

**PUBLIC JOINT STOCK COMPANY  
“DOROGOBUZH”**

**Consolidated Financial Statements  
for the year ended 31 December 2015  
and Auditors' Report**

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## **Independent Auditors' Report**

To the Shareholders and Board of Directors

PJSC Dorogobuzh

We have audited the accompanying consolidated financial statements of PJSC Dorogobuzh (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: PJSC Dorogobuzh

Registered by administration of Dorogobuzh district on 30 July 1997, Registration No. 6.

Entered in the Unified State Register of Legal Entities on 24 September 2002 by the Smolensk Inter-Regional Tax Inspectorate No. 7, Registration No. 1026700535773

6 Mira Street, Dorogobuzh, Dorogobuzh district, Smolensk region, 215713

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.



Ilya O. Belyatski

Director, (power of attorney dated 16 March 2015 No. 34/15)

JSC "KPMG"

27 April 2016

Moscow, Russian Federation

**Public Joint Stock Company "Dorogobuzh"**  
**Consolidated Statement of Financial Position at 31 December 2015**  
*(in millions of Russian Roubles)*



	Note	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	4,721	4,937
Investment in equity accounted investees	12	4,159	3,477
Available-for-sale investments	11	1,982	223
Long-term loans receivable	8	2,278	4,924
Other non-current assets		415	349
<b>Total non-current assets</b>		<b>13,555</b>	<b>13,910</b>
<b>Current assets</b>			
Inventories	9	1,381	1,418
Short-term loans receivable	8	24,456	23,192
Accounts receivable	7	5,715	5,574
Trading investments	13	474	554
Cash and cash equivalents	6	6,670	3,821
Other current assets		43	67
<b>Total current assets</b>		<b>38,739</b>	<b>34,626</b>
<b>TOTAL ASSETS</b>		<b>52,294</b>	<b>48,536</b>
<b>EQUITY</b>			
Share capital	16	1,735	1,735
Share premium		94	94
Retained earnings		34,462	25,935
Revaluation reserve		517	-
Other reserve		(21)	-
<b>Share capital and reserves attributable to the Company's owners</b>		<b>36,787</b>	<b>27,764</b>
<b>TOTAL EQUITY</b>		<b>36,787</b>	<b>27,764</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	15	10,932	8,439
Other long-term liabilities		77	102
Deferred tax liability	22	681	474
<b>Total non-current liabilities</b>		<b>11,690</b>	<b>9,015</b>
<b>Current liabilities</b>			
Accounts payable	14	1,443	1,230
Income tax payable		179	-
Taxes payable		161	90
Short-term borrowings	15	-	9,564
Advances received		2,034	873
<b>Total current liabilities</b>		<b>3,817</b>	<b>11,757</b>
<b>TOTAL LIABILITIES</b>		<b>15,507</b>	<b>20,772</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>52,294</b>	<b>48,536</b>

Approved for issue and signed on behalf of the Board of Directors on 27 April 2016.

V.Y. Kunitskiy  
President



A.V. Milenkov  
Finance Director

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

**Public Joint Stock Company "Dorogobuzh"**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 31 December 2015**  
*(in millions of Russian Roubles)*



	Note	2015	2014
Revenue	4	26,652	16,102
Cost of sales	17	(12,365)	(9,889)
<b>Gross profit</b>		<b>14,287</b>	<b>6,213</b>
Transportation expenses		(1,356)	(1,095)
Selling, general and administrative expenses	18	(1,455)	(1,633)
Other operating income, net	20	1,320	2,107
<b>Operating profit</b>		<b>12,796</b>	<b>5,592</b>
(Loss)/gain on disposal of investments:	13	(29)	40
Finance expense, net	19	(1,305)	(4,621)
Interest expense		(919)	(435)
Share of profit in equity accounted investees	12	168	196
<b>Profit before taxation</b>		<b>10,711</b>	<b>772</b>
Income tax expense	22	(2,250)	(174)
<b>Profit for the year</b>		<b>8,461</b>	<b>598</b>
<b>Other comprehensive income on items that are or may be reclassified to profit or loss</b>			
Available for sale investments			
-Gains during the year		646	-
-Income tax recorded directly in other comprehensive income		(129)	-
Equity-accounted investees – share of other comprehensive income, net of tax		346	393
<b>Other comprehensive income for the year</b>		<b>863</b>	<b>393</b>
<b>Total comprehensive income for the year</b>		<b>9,324</b>	<b>991</b>
<b>Earnings per share, basic and diluted</b>			
<b>(expressed in Russian Roubles)</b>	21	<b>9.67</b>	<b>0.68</b>

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



	Note	2015	2014
<b>Cash flows from operating activities</b>			
Profit before taxation		10,711	772
<i>Adjustments for:</i>			
Depreciation	10	644	554
Reversal of impairment provision for accounts receivable		(2)	(6)
(Reversal of impairment)/provision for inventory obsolescence	9	(94)	16
Loss on disposal of property, plant and equipment	20	280	53
Share of profit of equity accounted investees	12	(168)	(196)
Interest expense		919	435
Interest income	19	(3,530)	(2,116)
Dividend income	19	(51)	-
Loss/(gain) on disposal of investments		29	(40)
Unrealised foreign exchange effect on non-operating balances		4,426	4,842
<b>Operating cash flows before working capital changes</b>		<b>13,164</b>	<b>4,314</b>
Increase in gross trade receivables		(1,986)	(1,515)
Increase in advances to suppliers		(157)	(11)
Decrease in other receivables		285	34
Increase in inventories		(46)	(35)
Decrease/(increase) in other current assets		24	(11)
(Decrease)/increase in trade payables		(205)	64
Increase in other payables		434	76
Increase/(decrease) in advances from customers		1,161	(227)
<b>Cash generated from operations before income taxes and interest paid</b>		<b>12,674</b>	<b>2,689</b>
Income taxes paid		(1,585)	(753)
Interest paid		(888)	(444)
<b>Net cash generated from operating activities</b>		<b>10,201</b>	<b>1,492</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(531)	(922)
Loans provided		(20,271)	(10,059)
Proceeds from loans repaid		21,826	2,197
Interest received		4,755	2,247
Dividends received	19	51	-
Purchase of available-for-sale investments	11	(1,113)	(194)
Purchase of trading investments		-	(94)
Purchase of investments in equity accounted investments	12	(83)	-
Proceeds from sale of trading investments		59	698
Net change in other non-current assets		(66)	(74)
<b>Net cash from/(used in) investing activities</b>		<b>4,627</b>	<b>(6,201)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders of the Company		(280)	(185)
Acquisition of treasury shares		(21)	-
Irrevocable deposits proceeds		-	767
Proceeds from borrowings		3,108	6,155
Repayment of borrowings		(15,991)	(694)
<b>Net cash (used in)/generated from financing activities</b>		<b>(13,184)</b>	<b>6,043</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,644</b>	<b>1,334</b>
Cash and cash equivalents at 1 January		3,821	568
Effect of exchange rate changes on cash and cash equivalents		1,205	1,919
<b>Cash and cash equivalents at 31 December</b>		<b>6,670</b>	<b>3,821</b>

