PJSC “PhosAgro”

Consolidated Financial Statements for 2018

Contents

KPMG

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of PJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Valuation of deferred tax assets

Please refer to the Note 17 in the consolidated financial statements.

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 МОСКВА
КПМГ
KPMG

I.A. Yagnov
JSC "KPMG"
Moscow, Russia
19 March 2019

	Note	2018 RUB Million	2017 RUB Million
Revenues	7	233,430	181,351
Cost of sales	9	(123,964)	(101,817)
Gross profit		**109,466**	**79,534**
Administrative expenses	10	(14,864)	(14,018)
Selling expenses	11	(34,410)	(25,201)
Taxes, other than income tax		(3,469)	(2,679)
Other expenses, net	12	(2,726)	(1,647)
Operating profit		**53,997**	**35,989**
Finance income	13	447	615
Finance costs	13	(6,098)	(6,990)
Foreign exchange (loss)/gain, net	29(b)	(19,613)	4,141
Share of (loss)/profit of associates, net of provision	16	(623)	287
Profit before tax		**28,110**	**34,042**
Income tax expense	14	(5,975)	(8,711)
Profit for the year		**22,135**	**25,331**
Attributable to:			
Non-controlling interests ^		66	(2)
Shareholders of the Parent		22,069	25,333
Other comprehensive income/(loss)			
Items that will never be reclassified to profit or loss			
Actuarial gains and losses	26	170	(342)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference		2,872	(377)
Other comprehensive income/(loss) for the year		**3,042**	**(719)**
Total comprehensive income for the year		**25,177**	**24,612**
Attributable to:			
Non-controlling interests ^		66	(2)
Shareholders of the Parent		25,111	24,614
Basic and diluted earnings per share (in RUB)	24	170	196

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

The consolidated financial statements were approved on 19 March 2019:

Chief executive officer
A.A. Guryev

Chief financial officer
A.F. Sharabaiko

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 41.

	Note	31 December 2018 RUB million	31 December 2017 RUB million
Assets			
Property, plant and equipment	15	186,231	175,113
Catalysts		2,414	1,900
Advances issued for property, plant and equipment		6,759	2,334
Intangible assets		1,786	1,773
Investments in associates	16	506	969
Deferred tax assets	17	8,995	5,371
Other non-current assets	18	1,843	1,955
Non-current assets		**208,534**	**189,415**
Other current investments	19	313	352
Inventories	20	31,870	25,445
Trade and other receivables	21	36,186	33,727
Cash and cash equivalents	22	9,320	2,691
Current assets		**77,689**	**62,215**
Total assets		**286,223**	**251,630**
Equity	23		
Share capital		372	372
Share premium		7,494	7,494
Retained earnings		93,951	85,480
Other reserves		7,809	4,767
Equity attributable to shareholders of the Parent		109,626	98,113
Equity attributable to non-controlling interests		195	129
Total equity		**109,821**	**98,242**
Liabilities			
Loans and borrowings	25	122,877	76,530
Finance lease liabilities	27(a)	376	1,004
Defined benefit obligations	26	630	950
Deferred tax liabilities	17	9,023	7,914
Non-current liabilities		**132,906**	**86,398**
Loans and borrowings	25	20,679	44,025
Finance lease liabilities	27(a)	718	1,117
Trade and other payables	28	21,473	21,848
Derivative financial liabilities		626	-
Current liabilities		**43,496**	**66,990**
Total equity and liabilities		**286,223**	**251,630**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 41.

	Note	2018 RUB million	2017 RUB million
Cash flows from operating activities			
Profit before tax		28,110	34,042
Adjustments for:			
Depreciation and amortisation	9, 10, 11	20,911	14,807
Loss on disposal of property, plant and equipment and intangible assets	12	586	614
Finance income	13	(447)	(615)
Finance costs	13	6,098	6,980
Share of profit of associates, net of provision	16	623	(287)
Foreign exchange loss/(gain), net		19,613	(4,371)
Operating profit before changes in working capital and provisions		75,494	51,170
Increase in inventories		(5,438)	(6,917)
Decrease/(increase) in trade and other receivables		324	(1,240)
Increase/(decrease) in trade and other payables		655	(134)
Cash flows from operations before income taxes and interest paid		71,035	42,879
Income tax paid		(6,146)	(8,326)
Finance costs paid		(5,210)	(4,558)
Cash flows from operating activities		**59,679**	**29,995**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(38,416)	(35,918)
(Issue)/repayment of loans issued, net		(257)	475
Proceeds from disposal of property, plant and equipment		19	365
Finance income received		307	371
(Acquisition)/disposal of investments, net		(8)	359
Other payments		(814)	-
Cash flows used in investing activities		**(39,169)**	**(34,348)**
Cash flows from financing activities			
Proceeds from borrowings	25	83,874	90,094
Repayment of borrowings	25	(83,572)	(74,245)
Dividends paid to shareholders of the Parent	23	(13,598)	(14,763)
Dividends paid to non-controlling interests		-	(5)
Finance leases paid	25	(1,285)	(1,365)
Payments for settlement of derivatives		(22)	-
Other payments		-	(22)
Cash flows used in financing activities		**(14,603)**	**(306)**
Net increase/(decrease) in cash and cash equivalents		**5,907**	**(4,659)**
Cash and cash equivalents at 1 January		2,691	7,261
Effect of exchange rates fluctuations		722	89
Cash and cash equivalents at 31 December	22	**9,320**	**2,691**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 41.

