PUBLIC JOINT STOCK COMPANY
“DOROGOBUZH”

Consolidated Financial Statements
for the year ended 31 December 2018
and Independent Auditors’ Report

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Independent Auditors' Report

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

Opinion

We have audited the 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 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Audited entity: PJSC "Dorogobuzh".

Registration No. in the Unified State Register of Legal Entities 1026700535773.

Dorogobuzh, Russia

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.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

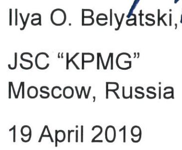
— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated

financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



Ilya O. Belyatski,

JSC "KPMG"
Moscow, Russia

19 April 2019

	Note	31 December 2018	31 December 2017*
ASSETS			
Non-current assets			
Property, plant and equipment	11	6,541	5,001
Investment in equity accounted investees	13	4,724	4,131
Investment in equity instruments measured at fair value through other comprehensive income	12	6,773	4,128
Long-term loans receivable	9	-	8,160
Other non-current assets		182	183
Total non-current assets		**18,220**	**21,603**
Current assets			
Inventories	10	2,301	2,501
Short-term loans receivable	9	26,796	21,595
Accounts receivable	8	3,091	3,870
Investment measured at fair value through profit or loss		403	407
Cash and cash equivalents	7	1,074	3,317
Other current assets		42	44
Total current assets		**33,707**	**31,734**
TOTAL ASSETS		**51,927**	**53,337**
EQUITY			
Share capital	16	1,419	1,419
Share premium		94	94
Retained earnings		45,056	46,583
Revaluation reserve		1,968	812
Other reserves		-	(96)
Share capital attributable to the Company's owners		**48,537**	**48,812**
TOTAL EQUITY		**48,537**	**48,812**
LIABILITIES			
Non-current liabilities			
Other long-term liabilities		103	102
Deferred tax liability	22	1,157	779
Total non-current liabilities		**1,260**	**881**
Current liabilities			
Accounts payable	14	1,124	1,516
Income tax payable		200	43
Short-term borrowings	15	-	865
Advances received		806	1,220
Total current liabilities		**2,130**	**3,644**
TOTAL LIABILITIES		**3,390**	**4,525**
TOTAL LIABILITIES AND EQUITY		**51,927**	**53,337**

* The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (Note 4).

The Consolidated Financial Statements were approved for issue on 19 April 2019.

V.Y. Kunitskiy
President

A.V. Milenkov
Finance Director

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

	Note	2018	2017*
Revenue	5	27,152	24,002
Cost of sales	17	(16,063)	(13,999)
Gross profit		**11,089**	**10,003**
Transportation expenses		(2,267)	(1,877)
Selling, general and administrative expenses	18	(1,652)	(1,541)
Other operating income/(expenses), net	20	483	(567)
Operating profit		**7,653**	**6,018**
Finance income, net	19	3,970	3,602
Interest expense		(46)	(325)
(Loss)/gain on disposal of investments		(4)	18
Share of profit in equity accounted investees	13	134	222
Profit before taxation		**11,707**	**9,535**
Income tax expense	22	(2,311)	(1,889)
Profit for the year		**9,396**	**7,646**
Other comprehensive income on items that will not be reclassified to profit or loss:			
Investment in equity instruments measured at fair value through other comprehensive income			
- Profit arising during the year	12	1,445	-
- Income tax recorded directly in other comprehensive income		(289)	-
Other comprehensive income on items that are or may be reclassified to profit or loss:			
Available-for-sale investments:			
- Profit arising during the year	12	-	451
- Income tax recorded directly in other comprehensive income		-	(90)
Equity-accounted investees – share of other comprehensive income, net of tax		367	171
Other comprehensive income for the year		**1,523**	**532**
Total comprehensive income for the year		**10,919**	**8,178**
Earnings per share, basic (expressed in Russian Roubles)	21	**10.74**	**8.74**

* The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (Note 4).