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

**Public Joint Stock Company “Dorogobuzh”**  
**Consolidated Statement of Changes in Equity for the year ended 31 December 2015**  
*(in millions of Russian Roubles)*



	Capital and reserves attributable to the Company's owners					Total equity
	Share capital	Share premium	Retained earnings	Revaluation reserve	Other reserves	
<b>Balance at 1 January 2014</b>	<b>1,735</b>	<b>94</b>	<b>24,990</b>	-	-	<b>26,819</b>
<b>Total comprehensive income</b>						
Profit for the year	-	-	598	-	-	598
<i>Other comprehensive income</i>						
Equity-accounted investees – share of other comprehensive income, net of tax	-	-	393	-	-	393
<b>Total comprehensive income</b>	-	-	<b>991</b>	-	-	<b>991</b>
Income on acquisition of investment in equity accounted investees, net of tax	-	-	139	-	-	139
Dividends declared	-	-	(185)	-	-	(185)
<b>Balance at 31 December 2014</b>	<b>1,735</b>	<b>94</b>	<b>25,935</b>	-	-	<b>27,764</b>
<b>Balance at 1 January 2015</b>	<b>1,735</b>	<b>94</b>	<b>25,935</b>	-	-	<b>27,764</b>
<b>Total comprehensive income</b>						
Profit for the year	-	-	8,461	-	-	8,461
<i>Other comprehensive income</i>						
Fair value gains on available-for-sale investments	-	-	-	646	-	646
Equity-accounted investees – share of other comprehensive income, net of tax	-	-	346	-	-	346
Income tax recorded in other comprehensive income	-	-	-	(129)	-	(129)
<b>Total comprehensive income</b>	-	-	<b>8,807</b>	<b>517</b>	-	<b>9,324</b>
Dividends declared	-	-	(280)	-	-	(280)
Acquisition of treasury shares	-	-	-	-	(21)	(21)
<b>Balance at 31 December 2015</b>	<b>1,735</b>	<b>94</b>	<b>34,462</b>	<b>517</b>	<b>(21)</b>	<b>36,787</b>

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





## **1 Dorogobuzh Group and its Operations**

These consolidated financial statements for the year ended 31 December 2015 comprise Public Joint Stock Company “Dorogobuzh” (the “Company” and “Dorogobuzh”) and its subsidiaries (together referred to as the “Group” or “Dorogobuzh Group”). Shares of the Company are traded on the Moscow Stock Exchange.

The Group’s principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group’s manufacturing facilities are primarily based in the Smolensk region of Russia.

The Company’s registered office is at 6 Mira Street, Dorogobuzh, Dorogobuzh district, Smolensk region, 215713, Russia.

In August, 2015, the Company changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

The Group’s parent company is JSC Acron (Russian Federation). The Group’s ultimate parent is Subero Associates Inc (British Virgin Islands). As at 31 December 2015 and 2014 the Group was ultimately controlled by Mr. Viacheslav Kantor.

## **2 Basis of accounting**

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

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

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

## **3 Critical Accounting Estimates and Judgements in Applying Accounting Policies**

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 28.6 – useful lives of property, plant and equipment;
- Note 23 – contingencies, commitments and operating risks.

## **4 Segment Information**

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

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group whereby “Dorogobuzh” is the only operating and reportable segment, representing manufacturing and



distribution of chemical fertilisers by PJSC Dorogobuzh. “Other” does not represent a segment and relates to certain logistic, service and management operations.

Dorogobuzh as a segment is strategic business unit that focuses on different customers. It is managed as one business unit due to its significant business and risk profile.

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

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

Information for the reportable segments for the year ended 31 December 2015:

	<b>Dorogobuzh</b>	<b>Other</b>	<b>Total</b>
Segment sales	26,655	224	<b>26,879</b>
Intersegment sales	(25)	(202)	<b>(227)</b>
External sales	26,630	22	<b>26,652</b>
EBITDA	12,135	(146)	<b>11,989</b>

Information for the reportable segments for the year ended 31 December 2014:

	<b>Dorogobuzh</b>	<b>Other</b>	<b>Total</b>
Segment sales	16,131	756	<b>16,887</b>
Intersegment sales	(68)	(717)	<b>(785)</b>
External sales	16,063	39	<b>16,102</b>
EBITDA	4,057	(17)	<b>4,040</b>

Reconciliation of EBITDA to Profit Before Tax:

	<b>2015</b>	<b>2014</b>
Profit Before Tax	10,711	772
Share of profit of equity accounted investees	(168)	(196)
Loss/(gain) on disposal of investments	29	(40)
Interest expense	919	435
Finance expense, net	1,305	4,621
<b>Operating Profit</b>	<b>12,796</b>	<b>5,592</b>
Depreciation and amortization	644	554
Foreign currency gains	(1,731)	(2,172)
Loss on disposal of property, plant and equipment	280	66
<b>Total consolidated EBITDA</b>	<b>11,989</b>	<b>4,040</b>

Information about geographical areas:

The geographic information below analyses the Group’s revenue to the external customers. In presenting the following information, segment revenue has been based on the geographic location of customers.

