2012, the Group attracted third-party bank institutions (the banks) to financially co-invest in the project for the development of the Verkhnekamsk potassium-magnesium salts deposit located in Perm region of Russian Federation. Initially the banks purchased equity interests in the Group's subsidiary, CJSC VPC, totalling 38.05%. In 2013, the Group repurchased 10.95% of shares of CJSC VPC, of which a major part was previously recognised as non-controlling interests. In February 2014, one more independent bank purchased 19.9% of shares of CJSC VPC for RUB 6,673. In April 2016, the Group exercised call option and purchased 9.1% share in a subsidiary, CJSC VPC, from one of the banks for RUB 8,952. In 2017, the holder of the put option to a 20% stake in CJSC VPC changed. For each of these deals call/put option agreements with banks were concluded. As the result, the Group's ownership in CJSC VPC, amounting 60.1%, did not change by 31 December 2017.

(in millions of Russian Roubles, except for per share amounts)

In accordance with the agreements with the banks the Group has unconditional right to discharge of obligations by transferring to option holders Company's own shares (ordinary shares of PJSC Acron) in amount, calculated based on the total amount of obligation and own shares fair value to be transferred at a future date. As at 31 December 2017, related financing received by the Group was recorded in the Group's equity as non-controlling interest in amount of RUB 17,869 (31 December 2016: RUB 17,399).

Derivative financial instruments related to above share issues are disclosed in Note 13.

17 Non-controlling Interests

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra group eliminations.

As at 31 December 2017

	CJSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
Non-controlling interest percentage	**39.9%**	**4.08%**			
Non-current assets	23,267	19,427			
Current assets	23,162	31,733			
Long-term liabilities	(1,499)	(416)			
Current liabilities	(145)	(3,658)			
Net assets	**44,785**	**47,086**			
Carrying amount of non-control interests	17,869	1,921	866	-	20,656
Revenue	-	24,002			
Profit and total comprehensive income	1,176	7,469			
Profit attributed to non-controlling interest	469	305	54	-	828
Other comprehensive income attributed to non-control interest	-	-	19	-	19
Cash flows from operating activities	-	3,596			
Cash flows (used in)/from investment activities	(14)	10,017			
Cash flows used in financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 118)	-	(14,587)			
Net decrease in cash and cash equivalents	(14)	(974)			
Effect of exchange rate changes	(1)	(453)			

(in millions of Russian Roubles, except for per share amounts)

As at 31 December 2016

	CJSC VPC	PJSC Dorogobuzh	Other individually immaterial subsidiaries	Intra-group elimination	Total
Non-controlling interest percentage	**39.9%**	**5.43%**			
Non-current assets	22,947	9,886			
Current assets	22,444	48,751			
Long-term liabilities	(1,652)	(3,314)			
Current liabilities	(132)	(13,782)			
Net assets	**43,607**	**41,541**			
Carrying amount of non-control interests	17,399	2,256	953	(42)	20,566
Revenue	-	23,275			
(Loss)/profit and total comprehensive income	(642)	7,685			
(Loss)/profit attributed to non-controlling interest	(256)	417	(791)	-	(630)
Other comprehensive income attributed to non-control interest	-	-	(159)	-	(159)
Cash flows from operating activities	333	4,270			
Cash flows from/(used in) investment activities	5,211	(9,279)			
Cash flows from financing activities (dividend to non-controlling interests PJSC Dorogobuzh: 62)	-	4,060			
Net increase/(decrease) in cash and cash equivalents	5,544	(949)			
Effect of exchange rate changes	(1,891)	(1,158)			

18 Cost of Sales

	2017	2016
Natural gas	15,406	13,206
Staff costs	6,062	6,875
Depreciation and amortisation of property, plant and equipment and intangible assets	7,957	6,095
Fuel and energy	7,219	6,031
Repairs and maintenance	3,057	3,561
Potash used in production	5,192	4,765
Other materials and components	4,736	2,617
Services	886	854
Social expenditure	670	709
Production overheads	300	306
Drilling and blasting	398	267
Impairment loss	26	25
	51,909	**45,311**