	Note	2018	2017
Cash flows from operating activities			
Profit before taxation		**11,707**	**9,535**
Adjustments for:			
Depreciation	11	710	746
(Reversal of)/provision for accounts receivable	8	(7)	7
(Reversal of)/provision for inventory obsolescence	10	(12)	9
Loss on disposal of property, plant and equipment	20	364	66
Loss allowance for ECLs		114	-
Share of profit of equity accounted investees	13	(134)	(222)
Interest expense		46	325
Interest income	19	(2,024)	(3,094)
Dividend income	19	(476)	(270)
Loss/(gain) on disposal of investments		4	(18)
Unrealised foreign exchange effect on non-operating balances		(1,923)	40
Operating cash flows before working capital changes		**8,369**	**7,124**
Decrease/(increase) in gross trade receivables		87	(509)
Decrease/(increase) in advances to suppliers		106	(199)
Increase in other receivables		(388)	(165)
Decrease/(increase) in inventories		212	(426)
Decrease in other current assets		2	18
Increase/(decrease) in trade payables		404	(256)
(Decrease)/increase in other payables		(642)	37
(Decrease)/increase in advances from customers		(414)	73
Cash generated from operations		**7,736**	**5,697**
Income taxes paid		(2,152)	(1,946)
Interest paid		(47)	(348)
Net cash generated from operating activities		**5,537**	**3,403**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,614)	(897)
Proceeds from disposal of property, plant and equipment		450	-
Loans provided		(11,373)	(9,371)
Proceeds from loans repaid		15,470	17,746
Interest received		2,373	3,944
Dividend received	19	476	270
Purchase of investments in equity instruments measured at fair value through other comprehensive income	12	(1,200)	(1,337)
Purchase of shares of related parties		(15,905)	-
Proceeds from sale of shares of related parties		10,743	-
Proceeds from sale of investments		-	53
Net change in other non-current assets		2	71
Net cash (used in)/generated from investing activities		**(1,578)**	**10,479**
Cash flows from financing activities			
Dividend paid to shareholders		(6,104)	(2,189)
Sale of treasury shares		96	-
Acquisition of treasury shares		-	(96)
Proceeds from borrowings		12,442	850
Repayment of borrowings		(13,240)	(13,259)
Net cash used in financing activities		**(6,806)**	**(14,694)**
Net decrease in cash and cash equivalents		**(2,847)**	**(812)**
Cash and cash equivalents at 1 January		3,317	4,581
Effect of exchange rate changes on cash and cash equivalents		604	(452)
Cash and cash equivalents at 31 December	7	**1,074**	**3,317**

	Note	Capital and reserves attributable to the Company’s owners					
		Share capital	**Share premium**	**Retained earnings**	**Revaluation reserve**	**Other reserves**	**Total equity**
Balance at 1 January 2017		**1,419**	**94**	**40,955**	**451**	**-**	**42,919**
Total comprehensive income							
Profit for the year		-	-	7,646	-	-	7,646
Other comprehensive income							
Fair value gains on available-for-sale investments		-	-	-	451	-	451
Equity-accounted investees – share of other comprehensive loss, net of tax		-	-	171	-	-	171
Income tax recorded in other comprehensive income		-	-	-	(90)	-	(90)
Total comprehensive income		**-**	**-**	**7,817**	**361**	**-**	**8,178**
Dividend declared		-	-	(2,189)	-	-	(2,189)
Acquisition of treasury shares		-	-	-	-	(96)	(96)
Balance at 31 December 2017		**1,419**	**94**	**46,583**	**812**	**(96)**	**48,812**
Balance at 1 January 2018		**1,419**	**94**	**46,583**	**812**	**(96)**	**48,812**
Total comprehensive income							
Profit for the year		-	-	9,396	-	-	9,396
Other comprehensive income							
Fair value gains on investment in equity instruments measured at fair value through other comprehensive income		-	-	-	1,445	-	1,445
Equity-accounted investees – share of other comprehensive income, net of tax		-	-	367	-	-	367
Income tax recorded in other comprehensive income		-	-	-	(289)	-	(289)
Total comprehensive income		**-**	**-**	**9,763**	**1,156**	**-**	**10,919**
Dividend declared		-	-	(6,128)	-	-	(6,128)
Transactions with shares of related party	23	-	-	(5,162)	-	-	(5,162)
Sale of treasury shares		-	-	-	-	96	96
Balance at 31 December 2018		**1,419**	**94**	**45,056**	**1,968**	**-**	**48,537**

* The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (Note 4).

1. Dorogobuzh Group and its Operations

These consolidated financial statements for the year ended 31 December 2018 comprise Public Joint Stock Company "Dorogobuzh" (the "Company" and "Dorogobuzh") and its subsidiaries (together referred to as the "Group" or "Dorogobuzh Group"). Until 1 March 2018, shares of the Company were traded on the Moscow Stock Exchange.

The Group's principal activities include the manufacture, distribution and sales of chemical fertilisers and related by-products. The Group's manufacturing facilities are primarily based in the Smolenskaya region of Russian Federation.

The Company's registered office is at Dorogobuzh, Smolenskaya region, Russian Federation, 215713.

As at 31 December 2018, the Group's parent company is PJSC Acron (Russian Federation). Effective 9 June 2017, the Group's ultimate parent is Terasta Enterprises Limited (The Republic of Cyprus). Until 9 June 2017, the Group's ultimate parent was Subero Associates Inc. (British Virgin Islands). In 2018 and 2017, the Group is ultimately controlled by Mr. Viatcheslav Kantor.