	<b>2015</b>	<b>2014</b>
<u>Revenue</u>		
Russia	9,656	6,486
Latin America	4,549	2,927
Commonwealth of Independent States	7,001	3,343
European Union	2,404	2,063
China	1,040	522
USA and Canada	-	268
Asia (excluding China)	1,441	160
Other regions	561	333
<b>Total</b>	<b>26,652</b>	<b>16,102</b>

The analysis of revenue is based on geographic location of customers.

Revenue from sales of chemical fertilisers account for 95% of total revenues (2014: 95%).



In 2015 revenues from customers which represent 10% of more of the total revenues were from related party Agronova Europe AG in the amount of RUB 8,447 (2014: RUB 5,312).

## 5 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2015 and 2014 are detailed below.

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

### i Balances with related parties

<b>Consolidated statement of financial position caption</b>	<b>Notes</b>	<b>Relationship</b>	<b>2015</b>	<b>2014</b>
Trade and other receivables, gross	7	Parent company	44	46
		Parties under common control	3,077	1,516
Interest receivable		Parent company	845	382
		Parties under common control	396	2,098
Investments in equity accounted investees	12	Associate	4,159	3,477
Prepayments		Parties under common control	156	194
Loans receivable	8	Parent company	21,085	7,866
		Parties under common control	5,649	20,115
Trade payables		Parent company	(9)	(6)
		Parties under common control	(54)	(32)
Advances from customers, net of VAT		Parties under common control	(2,034)	(802)
Other creditors		Parent company	-	(564)
Trading investments (bonds)	13	Parent company *	355	359
		Parent company *	1,601	209
Available for sale investments	11	Parties under common control	365	-

\* Investments are disclosed at fair value.

### ii Transactions with related parties

<b>Consolidated statement of comprehensive income caption</b>	<b>Notes</b>	<b>Relationship</b>	<b>2015</b>	<b>2014</b>
Sales of chemical fertilizers, other goods and services	4	Parent company	163	28
		Parties under common control	16,854	10,972
Share of profit in equity accounted investees	12	Parties under common control	168	196
Purchases of raw materials		Parent company	(74)	(52)
		Parties under common control	(2,435)	(1,299)
Purchase of transportation services		Parties under common control	(217)	(252)
Contribution to share capital	11	Parties under common control	365	-
Sales of securities (shares)		Parent company	8	-
Interest income		Parent company	1,849	413
		Parties under common control	1,459	1,575
Social expenditure		Parties under common control	-	(51)
Maintenance expenses		Parent company	-	(37)
Repair expenses		Parties under common control	-	(60)

### Consolidated statement of changes in equity caption

Dividends declared		Parent company	263	91
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### iii Key management personnel compensation

Total key management personnel compensation in the amount of RUB 388 (2014: RUB 254) was recorded in general and administrative expenses.



## 6 Cash and Cash Equivalents

	2015	2014
Cash on hand and bank balances denominated in RUB	876	249
Bank balances denominated in USD	4,814	2,973
Bank balances denominated in EUR	980	599
<b>Total</b>	<b>6,670</b>	<b>3,821</b>

Cash and cash equivalents include term deposits of RUB 4,902 (2014: RUB 2,928).

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

	2015	2014
A to AAA* rated	-	34
BB- to BB+* rated	20	-
BBB- to BBB+* rated	6,547	3,787
Unrated	103	-
<b>Total</b>	<b>6,670</b>	<b>3,821</b>

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

## 7 Accounts Receivable

	2015	2014
Trade accounts receivable	3,621	1,635
Interest receivable	1,254	2,519
Impairment provision	(37)	(37)
<b>Total financial assets</b>	<b>4,838</b>	<b>4,117</b>
Advances to suppliers	447	290
Value-added tax recoverable	433	662
Income tax receivable	-	494
Other taxes receivable	1	17
Impairment provision	(4)	(6)
<b>Total accounts receivable</b>	<b>5,715</b>	<b>5,574</b>

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

As of 31 December 2015 trade and other accounts receivable of RUB 37 (2014: RUB 37) were individually impaired and an impairment provision was recognized. The individually impaired receivables mainly relate to customers that are in difficult financial position.

The aging of trade accounts receivable as at reporting date is as follows:

	Gross 2015	Impairment 2015	Gross 2014	Impairment 2014
Not past due	3,578	-	1,538	-
Past due less than 3 months	-	-	-	-
Past due from 3 to 9 months	7	(2)	61	(2)
Past due from 9 to 12 months	4	(4)	4	(4)
Past due over 12 months	32	(31)	32	(31)
<b>Total</b>	<b>3,621</b>	<b>(37)</b>	<b>1,635</b>	<b>(37)</b>

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

	2015	2014
	Trade receivables	Trade receivables
<b>Provision for impairment at 1 January</b>	<b>(37)</b>	<b>(45)</b>
Provision for impairment	(2)	(2)
Provision used	2	10
Provision reversed	-	-
<b>Provision for impairment at 31 December</b>	<b>(37)</b>	<b>(37)</b>

The Group does not hold any collateral as security for trade and other accounts receivable.

Except for trade accounts receivable and advances to suppliers other classes within accounts receivable do not contain impaired assets.



Included in interest receivable RUB 1,241 (2014: RUB 2,480) is interest on loans issued to parties under common control of Acron Group and parent company. Based on management assessment the risk of default associated with these receivables is considered low due to a long standing credit history of parent company in Russia and worldwide.