19 Selling, General and Administrative Expenses

	2017	2016
Staff costs	3,624	3,851
Change in provision for bad debts	15	81
Business trip expenses	197	220
Research and development costs	-	26
Taxes other than income tax	452	486
Marketing services	129	107
Audit, legal and consulting services	315	327
Bank services	177	230
Insurance	64	75
Buildings maintenance and rent	580	549
Security	391	385
Telecommunication costs	63	75
Representation expenses	516	647
Commission fees	195	182
Other expenses	444	565
	7,162	**7,806**

(in millions of Russian Roubles, except for per share amounts)

20 Transportation Expenses

	2017	2016
Railway tariff	3,822	3,478
Freight	2,747	2,427
Maintenance of rolling stock	932	699
Container transportation	1,553	1,368
Handling of goods	3,722	3,150
Railcar lease	635	488
Other	317	333
	13,728	**11,943**

21 Finance Income, net

	2017	2016
Foreign exchange gain on financial transactions, net	856	7,849
Interest income from loans provided and term deposits	226	521
Commission expense	(572)	(253)
Dividend income	224	270
Other finance costs	(376)	-
	358	**8,387**

22 Other Operating Expenses, net

	2017	2016
Foreign exchange loss on operating transactions, net	(561)	(2,650)
Loss on disposal of property, plant and equipment	(122)	(213)
Charity expenses	(277)	(298)
Other income/(expenses)	594	(240)
	(366)	**(3,401)**

23 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. As at 31 December 2017, ordinary shares of the Company have a potential dilutive effect associated with the right to exercise obligations under the redemption put-options by transferring its own ordinary shares (Note 16). As at 31 December 2016, the effect of dilution is not significant, respectively diluted earnings per share is the same as the basic earnings per share.

	2017	2016
Weighted average number of shares outstanding	40,534,000	40,534,000
Adjusted for weighted average number of treasury shares	(961,499)	(676,477)
Weighted average number of shares outstanding (basic)	**39,572,501**	**39,857,523**
Effect of right to settle in own ordinary shares	(413,290)	-
Weighted average number of shares outstanding (diluted)	**39,159,211**	**39,857,523**
Profit attributable to the equity holders of the Company	13,432	26,155
Basic (in Russian Roubles)	**339.43**	**656.21**
Diluted (in Russian Roubles)	**343.01**	**656.21**

(in millions of Russian Roubles, except for per share amounts)

24 Income Tax

	2017	2016
Income tax expense – current	3,195	4,619
Adjustment for prior years	95	-
Deferred tax charge – origination and reversal of temporary differences	210	1,343
Income tax charge	**3,500**	**5,962**

Profit before taxation for financial reporting purposes is reconciled to tax charge as follows:

	2017		2016	
Profit before taxation	**17,760**	**100%**	**33,110**	**100%**
Theoretical tax charge at statutory rate of 20%	3,552	20%	6,622	20%
Effects of different tax rates	(229)	(1%)	191	1%
Recycling of cumulative currency translation difference	-	-	(1,377)	(4%)
Tax effect of items which are not deductible or assessable for taxation purposes	352	2%	259	1%
Change in unrecognised deductible temporary differences	(270)	(2%)	267	1%
Adjustment for prior years	95	1%	-	-
Income tax charge	**3,500**	**20%**	**5,962**	**19%**

In the context of the Group's current structure, tax losses and current tax assets of different group subsidiaries may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2016: 20%).