2. Basis of Accounting

Basis of preparation. These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") under the historical cost convention except as investment in equity instruments measured at fair value through other comprehensive income and investment measured at fair value through profit or loss.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 4.

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 23 – contingencies, commitments and operating risks;
- Note 25 – fair value of financial instruments;
- Note 27.6 – useful lives of property, plant and equipment.

4. Changes in Significant Accounting Policies

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

In accordance with the transition methods chosen by the Group in applying these standards, the comparative information in these financial statements is not restated to reflect the requirements of the new standards.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). The effect of initially applying this standard at the date of initial application (i.e. 1 January 2018) is estimated as inconsequential. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The only effect of the transition to IFRS 15 is the changes in the presentation of revenue. Following the analysis of the impact of the new standard, the Group identified that the delivery and other logistic services should be treated as a separate performance obligation, and the revenue from these services is presented as revenue from logistics activities. The Group concluded that existing disclosures are consistent with the new requirements.

IFRS 9 Financial Instruments

IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new classification and measurement requirements, a single forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. This Standard does not have a significant impact on the Group's consolidated financial statements.

(i) Classification and measurement of financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the most significant Group's financial assets as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Equity securities	(a)	Available-for-sale	FVOCI – equity instrument	4,128	4,128
Debt securities	(b)	Held-for-trading	Mandatorily at FVTPL - others	407	407
Loans receivable	(c)	Loans and receivables	Amortised cost	29,755	29,755
				34,290	**34,290**

(a) These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(b) Corporate debt securities that were previously classified as held for trading are now classified at fair value through profit or loss.

(c) Loans issued that were classified as loans and receivables in accordance with IAS 39 are now classified as measured at amortised cost.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The application of IFRS 9's impairment requirements at 1 January 2018 does not have significant impact.

More details about how the Group measures impairment loss are shown in Note 27.15

(iii) Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

(iv) Transition to new standard

The Group used the exemption, allowing not to recalculate the comparative data for previous periods in terms of the classification and valuation requirements (including impairment) of financial instruments. Accordingly, the information provided for 2017 reflects the requirements of IAS 39, and not IFRS 9.

5. 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 and other services.

"Dorogobuzh" as a segment is a 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 2018:

	Dorogobuzh	Other	Total
Segment sales	27,155	248	**27,403**
Intersegment sales	(23)	(228)	**(251)**
External sales	27,132	20	**27,152**
EBITDA	**8,428**	**(10)**	**8,418**

Information for the reportable segments for the year ended 31 December 2017:

	Dorogobuzh	Other	Total
Segment sales	24,001	286	**24,287**
Intersegment sales	(25)	(260)	**(285)**
External sales	23,976	26	**24,002**
EBITDA	**7,106**	**48**	**7,154**

Reconciliation of EBITDA to Profit Before Tax:

	2018	2017
Operating Profit	**7,653**	**6,018**
Depreciation and amortisation	710	746
Foreign currency (loss)/profit on operating activities, net	(309)	324
Loss on disposal of property, plant and equipment	364	66
Total consolidated EBITDA	**8,418**	**7,154**

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.

	2018	2017
Revenue		
Russian Federation	11,401	6,766
European Union	2,598	1,568
Commonwealth of Independent States	3,556	13,341
USA and Canada	117	-
Latin America	7,335	2,306
Asia	1,586	21
Other regions	559	-
Total	**27,152**	**24,002**

Revenue from sales of chemical fertilisers accounts for 96% of total revenues (2017: 97%).

For 2018, revenues from logistics activities representing a separate performance obligation under IFRS 15 amounted to RUB 1,043.

In the reporting period there is one customer which represents more than 10% of the total revenues (2017: two customers).

6. 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 2018 and 2017, are detailed below.

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

i Balances with related parties

Consolidated statement of financial position caption	Note	Relationship	2018	2017
Trade and other receivables, gross	8	Parent company	440	3
		Parties under common control	138	440
Interest receivable		Parent company	493	901
		Parties under common control	245	161
Investments in equity accounted investees	13	Associate	4,724	4,131
Advances to suppliers		Parties under common control	198	353
Loans receivable	9	Parent company	13,907	20,713
		Parties under common control	13,003	9,042
Purchase of design documentation		Parties under common control	236	58
Trade payables		Parent company	(220)	(9)
		Parties under common control	(108)	(94)
Advances from customers, net of VAT		Parties under common control	(751)	(481)
Investments measured at fair value through profit or loss (bonds)		Parent company	366	369
Investment in equity instruments measured at fair value through other comprehensive income	12	Parent company	5,581	3,747
		Parties under common control	937	365