RUB Million	Attributable to shareholders of the Parent						
	Share capital	Share premium	Retained earnings	Actuarial gains and losses	Foreign currency translation reserve	Attributable to non-controlling interests	Total
Balance at 1 January 2017	**372**	**7,494**	**74,932**	**(384)**	**5,870**	**137**	**88,421**
Total comprehensive income for the year							
Profit for the year	-	-	25,333	-	-	(2)	25,331
Actuarial gains and losses	-	-	-	(342)	-	-	(342)
Foreign currency translation difference	-	-	-	-	(377)	-	(377)
	-	-	25,333	(342)	(377)	(2)	24,612
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent	-	-	(14,763)	-	-	(6)	(14,769)
Other	-	-	(22)	-	-	-	(22)
	-	-	(14,785)	-	-	(6)	(14,791)
Balance at 31 December 2017	**372**	**7,494**	**85,480**	**(726)**	**5,493**	**129**	**98,242**
Balance at 1 January 2018	**372**	**7,494**	**85,480**	**(726)**	**5,493**	**129**	**98,242**
Total comprehensive income for the year							
Profit for the year	-	-	22,069	-	-	66	22,135
Actuarial gains and losses	-	-	-	170	-	-	170
Foreign currency translation difference	-	-	-	-	2,872	-	2,872
	-	-	22,069	170	2,872	66	25,177
Transactions with owners recognised directly in equity							
Dividends to shareholders of the Parent, note 23	-	-	(13,598)	-	-	-	(13,598)
	-	-	(13,598)	-	-	-	(13,598)
Balance at 31 December 2018	**372**	**7,494**	**93,951**	**(556)**	**8,365**	**195**	**109,821**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 41.

1 BACKGROUND

(a) Organisation and operations

PJSC "PhosAgro" (the "Company" or the "Parent") and its subsidiaries (together referred to as the "Group") comprise Russian legal entities and foreign trading subsidiaries. The Company was registered in October 2001. The Company's location is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation, 119333.

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

The Company's key shareholders are two Cyprus entities holding approximately 20% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey G. Guryev and his family members.

(b) Russian business environment

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

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to 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. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional 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.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

(b) Basis of measurement

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

(c) Functional currency

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

(d) Presentation currency

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

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

- Assets and liabilities as at 31 December 2018 were translated at the closing exchange rate of RUB 69.4706 for USD 1 (31 December 2017: RUB 57.6002 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2018 of RUB 62.7078 for USD 1 (for 2017: RUB 58.3529 for USD 1);
- Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

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

- Assets and liabilities as at 31 December 2018 were translated at the closing exchange rate of RUB 79.4605 for EUR 1 (31 December 2017: RUB 68.8668 for EUR 1);
- Profit and loss items were translated at the average exchange rate for 2018 of RUB 73.9546 for EUR 1 (for 2017: RUB 65.9014 for EUR 1);
- Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction;
- The resulting foreign exchange difference is recognised in other comprehensive income.

(e) Use of estimates and judgments

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

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

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

- note 3(c)(iv) – estimated useful lives of fixed assets;
- note 17 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

(f) Adoption of new and revised standards and interpretations

The Group has adopted new standards that are mandatory for financial annual periods beginning on 1 January 2018.

IFRS 9 *Financial Instruments* has replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The standard provides amended guidance on the classification, recognition and measurement of financial assets and liabilities. The major impact from the transition relates to the classification of financial assets and introduction of an expected credit loss model which results in the earlier recognition of credit losses and is more forward looking than the previous incurred loss model. The Group used an exemption in IFRS 9, which allows not to restate prior periods in the year of initial application.

The Group estimated the expected credit losses for the entire period of the financial instruments, applying a simplified approach to measuring expected credit losses for trade receivables, which uses lifetime expected loss allowance. In the terms of calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors, historical credit loss experience and economic environment in which they operate. As at 1 January 2018, there was no effect on the Group’s consolidated financial statements as a result of the implementation of an expected credit loss model. As at 31 December 2018, the Group’s estimation of the expected credit losses resulted in the increase of the allowance for doubtful debts for trade receivables by RUB 69 million (USD 1 million) compared to the historical credit loss model required by IAS 39.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets and financial liabilities as at 1 January 2018:

RUB million	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Equity securities	Available-for-sale	Mandatorily at FVTPL	755	755
Debt securities	Held to maturity	Amortised cost	21	21
Long-term loans issued	Loans and receivables	Amortised cost	426	426
Other long-term assets	Loans and receivables	Amortised cost	753	753
Short-term loans issued	Loans and receivables	Amortised cost	314	314
Interest receivable	Loans and receivables	Amortised cost	38	38
Trade accounts receivable	Loans and receivables	Amortised cost	14,971	14,971
Receivables from employees	Loans and receivables	Amortised cost	26	26
Other receivables	Loans and receivables	Amortised cost	818	818
Cash and cash equivalents	Loans and receivables	Amortised cost	2,691	2,691
Total financial assets			**20,813**	**20,813**
Financial liabilities				
Loans and borrowings	Other financial liabilities	Other financial liabilities	(120,656)	(120,656)
Finance lease liabilities	Other financial liabilities	Other financial liabilities	(2,121)	(2,121)
Trade and other payables	Other financial liabilities	Other financial liabilities	(12,385)	(12,385)
Total financial liabilities			**(135,162)**	**(135,162)**

IFRS 15 *Revenue from Contracts with Customers* has replaced IAS 11 *Construction Contracts* and IAS 18 *Revenues*. The standard outlines the principles an entity must apply to measure and recognise revenue. The Group applies IFRS 15 using the cumulative effect method (without practical simplifications). The effect of application of new standard on the date of the initial application (1 January 2018) is estimated to be insignificant. Therefore, the information reported for 2017 was not restated and presented in the form in which it was previously reported in accordance with IAS 18, IAS 11 and related clarifications.

The Group analysed the impact of the new standard on the financial statements. As a result, the Group determined that under the terms of the majority supply mineral fertilizers contracts Group undertakes to provide delivery of goods and the related delivery services after the transfer of control over the goods to the buyer at the loading port. According to IAS 18, the Group recognised such services and charged the full costs at the time of loading. According to IFRS 15, these services are a separate performance obligation, which revenue must be recognised during the period of delivery as revenue from logistics activities. The Group recognizes revenue from these logistics services at the time of delivery, due to the fact that the potential difference is calculated and recognised as insignificant.