Unrecognised deferred tax liabilities

At 31 December 2017, a deferred tax liability of RUB 14,884 (31 December 2016: RUB 11,952) for temporary differences of RUB 74,420 (31 December 2016: RUB 59,759) related to an investment in a subsidiary was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(in millions of Russian Roubles, except for per share amounts)

Movement in deferred tax balances

	1 January 2016	Charged to profit or loss: Disposal of subsidiary	Charged to profit or loss: Continuing operations	Charged to OCI	31 December 2016	Charged to profit or loss	31 December 2017
Tax effects of taxable temporary differences:							
Property, plant and equipment	1,691	169	171	-	2,031	526	2,557
Investments	971	-	-	(938)	33	(28)	5
Subsoil Licences and Related Costs	3,478	-	670	-	4,148	(346)	3,802
Inventory	(158)	11	(10)	-	(157)	93	(64)
Financial instruments	(320)	-	(361)	-	(681)	69	(612)
Gross deferred tax liability	**5,662**	**180**	**470**	**(938)**	**5,374**	**314**	**5,688**
Offset	(466)	-	-	-	(64)	-	(242)
Recognised net deferred tax liability	**5,196**	**180**	**470**	**(938)**	**5,310**	**314**	**5 446**
Tax effects of deductible temporary differences and tax loss carry-forwards:							
Tax loss carry-forwards	(1,451)	329	984	-	(138)	1	(137)
Accounts receivable	(107)	132	(30)	-	(5)	33	28
Accounts payable	(47)	12	(74)	-	(109)	14	(95)
Staff costs payable	(140)	111	-	-	(29)	(1)	(30)
Other temporary differences	(117)	-	(7)	-	(124)	(56)	(180)
Gross deferred tax asset	**(1,862)**	**584**	**873**	**-**	**(405)**	**(9)**	**(414)**
Offset	466	-	-	-	64	-	242
Recognised net deferred tax asset	**(1,396)**	**584**	**873**	**-**	**(341)**	**(9)**	**(172)**
Recognised net deferred tax liability	**3,800**	**764**	**1,343**	**(938)**	**4,969**	**305**	**5,274**

Substantially all deferred assets and liabilities presented in the statement of financial position are expected to be realised after more than 12 months from the reporting date.

25 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2017, the Group had outstanding capital commitments in relation to property, plant and equipment for the amount of RUB 12,771 (31 December 2016: RUB 12,840).

In accordance with the conditions of the exploration licences the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by licence agreements (Note 10).

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 this and any similar such commitments.

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2017 and 2016, the Group had no issued guarantees.

ii 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 the Management is of the opinion that no material losses will be incurred in respect of claims.

iii Russian business environment

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

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

iv Taxation contingencies in Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 Russian Federal law 376-FZ introduced changes aimed at regulating tax consequences of transactions with foreign companies and their activities. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

The compliance of prices with the arm’s length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

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

The amount of possible tax liabilities related to uncertainties in practical application of legislation could be material, however, management believes that its interpretation of the relevant legislation is generally appropriate, and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2017, no provision for potential tax liabilities based on management’s interpretations of applicable tax legislation had been recognised (2016: no provision). Management believes that all necessary provisions were recognised in respect of other probable tax risks.

v Environmental matters

The environmental regulation in the Russian Federation continues to evolve. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

26 Financial and Capital Risk Management

26.1. Financial risk management

Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; and (c) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

(in millions of Russian Roubles, except for per share amounts)

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2017:

	2017			
	Loans and receivables	**Available-for-sale assets**	**Trading Assets**	**Total**
Assets				
Cash and cash equivalents (Note 6)	14,302	-	-	14,302
- Cash on hand and bank balances				
Trade and other receivables (Note 7)	2,267	-	-	2,267
- Trade receivables, net of provision	91	-	-	91
- Notes receivable	498	-	-	498
- Other financial receivables				
Loans receivable				
- Long term loans receivable	29	-	-	29
Trading Investments	-	-	51	51
Available-for-sale investments (Note 12)				
- Corporate shares	-	22,698	-	22,698
Total financial assets	**17,187**	**22,698**	**51**	**39,936**

All of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as designated.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2016:

	2016			
	Loans and receivables	**Available-for-sale assets**	**Trading Assets**	**Total**
Assets				
Cash and cash equivalents (Note 6)				
- Cash on hand and bank balances	27,168	-	-	27,168
Trade and other receivables (Note 7)				
- Trade receivables, net of provision	1,449	-	-	1,449
- Notes receivable	138	-	-	138
- Other financial receivables	265	-	-	265
Loans receivable				
- Long term loans receivable	29	-	-	29
Trading Investments	-	-	122	122
Available-for-sale investments (Note 12)				
- Corporate shares	-	17,965	-	17,965
Total financial assets	**29,049**	**17,965**	**122**	**47,136**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities.