ii Transactions with related parties

Consolidated statement of profit or loss and other comprehensive income caption	Note	Relationship	2018	2017
Sales of chemical fertilisers, other goods and services	5	Parent company	471	68
		Parties under common control	19,818	8,825
Share of profit in equity accounted investees	13	Associate	134	222
Dividend income		Parent company	298	290
		Parties under common control	178	-
Proceeds from disposal of property, plant and equipment		Parent company	53	35
		Parties under common control	445	1
Purchases of raw materials		Parent company	(554)	(398)
		Parties under common control	(2,828)	(2,374)
Purchase of transportation services		Parties under common control	(384)	(315)
Interest income		Parent company	1,437	2,818
		Parties under common control	514	219
Consolidated statement of changes in equity caption				
Dividend declared		Parent company	(5,913)	(2,071)
Proceeds from sale of treasury shares		Parent company	96	-

As at 31 December 2018 the Group issued guarantees in the amount of RUB 716 in respect of related party liabilities (31 December 2017: RUB 957).

iii Key management personnel compensation

Total key management personnel compensation in the amount of RUB 368 (2017: RUB 291) was recorded in general and administrative expenses. Related contributions into state social and pension funds amounted to RUB 57 (2017: RUB 47).

7. Cash and Cash Equivalents

	2018	2017
Cash on hand and bank balances denominated in RUB	547	452
Bank balances denominated in USD	501	2,473
Bank balances denominated in EUR	26	392
Total	**1,074**	**3,317**

Cash and cash equivalents include term deposits of RUB 527 (2017: RUB 1,983).

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:

	2018	2017
A - AAA*	6	-
BBB- to BBB+* rated	981	3,117
Baa3 (2017: Ba2)**	11	12
BB- to BB+* rated	43	37
Unrated	33	151
Total	**1,074**	**3,317**

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

8. Accounts Receivable

	2018	2017
Trade accounts receivable	648	917
Notes receivable	81	76
Interest receivable	738	1,068
Impairment provision	(40)	(41)
Total financial assets	**1,427**	**2,020**
Advances to suppliers	730	836
Value-added tax recoverable	809	906
Other taxes receivable	127	116
Impairment provision	(2)	(8)
Total accounts receivable	**3,091**	**3,870**

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

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

	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	604	-	872	-
Past due less than 3 months	-	-	-	-
Past due from 3 to 9 months	5	(1)	5	(1)
Past due from 9 to 12 months	3	(3)	5	(5)
Past due over 12 months	36	(36)	35	(35)
Total	**648**	**(40)**	**917**	**(41)**

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

	2018	2017
Provision for impairment at 1 January	**(41)**	**(38)**
Provision for impairment	-	(3)
Provision used	1	-
Provision for impairment at 31 December	**(40)**	**(41)**

As at 31 December 2018, the Group hold no collateral as security for trade accounts receivable (31 December 2017: the Group held collateral as security for trade receivable in the amount of RUB 685 included in other accounts payable).

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

Included in interest receivable RUB 738 (31 December 2017: RUB 1,062) is interest on loans issued to parties under common control of Acron Group and parent company.

9. Loans Receivable

	2018	2017
Short-term loans receivable		
RUB		
Loans issued to related parties with interest rate from 7.25% to 8% (2017: from 7.75% to 10.5%) per annum (Note 6)	17,685	21,554
EUR		
Loans issued to related parties with interest rate EURIBOR 12M+4.1% per annum (Note 6)	9,225	41
Loss allowance for ECLs	(114)	-
	26,796	**21,595**
Long-term loans receivable		
EUR		
Loans issued to related parties with interest rate of EURIBOR 12M+4.1% per annum (Note 6)	-	8,160
	-	**8,160**

At 31 December 2018 and 2017, all of the loans receivable were unsecured.

Loans receivable in amount of RUB 26,910 (31 December 2017: RUB 29,755) are issued to parties under common control of Acron Group and parent company (Note 6).

Loss allowance for ECLs is an estimation, based on the risks associated with non-payment of this receivable, and amounted to RUB 114. The ECLs in respect of loans receivable were calculated on the basis of PJSC Acron's credit rating, estimated as Ba3 by the international rating Agency Moody's. These financial assets have low credit risk as at the reporting date, therefore the assessment of loans receivable was based on 12-month ECLs. Additional information about how the Group measures the allowance for impairment is described in Note 27.15.

In 2018, the Group accrued interest income on loans receivable of RUB 1,951 (2017: RUB 3,037).

10. Inventories

	2018	2017
Raw materials and spare parts	1,837	1,879
Work in progress	30	50
Finished products	434	572
	2,301	**2,501**

Raw materials are shown net of obsolescence provision of RUB 60 (31 December 2017: RUB 72). No inventory was pledged as security at 31 December 2018 and 2017.

11. Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2018	**5,748**	**8,218**	**818**	**24**	**998**	**15,806**
Additions	-	-	-	-	2,614	**2,614**
Transfers	178	245	23	9	(455)	**-**
Disposals	(26)	(126)	(675)	-	-	**(827)**
Balance at 31 December 2018	**5,900**	**8,337**	**166**	**33**	**3,157**	**17,593**
Accumulated Depreciation						
Balance at 1 January 2018	**4,128**	**6,226**	**427**	**24**	**-**	**10,805**
Depreciation charge	176	491	41	2	-	**710**
Disposals	(25)	(126)	(312)	-	-	**(463)**
Balance at 31 December 2018	**4,279**	**6,591**	**156**	**26**	**-**	**11,052**
Net Book Value						
Balance at 1 January 2018	**1,620**	**1,992**	**391**	**-**	**998**	**5,001**
Balance at 31 December 2018	**1,621**	**1,746**	**10**	**7**	**3,157**	**6,541**

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2017	**5,957**	**7,778**	**799**	**22**	**798**	**15,354**
Additions	-	-	-	-	897	**897**
Transfers	131	538	26	2	(697)	**-**
Disposals	(340)	(98)	(7)	-	-	**(445)**
Balance at 31 December 2017	**5,748**	**8,218**	**818**	**24**	**998**	**15,806**
Accumulated Depreciation						
Balance at 1 January 2017	**4,224**	**5,808**	**384**	**22**	**-**	**10,438**
Depreciation charge	178	516	50	2	-	**746**
Disposals	(274)	(98)	(7)	-	-	**(379)**
Balance at 31 December 2017	**4,128**	**6,226**	**427**	**24**	**-**	**10,805**
Net Book Value						
Balance at 1 January 2017	**1,733**	**1,970**	**415**	**-**	**798**	**4,916**
Balance at 31 December 2017	**1,620**	**1,992**	**391**	**-**	**998**	**5,001**

Non-current assets impairment test. In 2018 and 2017, there were no impairment indicators, therefore no impairment testing was performed for non-current assets.

At 31 December 2018 and 2017, no property, plant and equipment were pledged as security.

12. Investment in Equity Instruments Measured at Fair Value through Other Comprehensive Income

	2018	2017
Balance at 1 January	**4,128**	**2,340**
Additions	1,200	1,337
Fair value gain recognised directly in OCI	1,445	451
Balance at 31 December	**6,773**	**4,128**

The Group has investments in the following companies:

Name	Activity	Country of registration	2018	2017
Non-current				
PJSC Acron	Fertilisers production	Russian Federation	5,581	3,747
JSC Acronit	Investments in mining assets	Russian Federation	937	365
Other		Russian Federation	255	16
Total non-current			**6,773**	**4,128**

At 31 December 2018 and 2017, the investment in PJSC Acron was classified as non-current. Fair value of investment was determined by reference to the current market value at the close of business on the date of a

transaction or on 31 December 2018. At 31 December 2018, the share price quoted at Moscow Stock Exchange for PJSC Acron amounted to 4,710 roubles for 1 share (31 December 2017: 3,870 roubles for 1 share).

13. Investment in Equity Accounted Investees

The following table analyses, in aggregate, the carrying amount and share of profit and other comprehensive income of LLC Balttrans.

	2018	2017
Carrying amount of interests in associates	4,131	3,695
Share of:		
– Profit from continuing operations	134	222
– Other comprehensive income	459	214
	4,724	**4,131**

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

2018

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC Balttrans	9,144	1,954	3,966	268	50%	Russian Federation

2017

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Country of incorporation
LLC Balttrans	7,820	1,762	3,108	444	50%	Russian Federation

14. Accounts Payable

	2018	2017
Trade accounts payable	706	484
Dividend payable	40	16
Total financial payables	**746**	**500**
Payables to employees	303	280
Taxes payable	74	49
Other accounts payable	1	687
Total accounts payable and accrued expenses	**1,124**	**1,516**

15. Short-Term Borrowings

Borrowings consist of the following:

	2018	2017
Term loans	-	865
	-	**865**

At 31 December 2018 and 2017 all of the Group's borrowings are mature as follows:

	2018	2017
Borrowings due:		
- within 1 year	-	865
	-	**865**

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

	2018	2017
Borrowings denominated in:		
- USD	-	865
	-	**865**

For the 12 months 2018 the Group repaid borrowings in the amount of RUB 13,240, borrowed new loans in the amount of RUB 12,442, and net foreign exchange gain for the period amounted to RUB 67.

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 2018, unused credit lines available under the long-term loan facilities were RUB 12,897 (31 December 2017: RUB 15,000). The terms and conditions of unused credit lines are consistent with other borrowings.