The group also assessed the impact of the new standard on the revenue disclosure. The Group believes that the current disclosure meets the requirements of the new standard. The Group will continue to monitor the impact of accounting for logistics services as separate contractual obligations and will make the necessary changes to accounting policies in the future if the effect becomes significant.

The effect of applying the new standard as at and for the year ended 31 December 2018 to various reporting items was insignificant.

Other new standards and interpretations to standards set out below became effective 1 January 2018 and did not have any impact or did not have a material impact on the Group’s consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture;
- Amendments to IFRS 2, Share-based Payment;
- Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;

- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40, Transfers of Investment property.

(g) New standards and interpretations not yet adopted

The following standard is not yet effective as at 31 December 2018, and have not been applied in preparing these consolidated financial statements:

IFRS 16 Leases has replaced 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.

IFRS 16 introduces a single, on-balance sheet lease 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 recognition 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.

IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

In respect of the leases in which the Group is a lessee, new assets and liabilities will be recognised for the Group's operating leases of land, buildings and other facilities (see Note 27). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of RUB 1,800 million as at 1 January 2019. The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the loan covenants.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 9 and IFRS 15 from 1 January 2018.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Acquisitions and disposals of non-controlling interests

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

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

(iv) Associates

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

(v) Transactions eliminated on consolidation

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

(b) Foreign currencies

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

(c) Property, plant and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

(iii) Subsequent expenditure

Expenses in connection with ordinary maintenance and repairs are recognised in the statement of profit or loss as they are incurred.

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

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

(iv) Depreciation

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

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

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

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

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

(d) Intangible assets

(i) Research and development

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

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

(ii) Other intangible assets

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

(iii) Amortisation

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

(e) Financial assets

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

From 1 January 2018, the Group financial assets are classified in the following measurement categories based on the on the Group's business model for managing the financial assets and the contractual terms of the cash flows: financial assets at amortised cost; financial assets at fair value (either through other comprehensive income or profit or loss).

Financial assets at amortised cost. Financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL")*:*

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any gains or losses arising from derecognition are recognised directly in profit or loss.

Financial assets at fair value through other comprehensive income ("FVOCI"). Financial assets are classified and measured at fair value through other comprehensive income if they meet both of the following conditions and are not designated as at FVTPL:

- they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss.

Financial assets at fair value through profit or loss ("FVPL"). Financial asset that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss ("FVPL").

(f) Inventories

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

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

(g) Impairment

Financial assets

Previously under IAS 39 a financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there was any objective evidence that it was impaired. A financial asset was impaired if objective evidence indicated that a loss event had occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets were impaired could include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer would enter bankruptcy, the disappearance of an active market for a security.

From 1 January 2018 an impairment loss in respect of a financial asset measured at amortised cost the Group has changed the accounting policy for impairment losses of financial assets held at amortised cost by replacing incurred loss model with an ECL model following the transition to IFRS 9. Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from default events that are possible within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables the Group estimated the expected credit losses for the entire period, applying a simplified approach to measuring expected credit losses, which uses lifetime expected loss allowance. In the terms of calculating the expected credit loss, the Group considers the credit rating for each counterparty, adjusted with forward-looking factors specific to the debtors, historical credit loss experience and economic environment in which they operate.

If, in a subsequent period, the fair value of an impaired financial assets increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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

(h) Share capital

(i) Repurchase of share capital

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

(ii) Dividends

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

(i) Financial liabilities

The Group financial liabilities comprise trade and other payables, borrowings and bonds and derivative financial instruments. The Group financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives, other liabilities held for trading, and liabilities that the Group designates to be measured at fair value through profit or loss.

The Group derecognises a financial liability when its obligation specified in the contract is discharged or cancelled or expires.

(j) Employee benefits

(i) Pension plans

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

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

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

(ii) Long-term service benefits other than pensions

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

(iii) State pension fund

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

(k) Provisions

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

(l) Income tax

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

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

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

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

(m) Revenues

Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to receive in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. There are no other contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the majority of contracts are less than one year. No information is provided about remaining performance obligations as at the reporting date that have an original expected duration of one year or less, as allowed by IFRS 15.

Contracts with customers for the supply of goods use a variety of delivery terms. The Group determined that under the terms of the majority contracts for the supply of mineral fertilizers the Group undertakes to provide delivery and the related delivery services after the transfer of control over the goods to the buyer at the loading port. Under IFRS 15, these services are a separate performance obligation, which revenue must be recognised during the period of delivery as revenue from logistics activities. The Group recognises revenue from these logistics services at the time of delivery, due to the fact that the potential difference is calculated and recognised as insignificant.

In the revenue disclosure the sales of certain product groups include the proceeds from logistics services. Costs related to rendering of logistics services are mainly represented by transportation costs and included in the selling expenses disclosure.

Previous accounting policy applied under IAS 18 until 31 December 2017

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

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

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

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

(n) Finance income and costs

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

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

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

(o) Overburden removal expenditure

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

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

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

(p) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(q) Earnings per share

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

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

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

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

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

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

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

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

Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(c). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Financial assets measured at amortised cost

The fair values of financial assets carried at amortised cost, which are mainly loans issued and trade and other receivables, approximate their carrying amounts as at the reporting date.

(b) Financial instruments measured at fair value

The fair values of derivative financial assets and liabilities are determined using inputs from observable market data and are categorised as Level 2 of the fair value hierarchy.

The fair values of derivative financial liabilities, represented by put and call options on oil (Brent) contracts, are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

(c) Other financial liabilities not measured at fair value

The fair values of other financial liabilities, which are mainly loans and borrowings and finance lease liabilities, are determined for disclosure purposes and categorised as Level 3 of the fair value hierarchy. The fair values are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 PRIOR YEAR ADJUSTMENTS AND RECLASSIFICATIONS

During the current period the Group made a decision to make reclassifications to prior year comparatives to be consistent with the current year classifications, effecting the following captions:

- cost of sales, administrative expenses, selling expenses and other expenses,net;
- elements making revenue;
- elements making cost of sales;
- inventory, catalysts (as non-current assets), trade and other payables;
- segment information.