The Group relies on export sales to generate foreign currency earnings. As the Group sells approximately 73% of its production outside the Russian Federation, it is exposed to foreign currency risk arising primarily on volatility of USD rate. Since the Group's major operational expenses are denominated in Russian Roubles the benefit from the weak Rouble exchange rate is partially offset by the growth of borrowing costs and foreign exchange differences on the Group's loans which presumably denominated in USD.

Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian Rouble. Credit lines denominated in various currencies allow the Group to be flexible in reaction to foreign currency rate shocks and minimise foreign currency exposure.

(in millions of Russian Roubles, except for per share amounts)

The tables below summarise the Group’s exposure to foreign currency exchange rate risk at the reporting date:

At 31 December 2017	**USD**	**EUR**	**CNY**
Financial assets:			
Cash and cash equivalents	10,143	1,680	230
Accounts receivable	2,079	15	126
	12,222	**1,695**	**356**
Financial liabilities:			
Accounts payable and other liabilities	(651)	(269)	-
Borrowings and notes payable	(40,550)	(3,551)	-
Derivative financial instruments	(3,359)	-	-
	(44,560)	**(3,820)**	**-**
Net position	**(32,338)**	**(2,125)**	**356**

At 31 December 2016	**USD**	**EUR**	**CNY**
Financial assets:			
Cash, cash equivalents and irrevocable deposits	17,320	1,367	313
Accounts receivable	1,231	8	104
Derivative financial instruments	5,177	-	-
	23,728	**1,375**	**417**
Financial liabilities:			
Accounts payable and other liabilities	(235)	(133)	(6)
Borrowings and notes payable	(42,966)	(4,061)	-
Derivative financial instruments	(8,443)	-	-
	(51,644)	**(4,194)**	**(6)**
Net position	**(27,916)**	**(2,819)**	**(411)**

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from accounts receivable, cash and cash equivalents, borrowings, accounts payable, derivative financial assets and liabilities denominated in US dollars.

	2017	**2016**
Impact on post-tax profit and on equity of:		
USD strengthening by 20%	(5,174)	(4,467)
USD weakening by 20%	5,174	4,467

Since the Group does not hold any foreign currency denominated equity securities and other financial instruments revalued through equity, the effect of a change in the exchange rate on equity would be the same as that on the post-tax profit.

(ii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group’s financial results or the value of the Group’s equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group’s interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans. Generally, the same concept is adopted for deposits of cash generated by the units.

Monitoring of current market interest rates and analysis of the Group’s interest-bearing position is performed by the corporate treasury and corporate finance functions as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group’s cash flow to an interest rate risk. At 31 December 2017 and 2016 borrowings at variable rates amounted to RUB 49,233 and RUB 53,732 respectively (Note 15).

At 31 December 2017, if interest rates at that date had been 5 percentage points higher with all other variables held constant, profit for the year would have been RUB 2,811 (2016: RUB 3,243) lower, mainly as a result of higher interest expense on variable interest liabilities. The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.

(iii) Price risk

From time to time the Group makes investments in entities with high upside market potential. Investments are assessed by corporate treasury department and accepted provided that internal rate of return for investment exceeds current weighted average cost of capital.

(in millions of Russian Roubles, except for per share amounts)

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits and loans receivable. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk of RUB 17,238 (2016: RUB 29,171) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents. The amount does not include equity investments and financial guarantees disclosed in Note 25(i).

As at 31 December 2017, cash and cash equivalents in the amount RUB 10,493 were held in Russian bank with credit rating BBB- (2016: RUB 10,991) and RUB 748 was held in Russian bank with credit rating Ba2 (2016: RUB 797). The Group has no significant concentrations of credit risk for other financial assets.