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

Short-term borrowings	**2018**	**2017**
USD		
Loans with fixed interest of 2.48% per annum	-	865
Total short-term borrowings		**865**

16. Share Capital

After converting in April 2016 of preferred shares into ordinary shares, the share capital consists of 875,439,260 ordinary shares with a nominal value of 0.25 roubles per share.

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

	Ordinary shares		
	Number of shares authorised issued and paid	**Share Capital**	**Share premium**
At 31 December 2017	**873,032,103**	**1,419**	**94**
Sale of treasury shares	2,407,157	-	-
At 31 December 2018	**875,439,260**	**1,419**	**94**

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 May 2018, dividend for 2017 was declared and paid in amount of RUB 2.5 per ordinary share. In November 2018, dividend for 2017 was declared and paid in amount of RUB 4.5 per ordinary share.

17. Cost of Sales

	2018	**2017**
Materials and components used	7,790	6,073
Natural gas	4,001	3,962
Staff costs	1,550	1,379
Fuel and energy	1,097	1,033
Depreciation and amortisation	710	746
Repairs and maintenance	739	669
Production overheads	176	137
	16,063	**13,999**

18. Selling, General and Administrative Expenses

	2018	**2017**
Staff costs	1,201	1,061
Security	112	117
Buildings maintenance and rent	74	90
Taxes other than income tax	72	63
Insurance	35	37
Audit, legal and consulting services	26	17
Business trips expenses	20	27
Representation expenses	20	16
Bank services	18	27
Telecommunication costs	11	13
(Reversal of provision)/provision for accounts receivable	(7)	9
Other expenses	70	64
	1,652	**1,541**

19. Finance Income, net

	2018	2017
Interest income	2,024	3,094
Foreign exchange gain, net	1,789	294
Dividend income	476	270
Commission	(54)	(38)
Loss allowance for ECLs	(114)	-
Loss on sale of foreign currency	(151)	(18)
	3,970	**3,602**

20. Other Operating Income/(Expenses), net

	2018	2017
Foreign exchange gain/(loss), net	309	(324)
Loss on disposal of property, plant and equipment	(364)	(66)
Other income/(expenses), net	538	(177)
	483	**(567)**

21. Earnings per Share

Basic 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 outstanding during the period.

	2018	2017
Weighted average number of participating shares outstanding	874,957,829	874,957,829
Profit for the year	9,396	7,646
Basic earnings per share (expressed in Russian Roubles) attributable to the Company's owners	**10.74**	**8.74**

22. Income Tax

	2018	2017
Income tax expense – current	2,314	1,832
Deferred tax charge – origination and reversal of temporary differences	(3)	57
Income tax charge	**2,311**	**1,889**

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

	2018		2017	
Profit before taxation	**11,707**	**100%**	**9,535**	**100%**
Theoretical tax charge at statutory rate of 20% (2017: 20%)	2,341	20%	1,907	20%
Tax effect of items which are (non-taxable)/deductible for taxation purposes	(30)	0%	(18)	0%
Income tax charge	**2,311**	**20%**	**1,889**	**20%**

	1 January 2018	Charged to profit or loss	Charged to OCI	31 December 2018
Tax effects of taxable temporary differences:				
Property, plant and equipment	271	(21)	-	250
Investments	602	(8)	381	975
Inventories	30	(15)	-	15
Other assets	-	64	-	64
Deferred tax liability	**903**	**20**	**381**	**1,304**
Offset	(124)	(23)	-	(147)
Recognised deferred tax liability	**779**	**(3)**	**381**	**1,157**
Accounts receivable	(86)	-	-	(86)
Accounts payable	(38)	(3)	-	(41)
Other liabilities	-	(20)	-	(20)
Deferred tax asset	**(124)**	**(23)**	**-**	**(147)**
Offset	124	23	-	147
Recognised deferred tax asset	**-**	-	**-**	-
Recognised net deferred tax liability	**779**	**(3)**	**381**	**1,157**

	1 January 2017	Charged to profit or loss	Charged to OCI	31 December 2017
Tax effects of taxable temporary differences:				
Property, plant and equipment	256	15	-	271
Investments	450	19	133	602
Inventories	7	23	-	30
Deferred tax liability	**713**	**57**	**133**	**903**
Offset	(124)	-	-	(124)
Recognised deferred tax liability	**589**	**57**	**133**	**779**
Accounts receivable	(85)	(1)	-	(86)
Accounts payable	(43)	5	-	(38)
Other liabilities	4	(4)	-	-
Deferred tax asset	**(124)**	**-**	**-**	**(124)**
Offset	124	-	-	124
Recognised deferred tax asset	**-**	**-**	**-**	**-**
Recognised net deferred tax liability	**589**	**57**	**133**	**779**

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 2012-2018, Acron Group, including the Company as a subsidiary, 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. As a result an independent bank purchased 39.9% of shares of CJSC VPC, as part of this transaction the bank concluded call/put option agreements with subsidiaries of Acron Group and in particular with PJSC 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.