	2017		
	As previously presented	Reclassifications	As adjusted
	RUB Million	RUB Million	RUB Million
Cost of sales	(101,429)	(388)	(101,817)
Selling expenses	(24,466)	(735)	(25,201)
Administrative expenses	(14,662)	644	(14,018)
Other expenses, net	(2,136)	489	(1,647)
Finance costs	(6,980)	(10)	(6,990)

	31 December 2017		
	As previously presented	Reclassifications	As adjusted
	RUB Million	RUB Million	RUB Million
Catalysts	-	1,900	1,900
Inventories	27,345	(1,900)	25,445

6 SEGMENT INFORMATION

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

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

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

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

Segment information as at 31 December 2018 and for the year then ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Total
Segment revenue and profitability				
Segment external revenues, thereof:	186,971	37,011	9,448	233,430

Export	132,098	30,178	903	163,179
Domestic	54,873	6,833	8,545	70,251
Cost of goods sold	(98,962)	(16,431)	(8,571)	(123,964)
Gross segment profit	88,009	20,580	877	109,466
Certain items of profit or loss				
Amortisation and depreciation	(14,304)	(5,883)	(724)	(20,911)
Total non-current segment assets[1]	124,418	60,748	5,265	190,431
Additions to non-current assets[1]	25,618	5,890	843	32,351

Segment information of the Group as at 31 December 2017 and for the year then ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Total
Segment revenue and profitability				
Segment external revenues, thereof:	151,519	22,495	7,337	181,351
Export	103,648	16,983	262	120,893
Domestic	47,872	5,512	7,074	60,458
Cost of goods sold	(81,135)	(13,641)	(7,041)	(101,817)
Gross segment profit	70,384	8,854	296	79,534
Certain items of profit or loss				
Amortisation and depreciation	(10,227)	(4,192)	(388)	(14,807)
Total non-current segment assets[1]	108,711	66,081	3,994	178,786
Additions to non-current assets[1]	26,928	8,955	613	36,496

The analysis of export revenue by regions is as follows:

	2018 RUB million	2017 RUB million
Europe	57,308	44,511
South America	43,684	28,537
North America	27,589	12,082
India	11,890	7,087
CIS	11,557	17,287
Africa	7,895	7,058
Asia	3,250	4,320
Australia	6	11
	163,179	**120,893**

7 REVENUES

	2018 RUB million	2017 RUB million
Phosphate-based products	186,971	151,519
Sales of chemical fertilisers	155,733	123,227
Sales of apatite concentrate	22,098	21,158
Sales of other phosphate-based products and services	8,326	6,453
Sales of nepheline concentrate	814	681
Nitrogen-based products	37,011	22,495
Other	9,448	7,337
	233,430	**181,351**

[1] Total non-current segment assets include property, plant and equipment, intangible assets and catalysts.

8 PERSONNEL COSTS

	2018 RUB Million	2017 RUB Million
Cost of sales	(12,209)	(11,265)
Administrative expenses	(8,271)	(7,875)
Selling expenses	(1,888)	(1,466)
	(22,368)	**(20,606)**

9 COST OF SALES

	2018 RUB million	2017 RUB million
Materials and services	(36,493)	(30,869)
Depreciation	(18,936)	(13,242)
Salaries and social contributions	(12,209)	(11,265)
Natural gas	(12,096)	(9,154)
Sulphur and sulphuric acid	(10,682)	(6,120)
Potash	(10,238)	(8,279)
Chemical fertilisers and other products for resale	(6,287)	(4,932)
Electricity	(5,474)	(5,451)
Ammonia	(4,195)	(6,287)
Fuel	(3,775)	(3,264)
Ammonium sulphate	(3,015)	(2,287)
Heating energy	(564)	(667)
	(123,964)	**(101,817)**

10 ADMINISTRATIVE EXPENSES

	2018 RUB million	2017 RUB million
Salaries and social contributions	(8,271)	(7,875)
Professional services	(1,792)	(1,970)
Depreciation and amortisation	(1,242)	(943)
Other	(3,559)	(3,230)
	(14,864)	**(14,018)**

11 SELLING EXPENSES

	2018 RUB million	2017 RUB million
Freight, port and stevedoring expenses	(17,344)	(11,065)
Russian Railways infrastructure tariff and operators' fees	(10,383)	(9,218)
Materials and services	(2,671)	(1,966)
Salaries and social contributions	(1,888)	(1,466)
Custom duties	(1,391)	(864)
Depreciation	(733)	(622)
	(34,410)	**(25,201)**

12 OTHER EXPENSES, NET

	2018 RUB million	2017 RUB million
Social expenditures	(1,903)	(1,649)
Loss on disposal of property, plant and equipment and intangible assets	(586)	(614)
Increase in provision for bad debt	(452)	(164)
(Increase)/decrease in provision for inventory obsolescence	(88)	85
Reversal of accrual/(accrual) of contingent liabilities	35	(38)
Other income, net	268	733
	(2,726)	**(1,647)**

13 FINANCE INCOME AND FINANCE COSTS

	2018 RUB million	2017 RUB million
Interest income	230	254
Unwind of discount of financial assets	67	89
Dividend income	-	4
Other finance income	150	268
Finance income	447	615
Interest expense	(4,666)	(4,347)
Provision for bad debt on financial investments (note 18)	(566)	(2,243)
Bank fees	(156)	(355)
Other finance costs	(710)	(45)
Finance costs	(6,098)	(6,990)
Net finance costs	**(5,651)**	**(6,375)**

14 INCOME TAX EXPENSE

The Company's applicable corporate income tax rate is 20% (2017: 20%).