## 8 Loans Receivable

	2015	2014
<b>Short-term loans receivable</b>		
Loans issued to related parties with interest rate from 6.3% to 13.5% (Note 5)	24,456	23,085
Loans issued to third parties with interest rate from 8.25% to 8.5%	-	107
	<b>24,456</b>	<b>23,192</b>
<b>Long-term loans receivable</b>		
Loans issued to related parties with interest rate 8.5% (Note 5)	2,278	4,896
Loans issued to third parties with interest rate 8.25%	-	28
	<b>2,278</b>	<b>4,924</b>

At 31 December 2015 and 2014 all of the loans receivable were unsecured.

The major part of loans receivable in amount of RUB 26,734 (2014: RUB 27,981) is issued to parties under common control of Acron Group (Note 5). Based on management assessment the risk of default associated with these receivables is considered low as the parent company has long standing credit history in Russia and worldwide.

In 2015 the Group accrued interest income on loans receivable of RUB 3,316 (2014: RUB 1,995).

## 9 Inventories

	2015	2014
Raw materials and spare parts	1,146	1,201
Work in progress	49	49
Finished products	186	168
	<b>1,381</b>	<b>1,418</b>

Raw materials are shown net of obsolescence provision of RUB 34 (2014: RUB 128). No inventory was pledged as security at 31 December 2015 and 2014.

## 10 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
<b>Cost</b>						
<b>Balance at 1 January 2015</b>	<b>5,826</b>	<b>6,808</b>	<b>794</b>	<b>45</b>	<b>981</b>	<b>14,454</b>
Additions	-	-	-	-	725	725
Transfers	103	259	11	1	(374)	-
Disposals	(118)	(22)	(6)	(24)	(284)	(454)
<b>Balance at 31 December 2015</b>	<b>5,811</b>	<b>7,045</b>	<b>799</b>	<b>22</b>	<b>1,048</b>	<b>14,725</b>
<b>Accumulated Depreciation</b>						
<b>Balance at 1 January 2015</b>	<b>4,169</b>	<b>5,024</b>	<b>297</b>	<b>27</b>	-	<b>9,517</b>
Depreciation charge	137	452	50	5	-	644
Disposals	(118)	(22)	(6)	(11)	-	(157)
<b>Balance at 31 December 2015</b>	<b>4,188</b>	<b>5,454</b>	<b>341</b>	<b>21</b>	-	<b>10,004</b>
<b>Net Book Value</b>						
<b>Balance at 1 January 2015</b>	<b>1,657</b>	<b>1,784</b>	<b>497</b>	<b>18</b>	<b>981</b>	<b>4,937</b>
<b>Balance at 31 December 2015</b>	<b>1,623</b>	<b>1,591</b>	<b>458</b>	<b>1</b>	<b>1,048</b>	<b>4,721</b>

In 2015 Group did not capitalise borrowing costs in accordance with IAS 23, Borrowing costs (2014: RUB 5 at the average borrowing rate of 3.88%).



	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
<b>Cost</b>						
<b>Balance at 1 January 2014</b>	<b>5,724</b>	<b>6,381</b>	<b>817</b>	<b>46</b>	<b>773</b>	<b>13,741</b>
Additions	-	-	-	-	922	922
Transfers	155	554	4	1	(714)	-
Disposals	(53)	(127)	(27)	(2)	-	(209)
<b>Balance at 31 December 2014</b>	<b>5,826</b>	<b>6,808</b>	<b>794</b>	<b>45</b>	<b>981</b>	<b>14,454</b>
<b>Accumulated Depreciation</b>						
<b>Balance at 1 January 2014</b>	<b>4,089</b>	<b>4,737</b>	<b>268</b>	<b>25</b>	-	<b>9,119</b>
Depreciation charge	117	381	53	3	-	554
Disposals	(37)	(94)	(24)	(1)	-	(156)
<b>Balance at 31 December 2014</b>	<b>4,169</b>	<b>5,024</b>	<b>297</b>	<b>27</b>	-	<b>9,517</b>
<b>Net Book Value</b>						
<b>Balance at 1 January 2014</b>	<b>1,635</b>	<b>1,644</b>	<b>549</b>	<b>21</b>	<b>773</b>	<b>4,622</b>
<b>Balance at 31 December 2014</b>	<b>1,657</b>	<b>1,784</b>	<b>497</b>	<b>18</b>	<b>981</b>	<b>4,937</b>

**Non-current assets impairment test.** In 2015 and 2014 there were no impairment indicators, therefore no impairment testing was performed for non-current assets.

At 31 December 2015 and 2014 no property, plant and equipment was pledged as security.

## 11 Available-for-Sale Investments

	2015	2014
<b>Balance at 1 January</b>	<b>223</b>	<b>14</b>
Additions	1,113	209
Fair value gain recognised directly in OCI	646	-
<b>Balance at 31 December</b>	<b>1,982</b>	<b>223</b>

The Group has investments in the following companies:

Name	Activity	Country of registration	2015	2014
<b>Non-current</b>				
JSC Acron	Fertilisers production	Russia	1,601	209
JSC Acronit		Russia	365	-
Other		Russia	16	14
<b>Total non-current</b>			<b>1,982</b>	<b>223</b>

At 31 December 2015 and 31 December 2014 the investment in JSC Acron was classified as non-current. Fair value of investments was determined by reference to the current market value at the close of business on the date of a transaction or on 31 December 2015. At 31 December 2015 the share price quoted at Moscow Stock Exchange for JSC Acron amounted to 3,777 roubles for 1 share (31 December 2014: 1,799 roubles for 1 share).

## 12 Investment in Equity accounted investees

At the end of 2014 the Group purchased from the parent company an additional 15% share in the capital of LLC Balttrans, as a result, the equity interest of the Group increased from 35% to 50%. Classification of the investment remains the same, and is recognised as investment in associate. The negative goodwill in the amount of RUB 174 resulted from the purchase of the additional share is recognised directly in equity. The following table analyses, in aggregate, the carrying amount and share of profit and OCI of LLC Balttrans.