Based on the fact that decision making on options management is carried out by the Parent company, PJSC Acron, the Group management concluded that options to buy and sell shares under the sale of CJSC VPC shares to the non-controlling interest should not be recognised in consolidated financial statements of PJSC "Dorogobuzh."

Derivative financial assets and liabilities, recognised in the consolidated financial statements of PJSC Acron for the year ended 31 December 2018, represented of RUB 969 net financial assets (31 December 2017: RUB 3,359 net financial liabilities). More details can be obtained from the published consolidated financial statements of Acron Group.

In 2018, PJSC Dorogobuzh, being a joint and several buyer under a put option agreement, acquired from an independent bank upon its request a block of 19.9% in share capital of CJCS VPC for RUB 15,730 (equivalent to USD 249,891 thousand), calculated according to the formula set in the option agreement. In the same period, PJSC Dorogobuzh sold back to the independent bank all the previously acquired shares of CJSC VPC under a share sale-purchase agreement for RUB 10,568 with the conclusion of new option agreements.

The net loss from transactions of acquisition and sale back of the shares of CJSC "VPC" amounted to RUB 5,162. The above transactions were recorded in the statement of changes in equity.

ii Contractual commitments and guarantees

As at 31 December 2018, the Group had RUB 2,102 capital commitments in relation to property, plant and equipment (31 December 2017: RUB 992).

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

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2018, the Group has issued guarantees in the amount of RUB 716 (31 December 2017: RUB 957) in respect of related party liabilities (Note 6).

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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

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

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

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

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

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

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 2018 no provision for potential tax liabilities had been recorded (2017: 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

The following table provides a reconciliation of financial assets with the measurement categories as of 31 December 2018:

	2018			
	Financial assets at amortised cost	**Fair value through other comprehensive income - equity instruments**	**Mandatorily at fair value through profit or loss – others**	**Total**
ASSETS				
Cash, cash equivalents (Note 7)				
- Cash on hand and bank balances	1,074	-	-	**1,074**
Trade and other receivables (Note 8)				
- Trade receivables	608	-	-	**608**
- Interest receivable	738	-	-	**738**
Loans receivable (Note 9)				
- Short term loans receivable	26,796	-	-	**26,796**
Investment in debt instruments (bonds)	-	-	403	**403**
Investment in equity instruments (Note 12)				
- Corporate shares	-	6,773	-	**6,773**
Total financial assets	**29,216**	**6,773**	**403**	**36,392**

All of the Group's financial liabilities are carried at amortised cost.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2017 in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which was applicable before 1 January 2018:

	2017			
	Loans and receivables	Available-for-sale assets	Trading investments	Total
ASSETS				
Cash, cash equivalents (Note 7)				
- Cash on hand and bank balances	3,317	-	-	**3,317**
Trade and other receivables (Note 8)				
- Trade receivables	876	-	-	**876**
- Interest receivable	1,068	-	-	**1,068**
Loans receivable (Note 9)				
- Short term loans receivable	21,595	-	-	**21,595**
- Long term loans receivable	8,160	-	-	**8,160**
Trading investments	-	-	407	**407**
Available-for-sale investments (Note 12)				
- Corporate shares and bonds	-	4,128	-	**4,128**
Total financial assets	**35,016**	**4,128**	**407**	**39,551**

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:

At 31 December 2018	**USD**	**EUR**
Financial assets:		
Cash and cash equivalents	501	26
Accounts receivable	135	-
Loans receivable	-	9,225
	636	**9,251**
Financial liabilities:		
Accounts payable and other liabilities	(7)	(36)
	(7)	**(36)**
Net position	**629**	**9,215**

At 31 December 2017	**USD**	**EUR**
Financial assets:		
Cash and cash equivalents	2,473	392
Accounts receivable	1,112	8
Loans receivable	-	8,201
	3,585	**8,601**
Financial liabilities:		
Accounts payable and other liabilities	(699)	(11)
Borrowings payable	(865)	-
	(1,564)	**(11)**
Net position	**2,021**	**8,590**

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 loans receivable, cash and cash equivalents, foreign exchange denominated trade receivables, borrowings and accounts payable.

	USD		EUR	
	2018	**2017**	**2018**	**2017**
Impact on post-tax profit and on equity of:				
Foreign currency exchange rate strengthening by 20%	101	323	1,474	1,374
Foreign currency exchange rate weakening by 20%	(101)	(323)	(1,474)	(1,374)

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

(ii) Interest rate risk

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

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

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2018 and 2017 there were no borrowings at variable rates (Note 15).

(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 29,619 (2017: RUB 35,423) 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 7.