	2018 RUB million	2017 RUB million
Current tax expense	(8,487)	(5,803)
Origination and reversal of temporary differences, including change in unrecognised assets	2,512	(2,908)
	(5,975)	**(8,711)**

Reconciliation of effective tax rate:

	2018 RUB million	%	2017 RUB million	%
Profit before tax	28,110	100	34,042	100
Income tax at applicable tax rate	(5,622)	(20)	(6,808)	(20)
(Under)/over provided in respect of prior years	(3)	-	29	-
Unrecognised tax (asset)/liability on (loss)/profit from associates	(125)	-	57	-
Non-deductible items	(1,434)	(5)	(1,361)	(4)
Change in unrecognised deferred tax assets	17	-	13	-
Effect of tax rates in foreign jurisdictions	39	-	38	-
Reduction in tax rate	1,153	4	144	-
Recognition of previously unrecognised deferred tax liabilities	-	-	(823)	(2)
	(5,975)	**(21)**	**(8,711)**	**(26)**

15 PROPERTY, PLANT AND EQUIPMENT

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2017	44,879	84,169	8,297	76,323	**213,668**
Additions	1,391	2,774	2,874	29,457	**36,496**
Transfers	21,379	42,248	-	(63,627)	**-**
Disposals	(474)	(2,168)	(93)	(295)	**(3,030)**
At 1 January 2018	67,175	127,023	11,078	41,858	**247,134**
Additions	2,286	3,903	2,363	23,309	**31,861**
Transfers	6,835	13,425	-	(20,260)	**-**
Disposals	(138)	(1,335)	(129)	(305)	**(1,907)**
Other movements	94	1,632	12	-	**1,738**
At 31 December 2018	76,252	144,648	13,324	44,602	**278,826**
Accumulated depreciation					
At 1 January 2017	(9,637)	(44,172)	(5,146)	-	**(58,955)**
Depreciation charge	(3,155)	(10,718)	(1,250)	-	**(15,123)**
Disposals	357	1,614	86	-	**2,057**
At 1 January 2018	(12,435)	(53,276)	(6,310)	-	**(72,021)**
Depreciation charge	(4,582)	(14,813)	(1,863)	-	**(21,258)**
Disposals	74	1,234	96	-	**1,404**
Other movements	(6)	(707)	(7)	-	**(720)**
At 31 December 2018	(16,949)	(67,562)	(8,084)	-	**(92,595)**
Net book value at 1 January 2017	35,242	39,997	3,151	76,323	**154,713**
Net book value at 1 January 2018	54,740	73,747	4,768	41,858	**175,113**
Net book value at 31 December 2018	59,303	77,086	5,240	44,602	**186,231**

During 2018, the Group capitalised borrowing costs in the amount of RUB 836 million (2017: RUB 652 million) in the value of property, plant and equipment using the weighted average interest rate of 3% per annum.

As at 31 December 2018, the balance of the construction in progress account includes the accumulated costs related to

in Cherepovets:

- Maintenance programme of ammonia production facilities in the amount of RUB 3,099 million;
- Development programme of production facilities for sulphuric acid in the amount of RUB 2,795 million;
- The construction of ammonium sulphate plant in the amount of RUB 2,679 million;
- Development programme of production facilities for extraction of phosphoric acid and fertilizers in the amount of RUB 2,419 million;
- Modernization of production facilities for urea plant in the amount of RUB 976 million;
- The construction of service infrastructure of ammonia plant in the amount of RUB 299 million.

in Kirovsk:

- Kirovsk mine extension and modernization in the amount of RUB 10,962 million;
- The development of Rasvumchorrskiy mine in the amount of RUB 7,067 million;
- The construction of apatit-nepheline beneficiation plant in the amount of RUB 5,329 million;
- The construction of transporter of Koashvinskiy quarry in the amount of RUB of 2,821 million.

(a) Leasing

Plant and equipment with the carrying value of RUB 4,496 million (31 December 2017: RUB 5,422 million) is leased under various finance lease agreements, see note 27(a).

16 INVESTMENTS IN ASSOCIATES

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

	2018 RUB million	2017 RUB million
Balance at 1 January	969	816
Share in profit for the period	99	287
Provision for investments in associates	(722)	-
Foreign currency translation difference	160	(134)
Balance at 31 December	**506**	**969**

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

	31 December 2018 RUB Million	31 December 2017 RUB Million
JSC Khibinskaya Teplovaya Kompaniya	421	398
LLC PhosAgro-Ukraine	-	488
JSC Giproruda	61	25
JSC Soligalichskiy izvestkovyi kombinat	24	58
	506	**969**

Summary financial information for associates is as follows:

2018	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	(Loss)/profit for the year RUB Million
JSC Khibinskaya Teplovaya Kompaniya	1,876	(1,075)	801	705	48
LLC PhosAgro-Ukraine	-	-	-	3,549	181
JSC Giproruda	146	(24)	122	54	9
JSC Soligalichskiy izvestkovyi kombinat	526	(294)	232	497	11
	2,548	**(1,393)**	**1,155**	**4,805**	**249**

2017	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	(Loss)/profit for the year RUB Million
JSC Khibinskaya Teplovaya Kompaniya	2,128	(1,384)	744	751	23
LLC PhosAgro-Ukraine	2,611	(1,170)	1,441	13,996	777
JSC Giproruda	132	(23)	109	99	(16)
JSC Soligalichskiy izvestkovyi Kombinat	425	(196)	229	500	5
	5,296	**(2,773)**	**2,523**	**15,346**	**789**

17 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

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

RUB Million	Assets 2018	Liabilities 2018	Net 2018	Assets 2017	Liabilities 2017	Net 2017
Property, plant and equipment	102	(9,869)	(9,767)	78	(8,893)	(8,815)
Other long-term assets	17	(44)	(27)	6	(28)	(22)
Current assets	1,067	(488)	579	469	(549)	(80)
Liabilities	748	(3)	745	947	(36)	911
Tax loss carry-forwards	8,482	-	8,482	5,486	-	5,486
Unrecognised deferred tax assets	(40)	-	(40)	(23)	-	(23)
Tax assets/(liabilities)	10,376	(10,404)	(28)	6,963	(9,506)	(2,543)
Set off of tax	(1,381)	1,381	-	(1,592)	1,592	-
Net tax assets/(liabilities)	**8,995**	**(9,023)**	**(28)**	**5,371**	**(7,914)**	**(2,543)**

The deferred tax assets on tax loss carry-forwards relate to the Russian entities. Due to recent amendments to the Russian tax legislation, starting from 1 January 2017, tax losses for Russian tax purposes carried forward existing as at 31 December 2018 do not expire.