	2015	2014
Carrying amount of interests in associates	3,477	1,982
Acquisition of additional shares	-	737
Contribution to share capital	83	-
Share of:		
- Profit from continuing operations	168	196
- OCI	431	562
	<b>4,159</b>	<b>3,477</b>



The Group's interest in its principal associate and summarized financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

#### 2015

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC Balttrans	8,772	2,657	3,256	335	50%	Russia

#### 2014

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC Balttrans	7,383	2,464	2,866	559	50%	Russia

### 13 Trading Investments

	2015	2014
US bonds	116	195
Corporate bonds	358	359
<b>Total trading investments</b>	<b>474</b>	<b>554</b>

Trading investments are carried at fair value which also reflects any credit risk related write-downs. As trading investments are carried at their fair values based on observable market data using bid prices from Moscow Exchange, the Group does not analyse or monitor impairment indicators.

The total loss on trading investments was RUB 29 (2014: RUB 40 gain).

### 14 Accounts Payable

	2015	2014
Trade accounts payable	247	426
Dividends payable	5	7
<b>Total financial payables</b>	<b>252</b>	<b>433</b>
Payables to employees	248	215
Other creditors	943	582
<b>Total accounts payable and accrued expenses</b>	<b>1,443</b>	<b>1,230</b>

### 15 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2015	2014
Term loans	10,932	18,003
	<b>10,932</b>	<b>18,003</b>

At 31 December 2015 and 2014 all of the Group's borrowings are mature as follows:

	2015	2014
Borrowings due:		
- within 1 year	-	9,564
- between 1 and 5 years	10,932	8,439
	<b>10,932</b>	<b>18,003</b>

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2015 unused credit lines available under the long-term loan facilities were RUB 12,390 (2014: 8,000). The terms and conditions of unused credit lines are consistent with other borrowings.



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

<b>Short-term borrowings</b>	<b>2015</b>	<b>2014</b>
<b>USD</b>		
Loans with fixed interest rates 3.95% per annum	-	1,125
Loan with floating interest rate 1M LIBOR +3.55% per annum	-	8,439
<b>Total short-term borrowings</b>	<b>-</b>	<b>9,564</b>

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

<b>Long-term borrowings</b>	<b>2015</b>	<b>2014</b>
<b>USD</b>		
Loans with floating interest rates of 1M LIBOR +3.7% per annum	10,932	8,439
<b>Total long-term borrowings</b>	<b>10,932</b>	<b>8,439</b>

Significant loan agreements contain certain covenants including those, which require Acron Group to maintain a certain level of net debt/EBITDA ratio and include restrictions on significant transactions with assets without bank approval. The loan agreements provide for the borrower's obligation to maintain the required level of inflows through the accounts opened with the lending banks. Lending banks have the right to accelerate repayment in the case of the borrower's failure to fulfil its obligations under the loan agreements, also, the covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the loans.

## 16 Share Capital

The share capital of the Company has two classes of shares, Class A preferred and ordinary. The nominal value for both classes of share capital is 0.25 rouble per share.

The total authorised number of ordinary shares is 721,182,860 shares (2014: 721,182,860).

The total authorised number of preferred shares is 154,256,400 shares (2014: 154,256,400).

All authorised shares have been issued and fully paid. Total number of outstanding shares comprises (par value is expressed in roubles per share):

	<b>Ordinary shares</b>			<b>Preferred shares</b>	
	<b>Number of shares authorised issued and paid</b>	<b>Share Capital</b>	<b>Share premium</b>	<b>Number of shares authorised issued and paid</b>	<b>Share Capital</b>
<b>At 31 December 2014</b>	<b>721,182,860</b>	<b>1,380</b>	<b>94</b>	<b>154,256,400</b>	<b>355</b>
Sale of treasury shares	-	-	-	-	-
Acquisition of treasury shares	(960,300)	-	-	(42,400)	-
<b>At 31 December 2015</b>	<b>720,222,560</b>	<b>1,380</b>	<b>94</b>	<b>154,214,000</b>	<b>355</b>

In 2015 the Group bought back 1,002,700 shares for RUB 21.

Preferred shares carry no voting rights except for resolutions regarding liquidation or reorganisation of the Company, changes to dividend levels of preferred shares or issue of additional preferred shares. Such resolutions require approval by two thirds of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Preferred shares are entitled to a minimum annual dividend of 10% of the Company's net profit calculated based on statutory financial statements prepared in accordance with Russian Accounting Standards and give a right to participate in annual shareholders meeting if dividends are not paid in full. Furthermore, if dividends per each ordinary share for a year exceed the amount of dividends to be paid per each preferred share the amount of dividends per preferred share must be increased to the amount of dividends paid per ordinary share. Preferred shares have priority over ordinary shares in the event of liquidation. Preferred shares are non-cumulative.

The share capital is shown in the amount of the historical contribution adjusted for inflation from the date of privatisation to 31 December 2002.

In 2015 dividends were declared in respect of 2014 financial year for preferred and ordinary shares in amount of 0.32 roubles per share. In 2014 dividends were declared in respect of 2013 financial year only for preferred shares in amount of 1.2 roubles per preferred share.