Cash and cash equivalents. Cash and short-term deposits are placed in major multinational and Russian banks with independent credit ratings and Chinese banks with top internal credit ratings. All bank balances and term deposits are neither past due nor impaired. See analysis by credit quality of bank balances and term deposits in Note 6.

Trade receivables and loans receivable. Trade receivables and loans receivable 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 receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers or borrowers. The credit quality of each new customer is analysed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analysed before the Group provides it with the loan. The credit quality of customers and borrowers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2017, the Group has 2 counterparties with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2016, there were no counterparties with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances.

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 7).

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 6), trading investments, and available-for-sale investments (Note 12). Management estimates that the liquidity portfolio can be realised in cash within a day in order to meet unforeseen liquidity requirements.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.

	Carrying amount	**On demand and less than 3 months**	**From 3 to 12 months**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2017							
Bonds issued*	23,767	-	12,191	1,289	15,083	-	**28,563**
Credit lines*	5,890	93	4,121	2,092	-	-	**6,306**
Term loans*	44,866	673	6,206	9,043	33,591	218	**49,731**
Notes payable	21	21	-	-	-	-	**21**
Trade payables	5,267	5,267	-	-	-	-	**5,267**
Derivatives	3,359	3,308	51	-	-	-	**3,359**
Total	**83,170**	**9,362**	**22,569**	**12,424**	**48,674**	**218**	**93,247**

(in millions of Russian Roubles, except for per share amounts)

	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
As at 31 December 2016							
Bonds issued*	18,772	10,000	1,440	861	10,302	-	**22,603**
Credit lines*	5,237	117	2,635	2,877	315	-	**5,944**
Term loans*	55,108	11,828	18,010	12,343	16,602	414	**59,197**
Notes payable	34	34	-	-	-	-	**34**
Trade payables	6,302	6,302	-	-	-	-	**6,302**
Derivatives	8,443	-	-	-	-	**34,297	**34,297**
Total	**93,896**	**28,281**	**22,085**	**16,081**	**27,219**	**34,711**	**128,377**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as at 31 December 2017 and 31 December 2016, respectively.

** Cash outflow relates to possible sales of CJSC VPC’s shares linked to put option by the minority shareholder in 2024.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group. Such cash balances are represented by current cash balances on bank accounts and bank deposits. Group’s policy for financing its working capital is aimed at maximum reliance on own operating cash flows, availability of short-term bank and other external financing to maintain sufficient liquidity.

At 31 December 2017, unused credit lines available under long-term loan facilities were RUB 18,614 (2016: RUB 26,881).

26.2. Capital risk management

The Group’s objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company’s statutory financial (accounting) reports. In 2017, the Group’s strategy, which was unchanged from 2016, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as at 31 December 2017 and 31 December 2016 is shown in the table below:

	2017	2016
Long-term borrowings	55,593	39,231
Short-term borrowings	18,930	39,886
Total debt	**74,523**	**79,117**
Shareholders’ equity	**90,956**	**87,722**
Gearing ratio, %	**82%**	**90%**

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio.

In 2017, the Group’s strategy, which was unchanged from 2010, was to maintain EBITDA/net interest expense ratio at the level not lower than 3.5:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortisation adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (Note 15).

The ratios of EBITDA over net interest expense are shown in the table below:

	2017	2016
EBITDA	**29,817**	**29,856**
Interest income (Note 21)	(226)	(521)
Interest expense	4,110	4,573
Interest expense capitalised (Note 9)	793	1,090
Net interest expense	**4,677**	**5,142**
EBITDA/Net interest expense	**6.4:1**	**5.8:1**

The Group’s capital management includes compliance with the externally imposed minimum capital requirements arising from the Group’s borrowings (Note 15) and imposed by the statutory legislation of the Russian Federation and Estonia. Since EBITDA is not standard IFRS measure the Group’s definition of EBITDA may differ from that of other companies.