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

As at 31 December 2018, no deferred tax liability for taxable temporary differences of RUB 52,016 million has been recognised (31 December 2017: RUB 48,502 million), either because the Parent can control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, or because the applicable tax rate is expected to be 0%.

(b) Movement in temporary differences during the year

RUB million	31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2018
Property, plant and equipment	(9,767)	(951)	(1)	(8,815)
Other long-term assets	(27)	(5)	-	(22)
Current assets	579	655	4	(80)
Liabilities	745	(166)	-	911
Tax loss carry-forwards	8,482	2,996	-	5,486
Unrecognised deferred tax assets	(40)	(17)	-	(23)
Net tax (liabilities)/assets	**(28)**	**2,512**	**3**	**(2,543)**

RUB million	31 December 2017	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2017
Property, plant and equipment	(8,815)	(3,154)	-	(5,661)
Other long-term assets	(22)	(8)	-	(14)
Current assets	(80)	(414)	-	334
Liabilities	911	(149)	(145)	1,205
Tax loss carry-forwards	5,486	804	-	4,682
Unrecognised deferred tax assets	(23)	13	-	(36)
Net tax assets	**(2,543)**	**(2,908)**	**(145)**	**510**

18 OTHER NON-CURRENT ASSETS

	31 December 2018 RUB million	31 December 2017 RUB million
Loans issued to third parties, at amortised cost	779	232
Financial assets, at fair value	724	755
Loans issued to employees, at amortised cost	88	77
Financial assets, at amortised cost	28	21
Loans issued to related parties, at amortised cost	-	97
Loans issued to associates, at amortised cost	-	20
Provision for loans issued to third parties	(571)	-
Other long-term assets	795	753
	1,843	**1,955**

19 OTHER CURRENT INVESTMENTS

	31 December 2018 RUB million	31 December 2017 RUB million
Loans issued to related parties, at amortised cost	117	213
Interest receivable	88	42
Loans issued to employees, at amortised cost	52	35
Loans issued to third parties, at amortised cost	35	43
Investments in debt securities, at amortised cost	32	-
Loans issued to associates, at amortised cost	13	23
Provision for doubtful accounts	(24)	(4)
	313	**352**

20 INVENTORIES

	31 December 2018 RUB million	31 December 2017 RUB million
Raw materials and spare parts	12,500	9,812
Finished goods:		
Chemical fertilisers	12,982	9,363
Other products	651	1,260
Apatite concentrate	327	200
Work-in-progress:		
Chemical fertilisers and other products	3,782	3,543
Chemical fertilisers for resale, purchased from the third parties	1,729	1,279
Other goods for resale	83	84
Provision for obsolescence	(184)	(96)
	31,870	**25,445**

21 TRADE AND OTHER RECEIVABLES

	31 December 2018 RUB million	31 December 2017 RUB million
Trade accounts receivable	20,379	15,507
VAT and other taxes receivable	8,973	10,306
Advances issued	5,716	4,662
Income tax receivable	533	2,734
Deferred expenses	159	210
Receivables from employees	11	26
Other receivables	1,033	818
Provision for doubtful accounts	(618)	(536)
	36,186	**33,727**

The movements in provision for doubtful accounts are as follows:

	2018 RUB Million	2017 RUB Million
Balance at 1 January	(536)	(499)
Foreign currency translation difference	(16)	17
Written off provision through trade receivables	380	110
Increase in provision for bad debt	(446)	(164)
Balance at 31 December	**(618)**	**(536)**

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

22 CASH AND CASH EQUIVALENTS

	31 December 2018 RUB Million	31 December 2017 RUB Million
Cash in bank	5,126	2,459
Call deposits	4,188	227
Petty cash	6	5
	9,320	**2,691**

23 EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2018, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2018, RUB 2.5 par value	994,977,080
Shares on issue at 31 December 2017, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2017, RUB 2.5 par value	994,977,080

(b) Dividend policy

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

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

(c) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2018, the Company had cumulative retained earnings of RUB 35,076 million (31 December 2017: RUB 32,102 million).

Proposed by the Board of Directors in	Approved by shareholders in	Amount per share RUB	Amount of dividends RUB million
Total dividends approved during the reporting period			
November 2017	February 2018	21	2,720
March 2018	May 2018	15	1,942
May 2018	July 2018	24	3,108
August 2018	October 2018	45	5,828
			13,598
Total dividends approved subsequent to the reporting date			
November 2018	January 2019	72	9,324
March 2019	To be approved in May 2019	51	6,605
			15,929

24 EARNINGS PER SHARE

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

	2018 RUB million	2017 RUB million
Weighted average number of ordinary shares in issue	129,500,000	129,500,000
Profit for the year attributable to shareholders of the Parent, RUB million	22,069	25,333
Basic and diluted earnings per share, RUB	170	196

25 LOANS AND BORROWINGS

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

	31 December 2018 RUB million	31 December 2017 RUB million
Current loans and borrowings		
Unsecured bank loans	19,934	14,266
Interest payable	733	946
Unsecured loans from other companies	20	13
Loan participation notes[1]	-	28,800
Bank commission (short-term)	(8)	-
	20,679	**44,025**
Non-current loans and borrowings		
Loan participation notes[2,3]	69,471	28,800
Unsecured bank loans	53,570	46,577
Unsecured letters of credit issued by banks	-	1,254
Bank commission (long-term)	(164)	(101)
	122,877	**76,530**
	143,556	**120,555**

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

	31 December 2018 RUB million	31 December 2017 RUB million
USD-denominated	123,152	100,874
EUR-denominated	18,531	6,356
RUB-denominated	2,045	13,426
	143,728	**120,656**

The maturity of the loans and borrowings is as follows:

	31 December 2018 RUB million	31 December 2017 RUB million
Less than 1 year	20,687	44,025
1-2 years	19,623	9,483
2-3 years	46,326	16,291
3-4 years	5,665	31,844
4-5 years	38,380	5,064
More than 5 years	13,047	13,949
	143,728	**120,656**

Reconciliation of liabilities arising from financing activities:

	31 December 2017 RUB million	Cash inflows RUB million	Cash outflows RUB million	Amortisation of bank commision RUB million	Foreign exchange loss RUB million	31 December 2018 RUB million
Loans and borrowings (excluding interest payable)	119,609	83,874	(83,572)	47	22,865	142,823
Finance lease liabilities	2,121	-	(1,285)	-	258	1,094
	121,730	**83,874**	**(84,857)**	**47**	**23,123**	**143,917**

1 In February 2013, the Company’s SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB nil million (31 December 2017: RUB 29,342 million). The redemption was financed by the Eurobond placed in January 2018.

2 In May 2017, the Company’s SPV issued a USD 500 million 4,5-year Eurobond with a coupon rate of 3.95%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 34,102 million (31 December 2017: RUB 29,258 million).

3 In January 2018 the Company’s SPV issued a USD 500 million 5,25-year Eurobond with a coupon rate of 3.949%, which is listed on the Irish Stock Exchange, with the fair value at the reporting date of RUB 33,745 million.

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

26 DEFINED BENEFIT OBLIGATIONS

	31 December 2018 RUB Million	31 December 2017 RUB Million
Pension obligations, long-term	302	701
Post-retirement obligations other than pensions	328	249
	630	**950**

The Group has defined benefit plans at JSC "Apatit", Kirovsk Branch of JSC "Apatit" and JSC "Metachem" which stipulate payment of a lump sum allowance to employees who have a specified period of service in these companies upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

	RUB Million
Defined benefit obligations at 1 January 2017	**767**
Benefits paid	(81)
Current service costs and interest	79
Past service costs	(12)
Actuarial loss in other comprehensive income	197
Defined benefit obligations at 1 January 2018	**950**
Benefits paid	(102)
Current service costs and interest	87
Past service costs	(135)
Actuarial gain in other comprehensive income	(170)
Defined benefit obligations at 31 December 2018	**630**

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

	31 December 2018	31 December 2017
Discount rate	8.8%	7.7%
Future pension increases	4.1%	4.2%

27 LEASES

(a) Finance leases

JSC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,000 railway wagons in 2011-2014. Other Group subsidiaries also have entered into lease agreements in 2016 and 2017. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2018		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	766	48	718
Between one and five years	392	16	376
	1,158	**64**	**1,094**

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

(b) Operating leases

During 2017-2018, JSC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent 1,200 railway wagons. Also Kirovsk branch of JSC "Apatit", a group subsidiary, has long-term lease contracts for production facilities. Operating leases for other companies of the Group are mainly represented by office leases.

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

	31 December 2018 RUB Million	31 December 2017 RUB Million
Less than one year	907	717
Between one and five years	1,562	1,202
	2,469	**1,919**

28 TRADE AND OTHER PAYABLES

	31 December 2018 RUB million	31 December 2017 RUB million
Trade accounts payable	11,922	12,129
incl. accounts payable for property, plant and equipment and intangible assets	4,248	5,838
Advances received (contract liabilities)	3,644	4,414
Payables to employees	3,068	2,933
Taxes payable	2,229	2,014
Income tax payable	298	109
Accruals	36	51
Other payables	276	198
	21,473	**21,848**

29 FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

(b) Market risk

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

Foreign currency risk

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

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

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

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

RUB Million	31 December 2018		31 December 2017	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Current assets	3,759	11	1,802	51
Non-current assets	-	-	97	-
Non-current liabilities				
Loans and borrowings	(108,405)	(12,615)	(68,705)	(5,807)
Finance lease liability	(375)	-	(1,004)	-
Current liabilities				
Loans and borrowings	(14,747)	(5,916)	(32,169)	(549)
Finance lease liability	(674)	(38)	(1,117)	-
Payables	(495)	(679)	(74)	(321)
	(120,937)	**(19,237)**	**(101,170)**	**(6,626)**

Management estimate that a 10% strengthening/(weakening) of RUB against USD and EUR, based on the Group's exposure as at the reporting date would have increased/(decreased) the Group's profit for the year by RUB 14,017 million, before any tax effect (2017: would have increased/(decreased) the Group's profit for the year by RUB 10,780 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

The foreign exchange loss recognised in profit or loss of RUB 19,613 million (RUB 4,141 million of foreign exchange gain for the comparative period) resulted from the devaluation of the Russian Rouble against major currencies during the reporting period (its appreciation during the comparative period).

Foreign currency translation differences

In addition, the net assets of the Group's foreign subsidiaries denominated in USD and EUR amount to RUB 15,069 million as at the reporting date (31 December 2017: RUB 18,429 million).

Interest rate risk

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

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

	31 December 2018 RUB Million	31 December 2017 RUB Million
Fixed rate instruments		
Other non-current assets	868	427
Other current investments	4,405	541
Long-term borrowings	(113,781)	(64,476)
Short-term borrowings	(14,655)	(40,035)
Finance lease liabilities	(1,094)	(2,121)
	(124,257)	**(105,664)**
Variable rate instruments		
Long-term borrowings	(9,260)	(12,155)
Short-term borrowings	(5,299)	(3,044)
	(14,559)	**(15,199)**

At 31 December 2018, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit and equity by RUB 146 million (31 December 2017: RUB 152 million).

(c) Credit risk

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

As at 31 December 2018, the Group's maximum exposure to credit risk is represented by the carrying amount of its financial assets and amounted to RUB 32,281 million (31 December 2017: RUB 20,813 million).

As at 31 December 2018, the Group's financial assets measured at amortised cost amounted to RUB 31,557 million (31 December 2017: RUB 20,058 million).

As at 31 December 2018, the Group's financial assets measured at fair value amounted to RUB 724 million (31 December 2017: RUB 755 million).