## 17 Cost of Sales

	<b>2015</b>	<b>2014</b>
Natural gas	3,814	3,257
Materials and components used	4,968	2,801
Repairs and maintenance	456	834
Staff costs	1,376	1,402
Fuel and energy	938	840
Depreciation and amortization	644	554
Production overheads	187	163
Change in inventories of finished goods and work in progress	(18)	38
	<b>12,365</b>	<b>9,889</b>

## 18 Selling, General and Administrative Expenses

	<b>2015</b>	<b>2014</b>
Staff costs	983	727
Provision for bad debt	(31)	385
Business trips expenses	26	20
Audit, legal and consulting services	10	10
Taxes other than income tax	67	66
Bank services	58	82
Insurance	34	29
Buildings maintenance and rent	81	51
Security	108	106
Telecommunication costs	13	15
Representation expenses	20	11
Other expenses	86	131
	<b>1,455</b>	<b>1,633</b>

## 19 Finance Expenses, net

	<b>2015</b>	<b>2014</b>
Foreign exchange loss	(4,855)	(6,703)
Interest income	3,530	2,116
Commissions	(68)	(34)
Dividend income	51	-
Gain on sale of foreign currency	37	-
	<b>(1,305)</b>	<b>(4,621)</b>

## 20 Other Operating Income, net

	<b>2015</b>	<b>2014</b>
Foreign exchange gain	1,731	2,172
Loss on disposal of property, plant and equipment	(280)	(66)
Other income	(131)	1
	<b>1,320</b>	<b>2,107</b>



## 21 Earnings per Share

Earnings per share are calculated by dividing the net income attributable to the equity holders of the Company by the weighted average number of ordinary shares and participating preferred shares outstanding during the period.

	2015	2014
Weighted average number of ordinary shares outstanding	721,182,860	721,182,860
Weighted average number of participating preferred shares outstanding	154,256,400	154,256,400
Adjusted for weighted average number of treasury shares	(200,540)	
<b>Total weighted average number of participating shares outstanding</b>	<b>875,238,720</b>	<b>875,439,260</b>
Profit for the year	8,461	598
Basic and diluted earnings per share (expressed in Russian Roubles) attributable to the equity holders of the Company	<b>9.67</b>	<b>0.68</b>

## 22 Income Tax

	2015	2014
Income tax expense – current	2,258	171
Deferred tax charge – origination and reversal of temporary differences	(8)	3
<b>Income tax charge</b>	<b>2,250</b>	<b>174</b>

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

	2015		2014	
<b>Profit before taxation</b>	<b>10,711</b>	<b>100%</b>	<b>772</b>	<b>100%</b>
Theoretical tax charge at statutory rate of 20% (2014: 20%)	2,142	20%	154	20%
Tax effect of non deductible expenses and non taxable income:				
Non taxable profit	-	-	(20)	(3%)
Tax effect of items which are not deductible for taxation purposes	108	1%	40	5%
<b>Income tax charge</b>	<b>2,250</b>	<b>21%</b>	<b>174</b>	<b>22%</b>

In the context of the Group's current structure tax losses and current tax assets of different group entities may not be offset against current tax liabilities and taxable profits of other group entities and, accordingly, taxes may be accrued even when there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at rate of 20% (2014: 20%).

	1 January 2015	Charged/ (credited) to profit or loss	Charged to OCI	Recognised directly in equity	31 December 2015
<b>Tax effects of taxable temporary differences:</b>					
Property, plant and equipment	304	(68)	-	-	236
Investments	311	29	215	-	555
Inventories	(13)	20	-	-	7
<b>Deferred tax liability</b>	<b>602</b>	<b>(19)</b>	<b>215</b>	<b>-</b>	<b>798</b>
Offset	(128)	-	-	-	(117)
<b>Recognised deferred tax liability</b>	<b>474</b>	<b>(19)</b>	<b>215</b>	<b>-</b>	<b>681</b>
<b>Tax effects of deductible taxable temporary differences:</b>					
Accounts receivable	(85)	1	-	-	(84)
Accounts payable	(23)	(11)	-	-	(34)
Other liabilities	(20)	21	-	-	1
<b>Deferred tax asset</b>	<b>(128)</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>(117)</b>
Offset	128	-	-	-	117
<b>Recognised deferred tax asset</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Recognised net deferred tax liability</b>	<b>474</b>	<b>(8)</b>	<b>215</b>	<b>-</b>	<b>681</b>



	1 January 2014	Charged/ (credited) to profit or loss	Charged to OCI	Recognised directly in equity	31 December 2014
<b>Tax effects of taxable temporary differences:</b>					
Property, plant and equipment	289	15	-	-	304
Investments	89	75	112	35	311
Inventories	(4)	(9)	-	-	(13)
<b>Deferred tax liability</b>	<b>374</b>	<b>81</b>	<b>112</b>	<b>35</b>	<b>602</b>
Offset	(50)	-	-	-	(128)
<b>Recognised deferred tax liability</b>	<b>324</b>	<b>81</b>	<b>112</b>	<b>35</b>	<b>474</b>
<b>Tax effects of deductible taxable temporary differences:</b>					
Accounts receivable	(10)	(75)	-	-	(85)
Accounts payable	(20)	(3)	-	-	(23)
Other liabilities	(20)	-	-	-	(20)
<b>Deferred tax asset</b>	<b>(50)</b>	<b>(78)</b>	-	-	<b>(128)</b>
Offset	50	-	-	-	128
<b>Recognised deferred tax asset</b>	-	<b>(78)</b>	-	-	-
<b>Recognised net deferred tax liability</b>	<b>324</b>	<b>3</b>	<b>112</b>	<b>35</b>	<b>474</b>

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

## 23 Contingencies, Commitments and Operating Risks

### i Recognition of derivative financial assets and liabilities

During 2012-2015 Acron Group attracted third-party bank institutions (the banks) to financially co-invest in the project for the development of the Verkhnekamsk potassium-magnesium salts deposit located in Perm region of Russian Federation. In February 2014 Acron Group attracted an independent bank which purchased 19.9% of shares of JSC VPC for RUB 6,673. As part of this transaction the bank concluded call/put option agreements with subsidiaries of Acron Group and in particular with JSC Acron (the parent company) and PJSC Dorogobuzh. According to the terms of the option agreements the entities of Acron Group are jointly and severally liable and act as guarantors. The above mentioned option agreements were recognised at fair value in the consolidated financial statements of Acron Group. More details can be obtained from the published consolidated financial statements of Acron Group. In accordance with the terms of the agreements the other subsidiaries of Acron Group and Acron Group as a whole are the main beneficiaries and principal obligors, therefore management has concluded that the put/call option agreement for the shares of JSC VPC should not be recognised in the consolidated financial statements of PJSC Dorogobuzh. Derivative financial assets and liabilities, recognised in the consolidated financial statements of JSC Acron for the year ended 31 December 2015, represented net financial assets of RUB 7,813 (2014: RUB 5,294 net financial assets).