(in millions of Russian Roubles, except for per share amounts)

27 Fair Value of Financial Instruments

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. The best evidence of fair value is the price in an active market.

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. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading***,*** Available-for-sale investments and derivatives are carried in the consolidated statement of financial position at their fair value.

This Group discloses the value of financial instruments that are measured in the consolidated statement of financial position at fair value by three levels in accordance with IFRS 13, Fair values.

The level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

Level 1: quoted price in an active market;
Level 2: valuation technique with inputs observable in markets;
Level 3: valuation technique with significant non-observable inputs.

All available-for-sales and trading financial instruments of the Group were included in level 1 category in the amount of RUB 22,749 (31 December 2016: RUB 18,087).

All liabilities on bonds issued were included in level 1 category in the amount of RUB 23,767 (31 December 2016: RUB 18,772)

The fair value of the call/put options on shares of CJSC VPC was determined based on the Black–Scholes Option Pricing Model with the adjustments and using of unobservable inputs, and included in level 3.

The spot price of CJSC VPC is one of the inputs to the valuation using Black–Scholes Option Pricing Model. Since the shares are not quoted, management applied discounted cash flows method using risk-adjusted discount rate. The calculation was based on the cash flow forecast prepared in nominal terms and derived from financial budgets.

Significant unobservable inputs	**Inter-relationship between significant unobservable inputs data and fair value measurement**
• Forecast annual revenue growth rate: 2%. • Forecast EBITDA margin: 63%-69%. • Risk-adjusted discount rate: 12%. • Production start year: 2021. • Non-controlling discount: 15,2%.	The estimated fair value of the shares of CJSC VPC would increase (decrease) if: • The annual revenue growth rate were higher (lower); • The EBITDA margin were higher (lower); or • risk-adjusted discount rate were lower (higher) ; or • production began earlier (later); or • non-controlling discount were lower (higher) Generally, EBITDA margin follows any changes in the trend set by the annual revenue growth rate.

(in millions of Russian Roubles, except for per share amounts)

Significant unobservable inputs of Black–Scholes Option Pricing Model are shown in the following table:

Financial instrument	Significant unobservable inputs	Inter-relationship between significant unobservable inputs data and estimate of fair value
Put option on shares of CJSC VPC (liability)	• The current fair value of the shares (calculated as above) • Volatility: 21.48%-23.58%. • Risk-free rate of return: 2.12%. • No dividend assumed	The estimated fair value would increase (decrease) if: • current fair value of the shares were lower (higher); • volatility were higher (lower); or • the risk-free rate of return were higher (lower);

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 credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. 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. At 31 December 2017, the fair value of borrowings was RUB 539 higher than their carrying amounts. At 31 December 2016, the fair value of borrowings was RUB 478 higher than their carrying amounts.

The fair value of payables does not differ significantly from their carrying amounts.

28 Subsequent Events

In January 2018, the extraordinary general meeting of the shareholders of the Company approved dividend for previous years on ordinary shares of PJSC Acron in the amount of 112 roubles per share.

29 Changes in Accounting Policies

The management clarified the accounting policy for available-for-sale investments by defining quantitative criteria for a significant and prolonged decline in the fair value of equity shares below their historical cost. As a result, a decrease in the average value of shares by more than 25% for securities with inherently high volatility and by more than 20% for all other shares for the period of 9 months were determined as key impairment triggers.

The Group has consistently applied the accounting policies set out in Note 30 to all periods presented in these consolidated financial statements.

30 Significant Accounting Policies

30.1 Group accounting

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence of possibility when the Group has existing rights that give it the current ability to direct the relevant activities of other entity, i.e. the activities that significantly affect the other entity’s returns, is considered when assessing whether the Group controls another entity. The Group can have power over other entity even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as the result of the business combinations under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group’s equity.

Purchases of non-controlling interests. The Group applies economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as capital transaction directly in equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in these financial statements. The consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Investments in associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group’s share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

30.2 Discontinued operations

A discontinued operation is a component of the Group’s business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(in millions of Russian Roubles, except for per share amounts)

30.3 Cash and cash equivalents

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. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

30.4 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of 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 carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective rate of interest. The amount of the provision is recognised in the statement of profit or loss and other comprehensive income. The primary factors that the Group considers whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

30.5 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of 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 statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

30.6 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (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.