Trade and other receivables

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

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

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

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

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

The Group establishes an allowance for impairment that represents its estimate of the expected credit losses in respect of trade and other receivables and other financial assets. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The analysis of overdue trade and other receivables is as follows:

	31 December 2018 RUB Million	31 December 2017 RUB Million
Not past due	17,956	15,147
Past due 0-90 days	3,143	590
Past due 91-180 days	75	33
Past due 181-365 days	137	78
More than one year	101	477
	21,412	**16,325**

Current and non-current financial assets

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

Cash and cash equivalents are primarily held with banks with high credit rating.

Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements in accordance with IFRS 4 *Insurance Contracts*, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee (note 32).

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

(d) Liquidity risk

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

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

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

	31 December 2018							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	73,504	80,901	22,009	21,258	12,795	6,515	4,255	14,069
Unsecured loans from other companies	20	20	20	-	-	-	-	-
Interest payable	733	733	733	-	-	-	-	-
Secured finance leases	1,094	1,158	766	262	130	-	-	-
Loan participation notes	69,471	79,303	2,744	2,751	37,250	1,372	35,186	-
Trade and other payables	12,221	12,221	12,221	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,057	1,233	300	455	478	-	-	-
Derivative financial liabilities	626	626	626	-	-	-	-	-
	158,726	**176,195**	**39,419**	**24,726**	**50,653**	**7,887**	**39,441**	**14,069**

	31 December 2017							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Unsecured bank loans	60,843	68,276	16,236	9,656	17,483	3,930	5,768	15,203
Unsecured loans from other companies	13	14	14	-	-	-	-	-
Unsecured letters of credit	1,254	1,276	14	1,262	-	-	-	-
Interest payable	946	946	946	-	-	-	-	-
Secured finance leases	2,121	2,306	1,247	734	217	108	-	-
Loan participation notes	57,600	62,252	30,133	1,137	1,141	29,841	-	-
Trade and other payables	12,385	12,385	12,385	-	-	-	-	-
Financial guarantees issued for associates and related parties	1,374	1,697	301	455	461	480	-	-
	136,536	**149,152**	**61,276**	**13,244**	**19,302**	**34,359**	**5,768**	**15,203**

(e) Capital management

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

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

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

30 COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 30,826 million (31 December 2017: RUB 26,637 million).

31 CONTINGENCIES

(a) Litigation

The Group has a number of small claims and litigations relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

(b) Taxation contingencies

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

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

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 1,000 million 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.

(c) Environmental contingencies

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

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

32 RELATED PARTY TRANSACTIONS

(a) Transactions and balances with associates

(i) Transactions with associates

	2018 RUB million	2017 RUB million
Sales of goods and services	2,150	9,262
Other income, net	4	-
Interest income	3	15
Purchases of goods and services	(472)	(393)

(ii) Balances with associates

	31 December 2018 RUB million	31 December 2017 RUB million
Trade and other receivables	15	573
Short-term loans issued, at amortised cost	13	23
Long-term loans issued, at amortised cost	-	20
Trade and other payables	(10)	(13)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 1,007 million (31 December 2017: RUB 1,318 million).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2018 RUB million	2017 RUB million
Sales of goods and services	557	1,135
Other income, net	22	-
Interest income	14	28
Interest expenses	(54)	(54)
Purchases of goods and services	(2,030)	(1,340)

(ii) Balances with other related parties

	31 December 2018 RUB million	31 December 2017 RUB million
Short-term loans issued, at amortised cost	117	213
Trade and other receivables	53	1
Long-term loans issued, at amortised cost	-	97
Finance lease liabilities	-	(285)
Short-term loans received	(20)	(5)
Trade and other payables	(131)	(65)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 50 million (31 December 2017: RUB 56 million).

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

(c) Key management remuneration

The remuneration of the Board of Directors and key management personnel amounted to RUB 1,775 million (2017: RUB 1,449 million).

33 SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2018 Effective ownership (rounded)	31 December 2017 Effective ownership (rounded)
Apatit, JSC (including Balakovo and Kirovsk branchs)	Russia	100%	100%
Metachem, JSC	Russia	100%	100%
NIUIF, JSC	Russia	94%	94%
PhosAgro-Trans, JSC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Belgorod, LLC	Russia	100%	100%
PhosAgro-Don, LLC	Russia	100%	100%
PhosAgro-Kuban, LLC	Russia	100%	100%
PhosAgro-Kursk, LLC	Russia	100%	100%
PhosAgro-Lipetsk, LLC	Russia	100%	100%
PhosAgro-Oryol, LLC	Russia	100%	100%
PhosAgro-Stavropol, LLC	Russia	100%	100%
PhosAgro-Volga, LLC	Russia	100%	100%
PhosAgro-SeveroZapad, LLC	Russia	100%	100%
PhosAgro-Tambov, LLC	Russia	100%	100%
Trading house PhosAgro, LLC	Russia	100%	100%
Phosint Trading Limited	Cyprus	100%	100%
Phosagro Asia Pte Ltd	Singapore	100%	100%
PhosAgro Trading SA	Switzerland	100%	100%
Phosint Limited	Cyprus	100%	100%
PhosAgro Logistics SA	Switzerland	100%	100%
Phosagro Baltic Sp.z o.o.	Poland	100%	100%
Phosagro Deutschland GmbH	Germany	100%	100%
Phosagro France SAS	France	100%	100%
PhosAgro Balkans	Serbia	100%	100%
UAB PhosAgro Baltic	Lithuania	100%	-

34 SEASONALITY

The Group is subject to certain seasonal fluctuations in fertiliser demand due to the timing of fertiliser application and, as a result, fertiliser purchases by farmers. However, the effect of seasonality on the Group's revenue is partially offset by the fact that the Group sells its fertilisers globally and fertiliser application and purchases vary by region.

The Group's costs are generally stable throughout the year with the exception of a slight increase during May-June as a result of maintenance activities undertaken at the Group's production facilities.