### ii Contractual commitments and guarantees

As at 31 December 2015 the Group had RUB 239 capital commitments in relation to property, plant and equipment (2014: RUB 169).

### iii Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

### iv Operating environment of the Group

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

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a



depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

#### **v Taxation contingencies in the Russian Federation**

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

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; 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.

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 introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new 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 primarily 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. 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 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

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

In addition, a number of new laws introducing changes to the Russian tax legislation have been adopted in the fourth quarter 2014 and are effective 1 January 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities which may potentially impact the Group's tax position and create additional tax risks going forward.

Management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2015 no provision for potential tax liabilities had been recorded (2014: no provision).

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks.

#### **vi Environmental matters**

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



## 24 Financial and Capital Risk Management

### 24.1 Financial risk management

#### Presentation of Financial Instruments by Measurement Category

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

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2015:

	2015			Total
	Loans and receivables	Available-for-sale assets	Trading investments	
<b>ASSETS</b>				
<b>Cash, cash equivalents (Note 6)</b>				
- Cash on hand and bank balances	6,670	-	-	<b>6,670</b>
<b>Trade and other receivables (Note 7)</b>				
- Trade receivables	3,584	-	-	<b>3,584</b>
- Interest receivable	1,254	-	-	<b>1,254</b>
<b>Loans receivable (Note 8)</b>				
- Short term loans receivable	24,456	-	-	<b>24,456</b>
- Long term loans receivable	2,278	-	-	<b>2,278</b>
<b>Trading investments (Note 13)</b>	-	-	474	<b>474</b>
<b>Available-for-sale investments (Note 11)</b>				
- Corporate shares and bonds	-	1,982	-	<b>1,982</b>
<b>Total financial assets</b>	<b>38,242</b>	<b>1,982</b>	<b>474</b>	<b>40,698</b>

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2014:

	2014			Total
	Loans and receivables	Available-for-sale assets	Trading investments	
<b>ASSETS</b>				
<b>Cash, cash equivalents (Note 6)</b>				
- Cash on hand and bank balances	3,821	-	-	<b>3,821</b>
<b>Trade and other receivables (Note 7)</b>				
- Trade receivables	1,598	-	-	<b>1,598</b>
- Interest receivable	2,519	-	-	<b>2,519</b>
<b>Loans receivable (Note 8)</b>				
- Short term loans receivable	23,192	-	-	<b>23,192</b>
- Long term loans receivable	4,924	-	-	<b>4,924</b>
<b>Trading investments (Note 13)</b>	-	-	554	<b>554</b>
<b>Available-for-sale investments (Note 11)</b>				
- Corporate shares and bonds	-	223	-	<b>223</b>
<b>Total financial assets</b>	<b>36,054</b>	<b>223</b>	<b>554</b>	<b>36,831</b>

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

#### (a) Market risk

##### (i) Foreign currency risk

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

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



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

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

<b>At 31 December 2015</b>	<b>USD</b>	<b>EUR</b>
<b>Financial assets:</b>		
Cash and cash equivalents	4,814	980
Accounts receivable	3,512	-
	<b>8,326</b>	<b>980</b>
<b>Financial liabilities:</b>		
Accounts payable and other liabilities	(4)	(16)
Borrowings and notes payable	(10,932)	-
	<b>(10,936)</b>	<b>(16)</b>
<b>Net position</b>	<b>(2,610)</b>	<b>964</b>

<b>At 31 December 2014</b>	<b>USD</b>	<b>EUR</b>
<b>Financial assets:</b>		
Cash and cash equivalents	2,973	599
Accounts receivable	1,513	-
	<b>4,486</b>	<b>599</b>
<b>Financial liabilities:</b>		
Accounts payable and other liabilities	(15)	(36)
Borrowings and notes payable	(18,003)	-
	<b>(18,018)</b>	<b>(36)</b>
<b>Net position</b>	<b>(13,532)</b>	<b>563</b>

The Group relies on export sales to generate foreign currency earnings. As the Group sells outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk arising primarily on volatility of USD, in which major export sales are denominated.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from USD denominated trade receivables, cash and cash equivalents, borrowings and accounts payable.

	<b>2015</b>	<b>2014</b>
<i>Impact on post-tax profit and on equity of:</i>		
USD strengthening by 20%	(418)	(2,165)
USD weakening by 20%	418	2,165

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

### **(ii) Interest rate risk**

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

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

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

The Group interest rate risk arises from long-term credit facilities. Long-term credit facilities at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2015 and 2014 borrowings at variable rates amounted to RUB 10,932 and RUB 16,878 respectively (Note 15).

At 31 December 2015, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RUB 838 (2014: RUB 675) lower, mainly as a result of higher interest expense on variable interest liabilities.

The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.



### **(iii) Price risk**

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

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

### **(b) Credit risk**

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

The maximum exposure to credit risk of RUB 38,242 (2014: RUB 36,054) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents, debt securities. The amount does not include equity investments.

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

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

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

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2015 the Group had related party Agronova Europe AG with aggregated balances in excess of 10% of the Group's gross accounts receivable balances in amount of RUB 3,068 (31 December 2014: RUB 1,235). Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 7).

As of 31 December 2015 loans receivable in the amount RUB 26,734 (or 100% of total loans receivable) were given to JSC Acron and its subsidiary (2014: RUB 27,134 or 97%). The Group has no significant concentrations of credit risk for other financial assets.