30.7 Property, plant and equipment

Property, plant and equipment are recorded at cost, restated where applicable to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of profit or loss and other comprehensive income. 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 assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and the estimated period during which these assets will bring economic benefit to the Group.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

30.8 Leasehold land

Leases of land are classified as operating leases. The pre-paid lease payments are amortised over the lease period of 30 years on a straight-line basis.

30.9 Intangible assets

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. The entire Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, acquired trademarks and licences. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives, but not exceeding 20 years.

30.10 Amortisation of exploration and evaluation licences and expenditure

Exploration and evaluation licences and expenditure are amortised on a straight-line basis over expected term of site development, commencing upon readiness of processing facilities to produce ore usable for production of complex mineral fertilizers or for external sale.

30.11 Borrowings

Borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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.

30.12 Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss 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.

Current income 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 on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards 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 provided on post acquisition retained earnings of subsidiaries, except where 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.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

30.13 Foreign currency transactions

Foreign currency translation. For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective ends of the reporting periods. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Foreign exchange gains and losses on operating items are presented within other operating expenses, foreign exchange gain and losses on finance items are presented within net finance income.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of profit or loss and other comprehensive income 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 are translated at the dates of the transactions); and
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified from other comprehensive income to profit or loss.

At 31 December 2017 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 57.6002 , USD 1 = CNY 6.5342, EUR 1 = RUB 68.8668 (31 December 2016: USD 1 = RUB 60.6569, USD 1 = CNY 6.9437, EUR 1 = RUB 63.8111). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

30.14 Provisions for liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources 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, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each end of the reporting period.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated income statement each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the consolidated income statement.

Provisions for restoration liability are recognised when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pretax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognised as interest expense. Changes in the provision, which is reassessed at each reporting date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

30.15 Shareholders' equity

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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 in the notes as a share premium.

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 owners 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 owners. Treasury shares are stated at weighted average cost. Any gains/losses arising from the transactions with treasury shares are included in other reserves.

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

Accounting treatment for put options to be settled in shares of Company. The subsidiaries sell to non-controlling shareholders own shares linked to put option. This gives to non-controlling shareholders the right to sell the Group those shares in exchange for a variable number of Company's shares. If at the option exercise date the Group has no obligation to deliver cash or another financial asset, the subsidiary's shares that are held by non-controlling interest holders are presented as equity and the put options are recognised as derivative financial liabilities. Such options are accounted at fair value with changes recognised in profit or loss for the period in accordance with IAS 39.

On initial recognition of the liability, the debit entry it to other equity. The interests of non-controlling shareholders that hold the written put options or forwards (in respect of those shares) are not derecognised when the financial liability is recognised.

Accounting treatment for call options over subsidiary shares. The Group buys the call options issued by third parties, which entitle to buy (from this third party) the shares in a subsidiary. Initially the call option is recognised in capital of the owner's of the Company for credit side and on as a derivative financial asset for debit side. Further it is accounted at fair value with changes are recognised in profit or loss in accordance with IAS 39.

30.16 Revenue recognition

Revenues from sales of chemical fertilisers and related by-products are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

30.17 Mutual cancellations

A portion of sales and purchases are settled by mutual settlements or non-cash settlements. These transactions are generally in the form of direct settlements through cancellation of mutual trade receivables and payables balances within the operational contracts. Non-cash settlements include promissory notes or bills of exchange, which are negotiable debt obligations. Sales and purchases that are expected to be settled by mutual settlements or other non-cash settlements are recognised based on the estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the consolidated cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. 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.

30.18 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 and are included within labour costs in operating expenses.

Social costs. The Group incurs significant costs on social activities. These costs include the provision of health services, kindergartens, and the subsidy of worker holidays. These amounts represent an implicit cost of employing principally production workers and other staff and, accordingly, have been charged to operating expenses.