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 2018, the Group has 2 counterparties with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances (31 December 2017: 2 counterparties).

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 8).

As of 31 December 2018, loans receivable in the amount RUB 26,796 or 100% of total loans receivable were given to PJSC Acron and its subsidiary (31 December 2017: RUB 29,755 or 100%). 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 7), investment measured at fair value through profit or loss and investment in equity instruments measured at fair value through other comprehensive income (Note 12). 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
As of 31 December 2018						
Trade payables (Note 14)	706	706	-	-	-	**706**
Total	**706**	**706**	**-**	**-**	**-**	**706**

	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
As of 31 December 2017						
Term loans* (Note 15)	865	5	868	-	-	**873**
Trade payables (Note 14)	484	484	-	-	-	**484**
Total	**1,349**	**489**	**868**	**-**	**-**	**1,357**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2018 and 31 December 2017, 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 2018, the amount of unused credit lines available under long-term loan facilities was RUB 12,897 (31 December 2017: RUB 15,000).

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 2018, 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 2018 and 31 December 2017 is shown in the table below:

	2018	2017
Short-term borrowings	-	865
Long-term borrowings	-	-
Total debt	**-**	**865**
Shareholders' equity	**48,537**	**48,812**
Gearing ratio, %	**-**	**1.77%**

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.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investments measured at profit or loss and investments in equity instruments measured at fair value through other comprehensive income 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.

Investments in equity and debt instruments measured at fair value through profit or loss and other comprehensive income were included in the following categories:

Level 1 - in the amount of RUB 5,947 (2017: RUB 4,116);

Level 3 – in the amount of RUB 1,229.

Fair value of investment in JSC Acronit shares was determined using method of discounted future cash flows and included in Level 3.

The investments in JSC Acronit are represented by investments in mining assets (including CJSC Verkhnekamsk Potash Company). The forecast period in the fair value model was based on the term of the exploration and mining licenses. The key assumptions used to determine the fair value of the shares of CJSC VPC were disclosed in the consolidated statements of PJSC Acron for the year ended 31 December 2018.

Cash and cash equivalents are carried at amortised 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 2019, the Board of Directors of the Company recommended that the Annual General Meeting of shareholders approve dividends for the 2018 financial year in the amount of 5.1 roubles per one ordinary share.

27. Summary of Significant Accounting Policies.

27.1. 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.

27.2. 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.

27.3. Trade and other receivables

Trade and other receivables are carried at amortised cost when they are originated. A trade receivable without a significant financing component is initially measured at the transaction price.

Loss allowances for trade and other receivables are deducted from the gross carrying amount of the assets.

27.4. 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.

27.5. 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.

27.6. 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:

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

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

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

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

27.7. 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.

27.8. 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.

27.9. 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 2018, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 69.4706, EUR 1 = RUB 79.4605 (31 December 2017: USD 1 = RUB 57.6002, EUR 1 = RUB 68.8668). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

27.10. 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 evaluated 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.

27.11. 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.

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.

27.12. Revenue recognition

Revenues from sales of chemical fertilisers and related by-products are recognised at the point when control of the goods passes to the customer. Control passes to the customer at the point of transfer of risks and rewards of ownership of the goods normally when the goods are shipped. From 1 January 2018, the Group changed its approach to the recognition of revenue under the contracts involving shipping after the transfer of risks and rewards to the customer. Information about the Group’s accounting policies relating to the presentation of such revenue is provided in Note 4.

Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group.

27.13. 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.

27.14. 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.

27.15. Financial assets and liabilities

Recognition and initial measurement. Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement. On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL***.***

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses. Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Impairment

Policy applicable from 1 January 2018

Financial assets. The Group recognises loss allowances for ECLs on:

- trade and other receivables;
- financial assets measured at amortised cost.

Under IFRS 9 loss allowances are measured on either of the following bases:

- 12-month expected credit losses: these are expected credit losses that result from possible default events within the 12 months after the reporting date; and
- lifetime expected credit losses: these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The estimated expected credit loss for the entire period is applied if the credit risk for the financial asset at the reporting date has increased significantly since initial recognition. Otherwise, an estimate of expected credit losses for 12 months after the reporting date is applied. However, an entity may assume that the credit risk for a financial instrument has not increased significantly since initial recognition if it has been determined that the financial instrument has a low credit risk at the reporting date.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). The Group takes into account credit risk on the individual basis and based on data that is determined to be predictive of the risk of loss (including external ratings) applying experienced credit judgement and actual credit loss experience.

An impairment loss is recognised in profit or loss and recorded as a loss allowance for ECLs.

Derecognition

Financial assets. The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

27.16. 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 period, adjusted for treasury shares.

27.17. 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.

27.18. Guarantees

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

28. New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 *Leases*

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.