### **(c) Liquidity risk**

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

The Group seeks to maintain a stable funding base primarily consisting of borrowings, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 6), trading investments (Note 13) and available-for-sale investments (Note 11). Management estimates that the liquidity portfolio comprising cash, bank deposits, trading, and available-for-sale investments can be realised in cash within a day in order to meet unforeseen liquidity requirements.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available. The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.



	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Total
<b>As of 31 December 2015</b>						
Term loans* (Note 15)	10,932	116	351	11,032	-	11,499
Trade payables (Note 14)	247	247	-	-	-	247
<b>Total</b>	<b>11,179</b>	<b>363</b>	<b>351</b>	<b>11,032</b>	<b>-</b>	<b>11,746</b>

	Carrying amount	On demand and less than 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Total
<b>As of 31 December 2014</b>						
Term loans* (Note 15)	18,003	172	10,060	333	8,511	19,076
Trade payables (Note 14)	426	426	-	-	-	426
<b>Total</b>	<b>18,429</b>	<b>598</b>	<b>10,060</b>	<b>333</b>	<b>8,511</b>	<b>19,502</b>

\* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2015 and 31 December 2014, respectively.

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

As of 31 December 2015 unused credit lines available under long-term loan facilities were RUB 12,390 (2014: RUB 8,000).

## 24.2 Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company's statutory financial (accounting) reports. In 2015, the Group's strategy, which remained unchanged since 2011, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as of 31 December 2015 and 31 December 2014 is shown in the table below:

	<b>2015</b>	<b>2014</b>
Short-term borrowings	-	9,564
Long-term borrowings	10,932	8,439
<b>Total debt</b>	<b>10,932</b>	<b>18,003</b>
<b>Shareholders' equity</b>	<b>36,787</b>	<b>27,764</b>
<b>Gearing ratio, %</b>	<b>29.72%</b>	<b>64.84%</b>

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

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 15) and imposed by the statutory legislation of the Russian Federation.





## 25 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted in an active market price of the financial instrument.

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

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

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

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

All available-for-sale and trading financial instruments of the Group were included in Level 1 category in the amount of RUB 2,456 (2014: RUB 777).

There are no other financial instruments which fair value was determined based on inputs other than Level 1 category.

Cash and cash equivalents are carried at amortized cost which approximates current fair value.

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

**Liabilities carried at amortised cost.** The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of payables and borrowings do not differ significantly from their carrying amounts.

## 26 Subsequent Events

In April 2016 PJSC Dorogobuzh completed conversion of preference shares to ordinary shares with the same nominal value. The conversion coefficient comprised one to one.

Subsequent to the reporting date PJSC Dorogobuzh issued to its parent company the interest-bearing loan nominated in Russian Roubles in the amount of RUB 6,948.

## 27 Changes in accounting policies and reclassifications

### 27.1 Changes in accounting policies

The Group has consistently applied the accounting policies set out in Note 28 to all periods presented in these consolidated financial statements.

### 27.2 Reclassifications

Certain line items in cost of sales, in previously issued consolidated financial information for 2014 have been reclassified within cost of sales caption to conform with the current period's presentation. This reclassification had no effect on the profit for the period or shareholder equity.

## 28 Summary of Significant Accounting Policies

### 28.1 Group accounting

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise 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 existence of possibility when the Group has existing rights



that give it the current ability to direct the relevant activities of other entity, i.e. the activities that significantly affect the other entity's returns, is considered when assessing whether the Group controls another entity. The Group can have power over other entity even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

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

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

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

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

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

**Acquisitions from entities under common control.** Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised.

**Interests in equity-accounted investees.** The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Shares acquired from the entities under the control of the shareholders recognised at carrying amount in the predecessor entity's consolidated financial statements. Any difference between the carrying amount of share in net assets and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously



recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

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

## **28.2 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

## **28.3 Trade and other receivables**

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective rate of interest. The amount of the provision is recognised in the consolidated statement of comprehensive income. The primary factors that the Group considers whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

## **28.4 Value added tax**

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

## **28.5 Inventories**

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

## **28.6 Property, plant and equipment**

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

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



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

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

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

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

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

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

## **28.7 Borrowings**

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

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

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

## **28.8 Income tax**

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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



Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

#### **28.9 Foreign currency translation**

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

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

At 31 December 2015 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 72.8827 (2014: USD 1 = RUB 56.2584). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

#### **28.10 Provisions for liabilities and charges**

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

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

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

#### **28.11 Shareholders' equity**

**Share capital.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium. Preference shares are non-cumulative and presented as part of share capital in the notes.

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

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

#### **28.12 Revenue recognition**

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



Interest income is recognised on a time-proportion basis using the effective interest method.

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

#### **28.13 Mutual cancellations**

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

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

#### **28.14 Employee benefits**

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

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

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

#### **28.15 Financial assets and liabilities**

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

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

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

**Initial recognition of financial instruments.** Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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



**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

#### **28.16 Earnings per share**

Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year. Preference shares are not redeemable and are considered to be participating shares. Preference shares participate in the calculation because dividends attributable to preference shares cannot be less than dividends on ordinary shares.

#### **28.17 Segment reporting**

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

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

### **29 New standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.



<b>New or amended standard</b>	<b>Summary of the requirements</b>	<b>Possible impact on consolidated financial statements</b>
IFRS 9 <i>Financial Instruments</i>	<p>IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.</p> <p>IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	<p>The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.</p>
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i>.</p> <p>The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.</p> <p>IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	<p>The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.</p>
IFRS 16 <i>Leases</i>	<p>IFRS 16 replaces the existing lease accounting guidance in IAS 17 <i>Leases</i>, IFRIC 4 <i>Determining whether an Arrangement contains a lease</i>, SIC-15 <i>Operating Leases – Incentives</i> and SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.</p> <p>Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p> <p>IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 <i>Revenue from Contracts with Customers</i> is also adopted.</p>	<p>The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.</p>