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognises these contributions as part of labour costs.

30.19 Financial assets and liabilities

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 12 months.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Initial recognition of financial instruments. Financial assets and liabilities are initially recorded at fair value plus 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 fair value and 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 purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. As a result, a decrease in the average value of shares by more than 25% for securities with inherently high volatility and by more than 20% for all other shares for the period longer than 9 months were determined as key impairment triggers. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

Investment in equity accounted investees. The Group made accounting policy choice regarding accounting of changes in status of equity-accounted investees. In accordance with chosen method performed remeasurement of previously held interest through profit or loss. Available-for-sale revaluation reserve reclassified to profit or loss. Implementation of this method taken place first and do not influence on opening balance.

Derivative financial instruments. As part of its financing activities the Group is also party to derivative financial instruments including foreign currency and interest rate swap contracts and put/call option on shares. The Group's policy is to measure these instruments at fair value with resultant gains or losses being reported within the profit and loss. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group has no derivatives accounted for as hedges.

30.20 Finance lease liabilities

Where the Group is a lessee in a lease which transferred 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. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. 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.

30.21 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share repurchase option.

30.22 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.
Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Operating segments which external and inter-segment sales, assets, profit and loss are 10% or more from appropriate operational segments measure are reported separately.

30.23 Exploration and evaluation expenditure

Exploration and evaluation costs are capitalized. Capitalized costs are directly related to exploration and evaluation activities in the relevant area of interest and include acquisition of rights to explore, including cost related to compliance with licence terms; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, Plant and Equipment, after initial recognition. Exploration assets are not depreciated until the production phase.

The Group tests exploration and evaluation assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

30.24 Development expenditure

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in "mining assets under construction" category and separately disclosed in Note 9. Costs incurred are tested for impairment upon commencement of development phase.

Development expenditure is reclassified as a "Mining and primary ore dressing assets" at the end of the commissioning phase, when the mine and surface infrastructure are capable of operating in the manner intended by management. No depreciation is recognised in respect of development expenditures until they are reclassified as "Mining and primary ore dressing assets".

31 New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The new Standard will not have any impact on the Group's financial position or performance.

The Group has not early adopted IFRS 9 in its consolidated financial statements for the year ended 31 December 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

The Group assessed the impact of the new standard on the Group's performance and financial position. The Group analysed classes of transactions where revenue recognition under currently applied IAS 18 might be different from IFRS 15 requirements. As a result, the Group identified certain areas of focus which mainly related to revenue recognition of services provided to customers.

The Group identified that under contract conditions related to significant portion of fertilisers sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognises revenue for such services and associated costs in full immediately after loading as revenue from trading activities. Under IFRS 15 such revenue is expected to be a separate performance obligation, shall be recognised over time rather than at a point in time and shall be recognised as revenue from logistic services rather than from fertiliser sales. However, due to the short lead time to deliver such services and absence of individually material transactions, the potential impact on the Group's presentation, performance and financial position was estimated inconsequential.

Under certain Group sale contracts the final price for the goods shipped is determined subsequently to passage of the control of the goods to the customer. Under current requirements the Group determines the amount of revenue at the moment of recognition based on provisionally agreed selling price. At price finalisation the difference between provisional price and actual one is recognised as revenue from sale of fertilisers. IFRS 15 application will not result in a significant change in the amount of recognised revenue. However IFRS 15 will impact the classification of the revenue recognised: only the revenue initially recognised at the moment of control transfer to the customer will be recognised as revenue from contract with customers. The amount of price adjustment on finalisation will be recognised as other revenue. However, due to absence of material effect of price adjustment, the potential impact on the Group's performance and financial position was estimated inconsequential.

The group did not identify any other areas where new standard might have a material effect upon adoption. The Group will continue monitoring the impact of treating freight related services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.

The Group has not early adopted IFRS 15 in its consolidated financial statements for the year ended 31 December 2017.

IFRS 16 *Leases*

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.